

TOWN OF SALEM, NEW HAMPSHIRE

Annual Financial Statement

For the Year Ended December 31, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Salem, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Salem, New Hampshire, as of and for the year ended December 31, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Salem, New Hampshire's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The government-wide financial statements do not include any of the Town's infrastructure capital assets, accumulated depreciation, nor depreciation expenses related to those assets. These amounts have not been determined. Therefore, in our opinion, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Salem, New Hampshire, as of December 31, 2009, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Additional Offices:

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

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the each major fund and the aggregate remaining fund information of the Town of Salem, New Hampshire as of December 31, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 24, 2010 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, appearing on the following pages, and the supplementary information on page 38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
May 24, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Salem, New Hampshire, we offer readers this narrative overview and analysis of the financial activities of the Town of Salem, New Hampshire for the fiscal year ended December 31, 2009.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The statement of net assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Governmental activities include general government, public safety, highways and streets, sanitation, health, welfare, and culture and recreation.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by the *Governmental Accounting Standards Board*.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 30,333,009 (i.e., net assets), a change of \$ 2,874,952 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 15,744,216, a change of \$ 2,030,746 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 2,762,500.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 9,264,500, a change of \$ 1,439,500 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

| | <u>Governmental Activities</u> | |
|-----------------------------------|--------------------------------|----------------------|
| | <u>2009</u> | <u>2008</u> |
| Current and other assets | \$ 39,853,931 | \$ 34,461,056 |
| Capital assets | <u>21,275,712</u> | <u>20,733,642</u> |
| Total assets | 61,129,643 | 55,194,698 |
| Long-term liabilities outstanding | 13,730,892 | 11,647,626 |
| Other liabilities | <u>17,065,742</u> | <u>16,089,015</u> |
| Total liabilities | 30,796,634 | 27,736,641 |
| Net assets: | | |
| Invested in capital assets, net | 13,812,403 | 12,908,642 |
| Restricted | 8,053,222 | 8,503,542 |
| Unrestricted | <u>8,467,384</u> | <u>6,045,873</u> |
| Total net assets | \$ <u>30,333,009</u> | \$ <u>27,458,057</u> |

CHANGES IN NET ASSETS

| | <u>Governmental Activities</u> | |
|--|--------------------------------|------------------|
| | <u>2009</u> | <u>2008</u> |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 11,170,408 | \$ 9,314,988 |
| Operating grants and contributions | - | 19,315 |
| Capital grants and contributions | 21,837 | 606,624 |
| General revenues: | | |
| Property taxes | 21,991,381 | 21,315,691 |
| Licenses and permits | 4,583,585 | 4,856,009 |
| Penalties and interest on taxes | 377,502 | 272,298 |
| Grants and contributions not restricted to specific programs | 3,680,689 | 3,485,793 |
| Investment income | 295,939 | 106,085 |
| Miscellaneous | <u>923,979</u> | <u>1,968,286</u> |
| Total revenues | 43,045,320 | 41,945,089 |

(continued)

(continued)

| | <u>Governmental Activities</u> | |
|--|--------------------------------|----------------------|
| | <u>2009</u> | <u>2008</u> |
| Expenses: | | |
| General government | 5,748,661 | 6,033,774 |
| Public safety | 18,279,923 | 17,978,328 |
| Highway and streets | 8,529,893 | 7,419,084 |
| Sanitation | 1,144,926 | 1,195,091 |
| Water distribution and treatment | 1,909,203 | 1,990,946 |
| Sewer distribution and treatment | 1,614,816 | 1,691,518 |
| Health | 335,602 | 307,474 |
| Welfare | 286,564 | 289,519 |
| Culture and recreation | 2,155,357 | 2,134,909 |
| Interest on long-term debt | 378,273 | 406,780 |
| Intergovernmental | - | 26,180 |
| Miscellaneous | 17,534 | 341,633 |
| Total expenses | <u>40,400,752</u> | <u>39,815,236</u> |
| Change in net assets before permanent fund contributions | 2,644,568 | 2,129,853 |
| Permanent fund contributions | <u>230,384</u> | <u>38,333</u> |
| Increase in net assets | <u>2,874,952</u> | <u>2,168,186</u> |
| Net assets - beginning of year (as restated) | <u>27,458,057</u> | <u>25,289,871</u> |
| Net assets - end of year | <u>\$ 30,333,009</u> | <u>\$ 27,458,057</u> |

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 30,333,009, a change of \$ 2,874,952 from the prior year.

The largest portion of net assets \$ 13,812,403 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 8,053,222 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 8,467,384 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ 2,874,952. Key elements of this change are as follows:

| | |
|---|---------------------|
| General fund operations, as discussed further in section D | \$ 1,289,197 |
| Water fund activities | 454,446 |
| Sewer fund activities | 871,966 |
| Capital project activities, net of bond proceeds | (1,163,742) |
| Expendable trust activities | (2,110,507) |
| Nonmajor activities | 294,886 |
| Principal debt service in excess of depreciation expense | 209,322 |
| Increase in betterment and DBA assessments | 2,100,378 |
| Other | 929,006 |
| Total | <u>\$ 2,874,952</u> |

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 15,744,216, a change of \$ 2,030,746 in comparison with the prior year. Key elements of this change are as follows:

| | |
|---|---------------------|
| General fund operations, as discussed further in section D | \$ 1,289,197 |
| Water fund activities | 454,446 |
| Sewer fund activities | 871,966 |
| Capital project activities | 1,230,758 |
| Expendable trust activities | (2,110,507) |
| Nonmajor activities | 294,886 |
| Total | <u>\$ 2,030,746</u> |

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 2,762,500, while total fund balance was \$ 4,149,578. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 9 percent of total gen-

eral fund expenditures, while total fund balance represents 13.5 percent of that same amount.

