

CITY OF CLAREMONT, NEW HAMPSHIRE

Management Letter

For the Year Ended December 31, 2008

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To the Mayor and City Council
City of Claremont, New Hampshire

In planning and performing our audit of the financial statements of the City of Claremont, New Hampshire, as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Claremont, New Hampshire's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Claremont's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Claremont's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Additional Offices:

Andover, MA • Greenfield, MA • Ellsworth, ME • Manchester, NH

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

This communication is intended solely for the information and use of management, the Mayor and City Council, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
October 8, 2009

1. Consider Actuarial Valuation

A recent accounting standard called the Government Auditing Standards Board (GASB) statement # 45 requires that municipalities determine the cost of post-employment benefits (i.e., health insurance) for current and past employees. Even though the City does not directly pay health insurance benefits for retired employees, it actually subsidizes the cost retirees pay because retirees are included in the same pool of insured participants as current employees. This causes the insurance rates for current employees to be higher than it would have been without the retirees. This increased cost is called the implicit rate, and must be accounted for and reported in the annual audited financial statements. Not recording this implicit cost could result in an audit opinion in future years.

We recommend the City consider the cost versus benefit of performing an actuarial valuation to determine the implicit cost of post employment benefits.