

TOWN OF SALEM, NEW HAMPSHIRE

Annual Financial Statement

For the Year Ended December 31, 2010

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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, 2010, 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 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, 2010, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Town of Salem, New Hampshire, as of December 31, 2010, and the respective changes in financial position and cash

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flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 13, 2011 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.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
July 13, 2011

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, 2010.

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 accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 30,444,087 (i.e., net assets), a change of \$ 111,078 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 16,465,576, a change of \$ 721,360 in comparison to the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 3,565,506, a change of \$ 803,006 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 9,347,000, a change of \$ 82,500 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>2010</u>	<u>2009</u>
Current and other assets	\$ 42,004,181	\$ 39,853,931
Capital assets	<u>21,404,466</u>	<u>21,275,712</u>
Total assets	63,408,647	61,129,643
Long-term liabilities outstanding	12,485,169	12,027,838
Other liabilities	<u>20,479,391</u>	<u>18,768,796</u>
Total liabilities	32,964,560	30,796,634
Net assets:		
Invested in capital assets, net	13,017,820	13,812,403
Restricted	9,202,556	8,053,222
Unrestricted	<u>8,223,711</u>	<u>8,467,384</u>
Total net assets	<u>\$ 30,444,087</u>	<u>\$ 30,333,009</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Revenues:		
Program revenues		
Charges for services	\$ 9,134,947	\$ 11,170,408
Capital grants and contributions	2,855,162	21,837
General revenues:		
Property taxes	23,296,766	21,991,381
Excises	4,433,867	4,583,585
Penalties and interest on taxes	298,221	377,502
Grants and contributions not restricted to specific programs	4,155,536	3,680,689
Investment income	329,245	295,939
Other	<u>1,720,035</u>	<u>923,979</u>
Total revenues	46,223,779	43,045,320

(continued)

(continued)

Expenses:		
General government	5,763,488	5,748,661
Public safety	20,191,929	18,279,923
Highway and streets	12,229,883	8,529,893
Sanitation	1,107,743	1,144,926
Water distribution and treatment	2,195,837	1,909,203
Sewer distribution and treatment	1,827,002	1,614,816
Health	310,883	335,602
Welfare	223,783	286,564
Culture and recreation	2,181,842	2,155,357
Redevelopment and housing	2,992	-
Interest on long-term debt	381,968	378,273
Miscellaneous	20,441	17,534
Total expenses	<u>46,437,791</u>	<u>40,400,752</u>
Change in net assets before permanent fund contributions	(214,012)	2,644,568
Permanent fund contributions	<u>325,090</u>	<u>230,384</u>
Increase in net assets	111,078	2,874,952
Net assets - beginning of year	<u>30,333,009</u>	<u>27,458,057</u>
Net assets - end of year	<u>\$ 30,444,087</u>	<u>\$ 30,333,009</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 \$ 30,444,087, a change of \$ 111,078 from the prior year.

The largest portion of net assets \$ 13,017,820 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 \$ 9,202,556 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 8,223,711 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 \$ 111,078. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 496,676
Water fund activities	334,344
Sewer fund activities	620,294
Expendable trust activities	99,507
Nonmajor activities, accrual basis	(2,126,461)
Principal debt service in excess of depreciation expense	474,573
Decrease in betterment and DBA assessments	(48,114)
Other	260,259
Total	<u>\$ 111,078</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 \$ 16,465,576, a change of \$ 721,360 in comparison to the prior year. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 496,676
Water fund activities	334,344
Sewer fund activities	620,294
Expendable trust activities	99,507
Nonmajor activities	<u>(829,461)</u>
Total	<u>\$ 721,360</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 \$ 3,565,506, while total fund balance was \$ 4,646,254. 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 11.43 percent of total

general fund expenditures, while total fund balance represents 14.9 percent of that same amount.

The fund balance of the general fund changed by \$ 496,676 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 1,862,164
Expenditures less than budget	455,262
Excess of tax collections vs. net assessment	(143,722)
Use of fund balance as a funding source	(1,349,062)
Timing difference	(13,171)
Expenditures of prior year encumbrances	<u>(314,795)</u>
Total	<u>\$ 496,676</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 activities at year end amounted to \$ 21,404,466 (net of accumulated depreciation), a change of \$ 128,755 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	\$ 12,587
Highway Department - vehicles & equipment	84,197
Public Safety - Police vehicles & equipment	506,959
Public Safety - Fire vehicles & equipment	522,549
Water	92,402
Health & human services	29,676
Culture and recreation	<u>92,589</u>
Subtotal	1,340,959
Disposal of:	
Various vehicles and equipment	<u>(92,371)</u>
Subtotal	(92,371)
Current year depreciation	<u>(1,119,833)</u>
Decrease in capital assets	<u>\$ 128,755</u>