The fund balance of the general fund changed by \$ 1,289,197 during the current fiscal year. Key factors in this change are as follows:

| | |
|--|---------------------|
| Revenues in excess of budget | \$ 1,279,612 |
| Expenditures less than budget | 259,275 |
| Excess of tax collections vs. net assessment | 14,199 |
| Use of fund balance as a funding source | (893,418) |
| Expenditures of prior year encumbrances | <u>629,529</u> |
| Total | <u>\$ 1,289,197</u> |

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no differences between the original budget and the final amended budget:

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 21,275,712 (net of accumulated depreciation), a change of \$ 542,069 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

| | |
|---|-------------------|
| Purchase of: | |
| Land | \$ 22,333 |
| Buildings | 183,613 |
| Highway Department - vehicles & equipment | 668,260 |
| Public Safety - Police vehicles & equipment | 258,681 |
| Public Safety - Fire vehicles & equipment | 291,316 |
| General government | 27,308 |
| Culture and recreation | <u>12,611</u> |
| Subtotal | 1,464,122 |
| Disposal of: | |
| Various vehicles and equipment | <u>(11,894)</u> |
| Subtotal | (11,894) |
| Current year depreciation | <u>(910,159)</u> |
| Decrease in capital assets | <u>\$ 542,069</u> |

Additional information on capital assets can be found in the footnotes to the financial statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 9,264,500, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Salem, New Hampshire's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town Finance Director
Town of Salem
22 Geremonty Drive
Salem, New Hampshire 03079

TOWN OF SALEM, NEW HAMPSHIRE
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Current: | |
| Cash and short-term investments | \$ 29,716,608 |
| Investments | 908,786 |
| Receivables, net of allowance for uncollectibles: | |
| Property taxes | 3,229,080 |
| User fees | 419,848 |
| Departmental and other | 576,079 |
| Intergovernmental | 683,455 |
| Special assessments | 362,361 |
| Other assets | 167,951 |
| Noncurrent: | |
| Receivables, net of allowance for uncollectibles: | |
| Property taxes | 114,296 |
| Special assessments | 3,675,467 |
| Capital Assets: | |
| Land and construction in progress | 9,744,797 |
| Other assets, net of accumulated depreciation | <u>11,530,915</u> |
| TOTAL ASSETS | 61,129,643 |
| LIABILITIES | |
| Current: | |
| Accounts payable | 441,691 |
| Accrued liabilities | 463,334 |
| Tax refunds payable | 282,732 |
| Retainage payable | 265,635 |
| Due to other governments | 15,436,257 |
| Other current liabilities | 176,093 |
| Current portion of long-term liabilities: | |
| Bonds payable | 1,214,500 |
| Other liabilities | 488,554 |
| Noncurrent: | |
| Bonds payable, net of current portion | 8,050,000 |
| Other liabilities, net of current portion | <u>3,977,838</u> |
| TOTAL LIABILITIES | 30,796,634 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 13,812,403 |
| Restricted for: | |
| Grants and other statutory restrictions | 7,144,310 |
| Permanent funds: | |
| Nonexpendable | 844,827 |
| Expendable | 64,085 |
| Unrestricted | <u>8,467,384</u> |
| TOTAL NET ASSETS | <u><u>\$ 30,333,009</u></u> |

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

| | | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Assets |
|---|----------------------|----------------------|---------------|------------------|--|
| | | Charges for | Operating | Capital | |
| | | Services | Grants and | Grants and | Governmental |
| | | | Contributions | Contributions | Activities |
| | | <u>Expenses</u> | | | |
| Governmental Activities: | | | | | |
| General government | \$ 5,748,661 | \$ 508,894 | \$ - | \$ - | \$ (5,239,767) |
| Public safety | 18,279,923 | 2,788,025 | - | - | (15,491,898) |
| Highway and streets | 8,529,893 | - | - | 21,837 | (8,508,056) |
| Sanitation | 1,144,926 | 137,244 | - | - | (1,007,682) |
| Water distribution and treatment | 1,909,203 | 3,960,706 | - | - | 2,051,503 |
| Sewer distribution and treatment | 1,614,816 | 3,582,533 | - | - | 1,967,717 |
| Health | 335,602 | 81,318 | - | - | (254,284) |
| Welfare | 286,564 | (776) | - | - | (287,340) |
| Culture and recreation | 2,155,357 | 112,464 | - | - | (2,042,893) |
| Interest | 378,273 | - | - | - | (378,273) |
| Miscellaneous | 17,534 | - | - | - | (17,534) |
| Total Governmental Activities | <u>\$ 40,400,752</u> | <u>\$ 11,170,408</u> | <u>\$ -</u> | <u>\$ 21,837</u> | (29,208,507) |
| General Revenues and Contributions: | | | | | |
| Property taxes | | | | | 21,991,381 |
| Licenses and permits | | | | | 4,583,585 |
| Penalties, interest and other taxes | | | | | 377,502 |
| Grants and contributions not restricted to specific programs | | | | | 3,680,689 |
| Investment income | | | | | 295,939 |
| Miscellaneous | | | | | 923,979 |
| Permanent fund contributions | | | | | <u>230,384</u> |
| Total general revenues and contributions | | | | | <u>32,083,459</u> |
| Change in Net Assets | | | | | 2,874,952 |
| Net Assets: | | | | | |
| Beginning of year, as restated | | | | | <u>27,458,057</u> |
| End of year | | | | | <u>\$ 30,333,009</u> |