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 9,347,000, 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 notes 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
33 Geremonty Drive
Salem, New Hampshire 03079

TOWN OF SALEM, NEW HAMPSHIRE
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	<u>Governmental Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 31,833,425
Investments	1,030,628
Receivables, net of allowance for uncollectibles:	
Property taxes	2,395,655
User fees	482,354
Departmental and other	671,805
Intergovernmental	531,371
Special assessments	409,482
Other assets	176,416
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Taxes non-current	890,177
Special assessments	3,582,868
Capital Assets:	
Land and construction in progress	9,744,797
Other assets, net of accumulated depreciation	<u>11,659,669</u>
TOTAL ASSETS	63,408,647
LIABILITIES	
Current:	
Accounts payable	309,817
Accrued liabilities	784,583
Tax refunds payable	459,110
Retainage payable	75,326
Due to other governments	16,659,732
Other current liabilities	84,994
Current portion of long-term liabilities:	
Bonds payable	1,362,000
Other liabilities	743,829
Noncurrent:	
Bonds payable, net of current portion	7,985,000
Other liabilities, net of current portion	<u>4,500,169</u>
TOTAL LIABILITIES	32,964,560
NET ASSETS	
Invested in capital assets, net of related debt	13,017,820
Restricted for:	
Grants and other statutory restrictions	8,180,071
Permanent funds:	
Nonexpendable	832,076
Expendable	190,409
Unrestricted	<u>8,223,711</u>
TOTAL NET ASSETS	\$ <u>30,444,087</u>

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for	Operating	Capital	
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
	Expenses				
Governmental Activities:					
General government	\$ 5,763,488	\$ 203,023	\$ -	\$ 2,774,941	\$ (2,785,524)
Public safety	20,191,929	2,877,731	-	-	(17,314,198)
Highway and streets	12,229,883	-	-	80,221	(12,149,662)
Sanitation	1,107,743	135,288	-	-	(972,455)
Water distribution and treatment	2,195,837	3,426,409	-	-	1,230,572
Sewer distribution and treatment	1,827,002	2,299,229	-	-	472,227
Health	310,883	83,843	-	-	(227,040)
Welfare	223,783	15,507	-	-	(208,276)
Culture and recreation	2,181,842	93,917	-	-	(2,087,925)
Redevelopment and housing	2,992	-	-	-	(2,992)
Interest	381,968	-	-	-	(381,968)
Miscellaneous	20,441	-	-	-	(20,441)
Total Governmental Activities	\$ 46,437,791	\$ 9,134,947	\$ -	\$ 2,855,162	(34,447,682)
General Revenues and Contributions:					
Property taxes					23,296,766
Licenses and permits					4,433,867
Penalties, interest and other taxes					298,221
Grants and contributions not restricted to specific programs					4,155,536
Investment income					329,245
Miscellaneous					1,720,035
Permanent fund contributions					325,090
Total general revenues and contributions					34,558,760
Change in Net Assets					111,078
Net Assets:					
Beginning of year					30,333,009
End of year					\$ 30,444,087

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2010

	<u>General</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Expendable Trust Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and short-term investments	\$ 20,879,971	\$ 1,800,436	\$ 2,871,412	\$ 2,704,476	\$ 3,577,130	\$ 31,833,425
Investments	-	-	-	-	1,030,628	1,030,628
Receivables:						
Property taxes	3,387,456	-	-	-	-	3,387,456
User fees	-	305,989	230,923	-	-	536,912
Departmental and other	1,359,891	-	-	-	196,422	1,556,313
Intergovernmental	386,520	-	144,851	-	-	531,371
Special assessment	-	10,589	22,952	-	-	33,541
Due from other funds	27,118	-	-	-	22,584	49,702
Other assets	176,416	-	-	-	-	176,416
TOTAL ASSETS	\$ 26,217,372	\$ 2,117,014	\$ 3,270,138	\$ 2,704,476	\$ 4,826,764	\$ 39,135,764
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 236,182	\$ 42,207	\$ 26,273	\$ -	\$ 5,155	\$ 309,817
Accrued liabilities	312,216	8,824	608	340,232	9,947	671,827
Deferred revenues	3,789,227	316,578	253,875	-	-	4,359,680
Tax refunds payable	459,110	-	-	-	-	459,110
Retainage payable	7,073	12,229	3,026	-	52,998	75,326
Due to other governments	16,659,732	-	-	-	-	16,659,732
Due to other funds	22,584	-	-	-	27,118	49,702
Other liabilities	84,994	-	-	-	-	84,994
TOTAL LIABILITIES	21,571,118	379,838	283,782	340,232	95,218	22,670,188
Fund Balances:						
Reserved for:						
Encumbrances and continuing appropriations	904,332	1,006,712	130,440	-	1,415,615	3,457,099
Prepaid expenditures	176,416	-	-	-	-	176,416
Expenditures	-	226,577	605,111	-	-	831,688
Perpetual (unexpendable) permanent funds	-	-	-	-	832,076	832,076
Unreserved:						
Undesignated, reported in:						
General fund	3,565,506	-	-	-	-	3,565,506
Special revenue funds	-	503,887	2,250,805	2,364,244	1,063,529	6,182,465
Capital project funds	-	-	-	-	1,229,917	1,229,917
Permanent funds	-	-	-	-	190,409	190,409
TOTAL FUND BALANCES	4,646,254	1,737,176	2,986,356	2,364,244	4,731,546	16,465,576
TOTAL LIABILITIES AND FUND BALANCES	\$ 26,217,372	\$ 2,117,014	\$ 3,270,138	\$ 2,704,476	\$ 4,826,764	\$ 39,135,764