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2009

| | <u>General</u> | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Capital Project Fund</u> | <u>Expendable Trust Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|-----------------------|-----------------------|-------------------------------------|--------------------------------------|--|---|
| ASSETS | | | | | | | |
| Cash and short-term investments | \$ 18,984,092 | \$ 1,453,877 | \$ 2,233,624 | \$ 3,605,861 | \$ 2,585,941 | \$ 853,213 | \$ 29,716,608 |
| Investments | - | - | - | - | - | 908,786 | 908,786 |
| Receivables: | | | | | | | |
| Property taxes | 3,417,151 | - | - | - | - | - | 3,417,151 |
| User fees | - | 245,085 | 222,000 | - | - | - | 467,085 |
| Departmental and other | 1,033,344 | - | - | - | - | 217,122 | 1,250,466 |
| Intergovernmental | 543,011 | - | 140,444 | - | - | - | 683,455 |
| Special assessment | - | 10,695 | 20,210 | - | - | - | 30,905 |
| Due from other funds | 21,684 | - | - | 15,000 | - | 50,500 | 87,184 |
| Other assets | 167,951 | - | - | - | - | - | 167,951 |
| TOTAL ASSETS | \$ 24,167,233 | \$ 1,709,657 | \$ 2,616,278 | \$ 3,620,861 | \$ 2,585,941 | \$ 2,029,621 | \$ 36,729,591 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 393,105 | \$ 40,635 | \$ 5,779 | \$ - | \$ - | \$ 2,172 | \$ 441,691 |
| Accrued liabilities | 225,756 | 8,673 | 1,783 | - | 101,040 | 11,745 | 348,997 |
| Deferred revenues | 3,435,697 | 255,780 | 242,210 | - | - | 13,099 | 3,946,786 |
| Tax refunds payable | 282,732 | - | - | - | - | - | 282,732 |
| Retainage payable | 4,914 | - | - | 40,557 | 220,164 | - | 265,635 |
| Due to other governments | 15,436,257 | - | - | - | - | - | 15,436,257 |
| Due to other funds | 65,500 | - | - | - | - | 21,684 | 87,184 |
| Other liabilities | 173,694 | 1,737 | 444 | - | - | 218 | 176,093 |
| TOTAL LIABILITIES | 20,017,655 | 306,825 | 250,216 | 40,557 | 321,204 | 48,918 | 20,985,375 |
| Fund Balances: | | | | | | | |
| Reserved for: | | | | | | | |
| Encumbrances and continuing appropriations | 1,219,127 | 279,084 | 122,968 | 1,444,850 | - | 44,822 | 3,110,851 |
| Prepaid expenditures | 167,951 | - | - | - | - | - | 167,951 |
| Expenditures | - | 257,147 | 398,818 | - | - | - | 655,965 |
| Perpetual (unexpendable) permanent funds | - | - | - | - | - | 844,827 | 844,827 |
| Unreserved: | | | | | | | |
| Undesignated, reported in: | | | | | | | |
| General fund | 2,762,500 | - | - | - | - | - | 2,762,500 |
| Special revenue funds | - | 866,601 | 1,844,276 | - | 2,264,737 | 1,026,969 | 6,002,583 |
| Capital project funds | - | - | - | 2,135,454 | - | - | 2,135,454 |
| Permanent funds | - | - | - | - | - | 64,085 | 64,085 |
| TOTAL FUND BALANCES | 4,149,578 | 1,402,832 | 2,366,062 | 3,580,304 | 2,264,737 | 1,980,703 | 15,744,216 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 24,167,233 | \$ 1,709,657 | \$ 2,616,278 | \$ 3,620,861 | \$ 2,585,941 | \$ 2,029,621 | \$ 36,729,591 |

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

DECEMBER 31, 2009

| | |
|--|-----------------------------|
| Total governmental fund balances | \$ 15,744,216 |
| <ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 21,275,712 |
| <ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection. | 7,158,310 |
| <ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | (114,337) |
| <ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences, OPEB liability, and landfill liability are not due and payable in the current period and, therefore, are not reported in the governmental funds. | <u>(13,730,892)</u> |
| Net assets of governmental activities | \$ <u><u>30,333,009</u></u> |

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2009

| | <u>General</u> | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Capital Project Fund</u> | <u>Expendable Trust Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|-----------------------|-----------------------|-------------------------------------|--------------------------------------|--|---|
| Revenues: | | | | | | | |
| Property taxes | \$ 21,742,055 | \$ - | \$ - | \$ - | \$ - | \$ 64,750 | \$ 21,806,805 |
| Penalties, interest, and other taxes | 350,981 | 12,630 | 14,264 | - | - | - | 377,875 |
| Charges for services | 1,417,374 | 3,032,746 | 2,426,182 | - | - | 1,654,028 | 8,530,330 |
| Intergovernmental | 3,557,017 | - | 123,672 | 21,837 | - | - | 3,702,526 |
| Licenses and permits | 5,027,368 | 3,466 | - | - | - | - | 5,030,834 |
| Investment income | 42,045 | 27,466 | 262 | 2,645 | 3,348 | 175,264 | 251,030 |
| Contributions | - | - | - | - | 220,555 | 9,829 | 230,384 |
| Miscellaneous | <u>775,699</u> | <u>-</u> | <u>36,868</u> | <u>15,000</u> | <u>47,328</u> | <u>85,259</u> | <u>960,154</u> |
| Total Revenues | 32,912,539 | 3,076,308 | 2,601,248 | 39,482 | 271,231 | 1,989,130 | 40,889,938 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| General government | 5,046,611 | - | - | - | 186,544 | 641,845 | 5,875,000 |
| Public safety | 16,985,621 | - | - | - | - | 1,230,946 | 18,216,567 |
| Highway and streets | 4,369,143 | - | - | 1,468,353 | 2,750,175 | - | 8,587,671 |
| Sanitation | 1,179,342 | - | - | - | - | - | 1,179,342 |
| Water distribution and treatment | - | 1,715,549 | - | - | - | - | 1,715,549 |
| Sewer distribution and treatment | - | - | 1,614,816 | - | - | - | 1,614,816 |
| Health | 307,346 | - | - | - | - | - | 307,346 |
| Welfare | 285,913 | - | - | - | - | - | 285,913 |
| Culture and recreation | 1,944,522 | - | - | - | 88,049 | 88,474 | 2,121,045 |
| Debt service | 582,403 | 681,134 | 69,372 | - | - | - | 1,332,909 |
| Capital outlay | <u>-</u> | <u>16,534</u> | <u>1,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>17,534</u> |
| Total Expenditures | <u>30,700,901</u> | <u>2,413,217</u> | <u>1,685,188</u> | <u>1,468,353</u> | <u>3,024,768</u> | <u>1,961,265</u> | <u>41,253,692</u> |
| Excess (deficiency) of revenues over expenditures | 2,211,638 | 663,091 | 916,060 | (1,428,871) | (2,753,537) | 27,865 | (363,754) |
| Other Financing Sources (Uses): | | | | | | | |
| Proceeds of bonds | - | - | - | 2,394,500 | - | - | 2,394,500 |
| Transfers in | 1,108,989 | 4,261 | 70,906 | 600,000 | 1,728,091 | 485,012 | 3,997,259 |
| Transfers out | <u>(2,031,430)</u> | <u>(212,906)</u> | <u>(115,000)</u> | <u>(334,871)</u> | <u>(1,085,061)</u> | <u>(217,991)</u> | <u>(3,997,259)</u> |
| Total Other Financing Sources (Uses) | <u>(922,441)</u> | <u>(208,645)</u> | <u>(44,094)</u> | <u>2,659,629</u> | <u>643,030</u> | <u>267,021</u> | <u>2,394,500</u> |
| Change in fund balance | 1,289,197 | 454,446 | 871,966 | 1,230,758 | (2,110,507) | 294,886 | 2,030,746 |
| Fund Equity, at Beginning of Year | <u>2,860,381</u> | <u>948,386</u> | <u>1,494,096</u> | <u>2,349,546</u> | <u>4,375,244</u> | <u>1,685,817</u> | <u>13,713,470</u> |
| Fund Equity, at End of Year | <u>\$ 4,149,578</u> | <u>\$ 1,402,832</u> | <u>\$ 2,366,062</u> | <u>\$ 3,580,304</u> | <u>\$ 2,264,737</u> | <u>\$ 1,980,703</u> | <u>\$ 15,744,216</u> |

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2009

| | |
|--|-----------------------------------|
| NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ 2,030,746 |
| <ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: | |
| Capital outlay purchases, net of disposals | 1,452,228 |
| Depreciation | (910,159) |
| <ul style="list-style-type: none"> Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (e.g., property taxes) differ between the two statements. This amount represents the net change in deferred revenue. | 2,385,766 |
| <ul style="list-style-type: none"> The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: | |
| Issuance of debt | (3,075,065) |
| Repayments of debt | 1,119,481 |
| <ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | (363) |
| <ul style="list-style-type: none"> Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. | |
| Compensated absences | (79,623) |
| OPEB liability | (37,859) |
| Landfill liability | <u>(10,200)</u> |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ <u><u>2,874,952</u></u> |

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES,
AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2009

| | Original <u>Budget</u> | Final <u>Budget</u> | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|---------------------------|------------------------|---|---|
| Revenues and other sources: | | | | |
| Property taxes | \$ 21,727,856 | \$ 21,727,856 | \$ 21,727,856 | \$ - |
| Penalties, interest, and other taxes | 289,043 | 289,043 | 350,981 | 61,938 |
| Charges for services | 1,345,364 | 1,345,364 | 1,417,374 | 72,010 |
| Intergovernmental | 2,499,332 | 2,499,332 | 2,939,651 | 440,319 |
| Licenses and permits | 4,918,085 | 4,918,085 | 5,027,368 | 109,283 |
| Investment income | 22,000 | 22,000 | 42,045 | 20,045 |
| Miscellaneous | 536,659 | 536,659 | 775,699 | 239,040 |
| Other financing sources: | | | | |
| Transfers in | 772,012 | 772,012 | 1,108,989 | 336,977 |
| Use of fund balance | <u>893,418</u> | <u>893,418</u> | <u>893,418</u> | <u>-</u> |
| Total Revenues | 33,003,769 | 33,003,769 | 34,283,381 | 1,279,612 |
| Expenditures and other uses: | | | | |
| Current: | | | | |
| General government | 4,909,407 | 4,909,407 | 4,926,374 | (16,967) |
| Public safety | 16,611,383 | 16,611,383 | 16,793,410 | (182,027) |
| Highways and streets | 4,947,260 | 4,947,260 | 4,694,264 | 252,996 |
| Sanitation | 1,233,777 | 1,233,777 | 1,173,923 | 59,854 |
| Health | 302,170 | 302,170 | 313,456 | (11,286) |
| Welfare | 363,107 | 363,107 | 285,913 | 77,194 |
| Culture and recreation | 2,022,832 | 2,022,832 | 1,943,321 | 79,511 |
| Debt service | 582,403 | 582,403 | 582,403 | - |
| Other financing uses: | | | | |
| Transfers out | <u>2,031,430</u> | <u>2,031,430</u> | <u>2,031,430</u> | <u>-</u> |
| Total Expenditures | <u>33,003,769</u> | <u>33,003,769</u> | <u>32,744,494</u> | <u>259,275</u> |
| Excess of revenues and other sources over expenditures and other uses | \$ <u>-</u> | \$ <u>-</u> | \$ <u>1,538,887</u> | \$ <u>1,538,887</u> |

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2009

| | Private Purpose Trust Funds | Agency Funds |
|--|--------------------------------------|--------------------|
| <u>ASSETS</u> | | |
| Cash and short-term investments | \$ - | \$ 1,418,730 |
| Investments | <u>170,205</u> | <u>-</u> |
| Total Assets | 170,205 | 1,418,730 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Other liabilities | <u>-</u> | <u>1,418,730</u> |
| Total Liabilities | <u>-</u> | <u>1,418,730</u> |
| <u>NET ASSETS</u> | | |
| Net assets | \$ <u><u>170,205</u></u> | \$ <u><u>-</u></u> |

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2009

| | <u>Private Purpose Trust Funds</u> |
|--------------------------|--|
| Additions: | |
| Contributions | \$ 1,505 |
| Investment Income (Loss) | <u>(716)</u> |
| Total additions | 789 |
| Deductions: | |
| Other | <u>4,151</u> |
| Total deductions | <u>4,151</u> |
| Net increase (decrease) | (3,362) |
| Net assets: | |
| Beginning of year | <u>173,567</u> |
| End of year | <u><u>\$ 170,205</u></u> |

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE

Notes to Financial Statements

1. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Salem, New Hampshire (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units, except as indicated in Note 2. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In 2009, it was determined that no entities met the required GASB-39 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *water fund* accounts for activities relating to water distribution and treatment.
- The *sewer fund* accounts for activities relating to sewer distribution and treatment.
- The *capital project fund* accounts for activities relating to the construction of capital assets.

- The *expendable trust fund* accounts for funds set aside by the Town for specified future purposes.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Interfund Receivables and Payables

Transactions between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans).

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------|--------------|
| Buildings | 40 |
| Building improvements | 20 |
| Infrastructure | 30 - 75 |
| Vehicles | 5 |
| Office equipment | 5 |
| Computer equipment | 5 |

H. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are

legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

L. Material Changes in Classifications

The accompanying financial statements reflect various changes in classification from the prior year. See footnote 24.

2. Departures from Generally Accepted Accounting Principles

The significant departures of the financial statements from generally accepted accounting principles are as follows:

Infrastructure capital assets are not capitalized in the governmental activities, nor is depreciation expense recorded on these assets. This is a departure from generally accepted accounting principles of the United States of America.

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Town's budget is originally prepared by the Board of Selectmen's office with the cooperation of the various department heads. It is then submitted to the Budget Committee, in accordance with the Municipal Budget Law. After reviewing the budget, the Committee holds a public hearing for discussion.

The final version of the budget is then submitted for approval at the annual Town meeting. The approved budget is subsequently reported to the State of New Hampshire on the statement of appropriation form in order to establish the current property tax rate.

The Board of Selectmen cannot increase the total of the approved budget; however, they have the power to reclassify its components when necessary.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

| <u>General Fund</u> | <u>Revenues and Other Financing Sources</u> | <u>Expenditures and Other Financing Uses</u> |
|---|---|--|
| Revenues/Expenditures (GAAP basis) | \$ 32,912,539 | \$ 30,700,901 |
| Other financing sources/uses (GAAP basis) | <u>1,108,989</u> | <u>2,031,430</u> |
| Subtotal (GAAP Basis) | 34,021,528 | 32,732,331 |
| Adjust tax revenue to accrual basis | (14,199) | - |
| Reverse beginning of year appropriation carryforwards from expenditures | - | (589,598) |
| Add end of year appropriation carryforwards to expenditures | - | 1,219,127 |
| To reverse the effect of non- budgeted State contributions for police and fire retirement | (617,366) | (617,366) |
| Recognize use of fund balance as funding source | <u>893,418</u> | <u>-</u> |
| Budgetary basis | <u>\$ 34,283,381</u> | <u>\$ 32,744,494</u> |

4. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus, exception that a Town with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank." The Town does not have a deposit policy for custodial credit risk.

As of December 31, 2009, \$ 13,474 of the Town's bank balance of \$ 30,556,615 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

5. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Presented below is the actual rating as of year end for each investment of the Town:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Minimum Legal Rating</u> | <u>Exempt From Disclosure</u> | <u>Rating as of Year End</u> | | |
|------------------------|---------------------|-----------------------------|-------------------------------|------------------------------|------------------|------------------|
| | | | | <u>Aaa</u> | <u>Aa to Aa3</u> | <u>A to Baa3</u> |
| U.S. Treasury notes | \$ 87,527 | N/A | \$ - | \$ 87,527 | \$ - | \$ - |
| Corporate bonds | 111,170 | | - | - | 27,477 | 83,693 |
| Corporate equities | 366,599 | N/A | 366,599 | - | - | - |
| Mutual funds | <u>513,695</u> | N/A | <u>513,695</u> | - | - | - |
| Total investments | \$ <u>1,078,991</u> | | \$ <u>880,294</u> | \$ <u>87,527</u> | \$ <u>27,477</u> | \$ <u>83,693</u> |

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Although the Town has an investment policy, the policy does not address custodial credit risk.

All of the Town's securities are exposed to custodial credit risk, because the related securities are uninsured, unregistered and held by the Town's brokerage firm, which is also the Counterparty to these securities.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Other than investments in United States Treasury notes, the Town does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Although the Town has an investment policy, the policy does not address limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in Years)</u> | | | | <u>N/A</u> |
|------------------------|-------------------|---|-------------------|------------------|---------------------|-------------|
| | | <u>Less Than 1</u> | <u>1-5</u> | <u>6-10</u> | <u>More Than 10</u> | |
| U.S. Treasury notes | \$ 87,527 | \$ 25,182 | \$ 62,345 | \$ - | \$ - | \$ - |
| Corporate bonds | <u>111,170</u> | <u>35,618</u> | <u>40,230</u> | <u>35,322</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 198,697</u> | <u>\$ 60,800</u> | <u>\$ 102,575</u> | <u>\$ 35,322</u> | <u>\$ -</u> | <u>\$ -</u> |

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk.

6. Taxes Receivable

The Town bills property taxes semi-annually, in May and November. Property tax revenues are recognized in the fiscal year for which taxes have been levied. Property taxes are due on July 1 and December 1. Delinquent accounts are charged 12% interest. In March of the next year, a lien is recorded on delinquent property at the Registry of Deeds. The Town purchases all the delinquent accounts by paying the delinquent balance, recording costs and accrued interest. The accounts that are liened by the Town will be reclassified from property taxes receivable to unredeemed tax liens receivable. After this date, delinquent accounts will be charged interest at a rate of 18%. The Town annually budgets amounts (overlay for abatements) for property tax abatements and refunds.

Taxes receivable at December 31, 2009 consist of the following:

| | | |
|----------------|--------------|---------------------|
| Real Estate | | |
| 2009 | | \$ 2,459,177 |
| Land Use Taxes | | |
| 2009 | | 50,500 |
| Resident Taxes | | |
| 2009 | \$ 20,540 | |
| 2008 | 2,320 | |
| 2007 | 410 | |
| 2006 | <u>10</u> | |
| | | 23,280 |
| Tax Liens | | |
| 2008 | 516,774 | |
| 2007 | 302,737 | |
| 2006 | 61,878 | |
| 2005 | 1,720 | |
| 2004 | <u>1,085</u> | |
| | | <u>884,194</u> |
| Total | | <u>\$ 3,417,151</u> |

Taxes Collected for Others

The Town collects property taxes for the State of New Hampshire, the Salem School District and the County of Rockingham. Payments to the other taxing units are normally made throughout the year. The ultimate responsibility for the collection of taxes rests with the Town.

7. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

| | |
|------------------------|---------------------|
| | <u>Governmental</u> |
| Property taxes | \$ 73,775 |
| User fees | 47,237 |
| Departmental and other | 674,387 |

8. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2009.

9. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the December 31, 2009 balances in interfund receivable and payable accounts:

| <u>Fund</u> | <u>Due From Other Funds</u> | <u>Due To Other Funds</u> |
|-----------------------|---------------------------------|-------------------------------|
| General fund | \$ 21,684 | \$ 65,500 |
| Special revenue funds | 50,500 | - |
| Capital project funds | - | 21,684 |
| Permanent trust funds | <u>15,000</u> | <u>-</u> |
| Total | <u>\$ 87,184</u> | <u>\$ 87,184</u> |

10. Capital Assets

Capital asset activity for the year ended December 31, 2009 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|---------------------|---------------------------|
| Governmental Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 8,194,766 | \$ 183,613 | \$ - | \$ 8,378,379 |
| Machinery, equipment, and furnishings | <u>13,476,113</u> | <u>1,533,100</u> | <u>(624,623)</u> | <u>14,384,590</u> |
| Total capital assets, being depreciated | 21,670,879 | 1,716,713 | (624,623) | 22,762,969 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (3,121,081) | (166,964) | - | (3,288,045) |
| Machinery, equipment, and furnishings | <u>(7,813,544)</u> | <u>(743,195)</u> | <u>612,729</u> | <u>(7,944,010)</u> |
| Total accumulated depreciation | <u>(10,934,625)</u> | <u>(910,159)</u> | <u>612,729</u> | <u>(11,232,055)</u> |
| Total capital assets, being depreciated, net | 10,736,254 | 806,554 | (11,894) | 11,530,914 |
| Capital assets, not being depreciated: | | | | |
| Land | 9,722,464 | 22,333 | - | 9,744,797 |
| Construction in progress | <u>274,924</u> | <u>-</u> | <u>(274,924)</u> | <u>-</u> |
| Total capital assets, being depreciated, net | <u>9,997,388</u> | <u>22,333</u> | <u>(274,924)</u> | <u>9,744,797</u> |
| Governmental activities capital assets, net | <u>\$ 20,733,642</u> | <u>\$ 828,887</u> | <u>\$ (286,818)</u> | <u>\$ 21,275,711</u> |

Depreciation expense was charged to functions of the Town as follows:

| | |
|--|-------------------|
| Governmental Activities: | |
| General government | \$ 20,228 |
| Public safety | 463,421 |
| Highway and streets | 234,239 |
| Sanitation | 10,985 |
| Water distribution and treatment | 130,875 |
| Culture and recreation | <u>50,411</u> |
| Total depreciation expense - governmental activities | \$ <u>910,159</u> |

11. Accounts Payable and Accrued Expenses

Accounts payable represent additional 2009 expenditures paid in 2010.

12. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund *deferred revenues* account is equal to the total of all December 31, 2009 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

13. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Board of Tax and Land Appeals.

14. Capital Lease Obligations

The Town is the lessee of certain equipment under capital leases expiring in various years through 2013. Future minimum lease payments under the capital and operating leases consisted of the following as of December 31, 2009:

| | |
|---|---------------------------|
| | <u>Capital Leases</u> |
| 2010 | \$ 167,570 |
| 2011 | 167,570 |
| 2012 | 167,570 |
| 2013 | <u>146,295</u> |
| Total minimum lease payments | 649,005 |
| Less amounts representing interest | <u>55,696</u> |
| Present Value of Minimum Lease Payments | <u>\$ 593,309</u> |

15. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

| <u>Governmental Activities:</u> | <u>Serial Maturities Through</u> | <u>Interest Rate(s) %</u> | <u>Amount Outstanding as of 12/31/09</u> |
|--|--|-------------------------------|--|
| General obligation bond | 11/01/16 | 3.75 - 4.00% | \$ 2,800,000 |
| Water treatment plant (20% general fund) | 08/15/14 | 4.70 - 7.00% | 225,000 |
| Bridge construction | 12/31/19 | 2.00 - 3.00% | 2,394,500 |
| Canobie Sewer/Water (72% sewer fund) | 08/15/18 | 3.90 - 5.00% | 482,400 |
| Water treatment plant (80% water fund) | 08/15/14 | 4.70 - 7.00% | 900,000 |
| Canobie Sewer/Water (28% water fund) | 08/15/18 | 3.90 - 5.00% | 187,600 |
| Spicket Hill water | 08/15/13 | 3.90 - 5.00% | 345,000 |
| Pipeline construction | 08/15/16 | 5.63 - 5.75% | 1,405,000 |
| Blake road project | 08/15/24 | 3.00 - 5.00% | <u>525,000</u> |
| Total Governmental Activities: | | | <u>\$ 9,264,500</u> |

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of December 31, 2009 are as follows:

| <u>Governmental</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|---------------------|---------------------|----------------------|
| 2010 | \$ 1,214,500 | \$ 383,549 | \$ 1,598,049 |
| 2011 | 1,230,000 | 334,026 | 1,564,026 |
| 2012 | 1,245,000 | 280,901 | 1,525,901 |
| 2013 | 1,265,000 | 226,950 | 1,491,950 |
| 2014 | 1,185,000 | 171,869 | 1,356,869 |
| 2015-2019 | 2,950,000 | 292,451 | 3,242,451 |
| 2020-2024 | <u>175,000</u> | <u>26,163</u> | <u>201,163</u> |
| Total | <u>\$ 9,264,500</u> | <u>\$ 1,715,909</u> | <u>\$ 10,980,409</u> |

The following governmental funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of December 31, 2009:

| | |
|--------------|---------------------|
| General fund | \$ 5,419,500 |
| Water fund | 3,362,600 |
| Sewer fund | <u>482,400</u> |
| Total | <u>\$ 9,264,500</u> |

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2009, the following changes occurred in long-term liabilities:

| | Total Balance <u>1/1/09</u> | <u>Additions</u> | <u>Reductions</u> | Total Balance <u>12/31/09</u> | Less Current Portion | Equals Long-Term Portion <u>12/31/09</u> |
|--------------------------------|-----------------------------------|---------------------|-----------------------|-------------------------------------|----------------------------|---|
| <u>Governmental Activities</u> | | | | | | |
| Bonds payable | \$ 7,825,000 | \$ 2,394,500 | \$ (955,000) | \$ 9,264,500 | \$ (1,214,500) | \$ 8,050,000 |
| Other: | | | | | | |
| Capital leases | 77,225 | 680,565 | (164,481) | 593,309 | (145,477) | 447,832 |
| Landfill closure | 638,400 | 38,400 | (28,200) | 648,600 | (28,200) | 620,400 |
| OPEB liability | 37,859 | 165,611 | (127,752) | 75,718 | - | 75,718 |
| Accrued employee benefits | <u>3,069,142</u> | <u>79,623</u> | <u>-</u> | <u>3,148,765</u> | <u>(314,877)</u> | <u>2,833,888</u> |
| Totals | <u>\$ 11,647,626</u> | <u>\$ 3,358,699</u> | <u>\$ (1,275,433)</u> | <u>\$ 13,730,892</u> | <u>\$ (1,703,054)</u> | <u>\$ 12,027,838</u> |

16. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Town reports a portion of these closure and postclosure care costs as a liability in the financial statements in each period based on landfill capacity used as of each balance sheet date.

17. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

18. Reserves and Designations of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at December 31, 2009:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Prepaid - An account used to segregate that portion of fund balance committed for prepaid expenditures that have been budgeted in the following fiscal year.

Reserved for Expenditures – Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

19. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how undesignated fund balance is reported in accordance with the budgetary basis for reporting for the State of New Hampshire for tax rate setting purposes. The major difference is the State of New Hampshire considers revenues in connection with property tax receivables to be available to liquidate liabilities when billed rather than received.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund undesignated fund balance:

| | |
|---------------------------------|---------------------|
| GAAP basis balance | \$ 2,762,500 |
| Deferred revenue | 3,337,723 |
| Reserved for prepaids | 167,951 |
| Allowance for doubtful accounts | <u>(749,085)</u> |
| Tax Rate Setting Balance | <u>\$ 5,519,089</u> |

20. **Commitments and Contingencies**

Outstanding Lawsuits - There are several pending lawsuits in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

21. **Post-Employment Health Care and Life Insurance Benefits** **Other Post-Employment Benefits**

During the year, the Town implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

The Town provides its eligible retirees, including in some cases their beneficiaries (as govern by RSA 100-A:50), the ability to purchase health, dental, and prescription insurance at the Town's group rates. Although the Town does not supplement the cost of these plans, GASB Statement 45 requires the Town to recognize the liability for the inclusion of any implicit rate subsidies afforded its retirees. This subsidy is generated as a result of the basic nature of insurance - one risk group subsidizes another to arrive at a blended premium, therefore current employees who are young and healthy subsidized the older retirees. As of December 31, 2009,

there were 21 retiree subscribers, including eligible spouses and dependents, and 102 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse, and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 100% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2009 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending December 31, 2009, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2008.

| | |
|---|------------|
| Annual Required Contribution (ARC) | \$ 165,611 |
| Interest on net OPEB obligation | - |
| Adjustment to ARC | - |
| Annual OPEB cost | 165,611 |
| Contributions made | (127,752) |
| Increase in net OPEB obligation | 37,859 |
| Net OPEB obligation - beginning of year | 37,859 |
| Net OPEB obligation - end of year | \$ 75,718 |

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

| <u>Fiscal year ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-------------------------|--|----------------------------|
| 2008 | \$ 165,611 | 77.1% | \$ 37,859 |

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2008, the date of the most recent actuarial valuation was as follows:

| | |
|---|----------------------|
| Actuarial accrued liability (AAL) | \$ 2,297,442 |
| Actuarial value of plan assets | <u>-</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 2,297,442</u> |
| Funded ratio (actuarial value of plan assets/AAL) | <u>0.0%</u> |
| Covered payroll (active plan members) | <u>\$ 17,721,821</u> |
| UAAL as a percentage of covered payroll | <u>13.0%</u> |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2008 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.50% investment rate of return and an initial annual healthcare cost trend rate of 11% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

22. Retirement System

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description

Full-time employees participate in the State of New Hampshire Retirement System (the System), a multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are available to each group, funding policies, vesting requirements, contribution requirements and plan assets available to pay benefits are disclosed in the System's annual report available from the New Hampshire Retirement System located at 4 Chenell Drive, Concord, New Hampshire 03301-8509.

B. Funding Policy

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 5% for employees and 9.3% for police and fire. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and is 8.74% for employees, 11.84% for police, and 15.92% for fire. The Town's contributions to the System for the years ended December 31, 2009, 2008, and 2007 were \$ 2,086,610, \$ 1,973,970, and \$ 1,746,907, respectively, which were equal to its annual required contributions for each of these years.

The payroll for employees covered by the System for the year ended December 31, 2009, was \$ 17,721,821. Contribution requirements for the year ended December 31, 2009, were as follows:

| | |
|--------------------------|---------------------|
| State of New Hampshire | \$ 617,366 |
| Town | 2,086,610 |
| Employees' contributions | <u>1,278,402</u> |
| Total | \$ <u>3,982,378</u> |

23. **Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

24. **Beginning Net Assets Restatement**

The beginning (January 1, 2009) net assets of the Town have been restated as follows:

Government-Wide Financial Statements:

| | |
|----------------------------------|-----------------------------------|
| | Governmental <u>Activities</u> |
| As previously reported | \$ 27,535,282 |
| To record capital leases payable | <u>(77,225)</u> |
| As restated | \$ <u>27,458,057</u> |

TOWN OF SALEM, NEW HAMPSHIRE
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2009

(Unaudited)

Other Post-Employment Benefits

| Actuarial Valuation <u>Date</u> | Actuarial Value of Assets <u>(a)</u> | Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u> | Unfunded AAL (UAAL) <u>(b-a)</u> | Funded Ratio <u>(a/b)</u> | Covered Payroll <u>(c)</u> | UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u> |
|---------------------------------------|---|---|---|---------------------------------|----------------------------------|---|
| 01/01/08 | \$ - | \$ 2,297,442 | \$ 2,297,442 | 0.0% | \$ 16,743,573 | 13.7% |

See Independent Auditors' Report.