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, 2010

Total governmental fund balances	\$ 16,465,576
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	21,404,466
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	7,277,799
<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.	(112,756)
<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>(14,590,998)</u>
Net assets of governmental activities	<u><u>\$ 30,444,087</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, 2010

	<u>General</u>	<u>Water</u> <u>Fund</u>	<u>Sewer</u> <u>Fund</u>	<u>Expendable</u> <u>Trust</u> <u>Fund</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:						
Property taxes	\$ 23,272,079	\$ -	\$ -	\$ -	\$ 7,592	\$ 23,279,671
Penalties, interest, and other taxes	269,120	14,806	13,722	-	-	297,648
Charges for services	1,287,955	3,361,407	2,348,126	-	1,374,313	8,371,801
Intergovernmental	4,155,536	-	-	-	2,855,162	7,010,698
Licenses and permits	5,102,647	-	-	-	-	5,102,647
Investment income	172,019	740	1,298	-	147,733	321,790
Contributions	65	-	-	305,829	19,196	325,090
Miscellaneous	<u>699,952</u>	<u>177,396</u>	<u>232,998</u>	<u>-</u>	<u>609,689</u>	<u>1,720,035</u>
Total Revenues	34,959,373	3,554,349	2,596,144	305,829	5,013,685	46,429,380
Expenditures:						
Current:						
General government	5,219,552	-	-	740,090	687,342	6,646,984
Public safety	17,639,522	-	-	-	1,262,960	18,902,482
Highway and streets	3,721,123	64,574	-	3,009,946	5,196,503	11,992,146
Redevelopment and housing	-	-	-	-	2,992	2,992
Sanitation	1,105,688	-	-	-	-	1,105,688
Water distribution and treatment	-	2,057,010	-	-	-	2,057,010
Sewer distribution and treatment	-	-	1,827,002	-	-	1,827,002
Health	340,720	-	-	-	-	340,720
Welfare	223,543	-	-	-	-	223,543
Culture and recreation	2,062,365	-	-	63,122	70,074	2,195,561
Debt service	860,626	670,103	67,320	-	-	1,598,049
Capital outlay	<u>-</u>	<u>110,002</u>	<u>2,841</u>	<u>-</u>	<u>-</u>	<u>112,843</u>
Total Expenditures	<u>31,173,139</u>	<u>2,901,689</u>	<u>1,897,163</u>	<u>3,813,158</u>	<u>7,219,871</u>	<u>47,005,020</u>
Excess (deficiency) of revenues over expenditures	3,786,234	652,660	698,981	(3,507,329)	(2,206,186)	(575,640)
Other Financing Sources (Uses):						
Proceeds of bonds	-	-	-	-	1,297,000	1,297,000
Transfers in	321,175	-	106,316	3,610,733	140,100	4,178,324
Transfers out	<u>(3,610,733)</u>	<u>(318,316)</u>	<u>(185,003)</u>	<u>(3,897)</u>	<u>(60,375)</u>	<u>(4,178,324)</u>
Total Other Financing Sources (Uses)	<u>(3,289,558)</u>	<u>(318,316)</u>	<u>(78,687)</u>	<u>3,606,836</u>	<u>1,376,725</u>	<u>1,297,000</u>
Change in fund balance	496,676	334,344	620,294	99,507	(829,461)	721,360
Fund Equity, at Beginning of Year, as restated	<u>4,149,578</u>	<u>1,402,832</u>	<u>2,366,062</u>	<u>2,264,737</u>	<u>5,561,007</u>	<u>15,744,216</u>
Fund Equity, at End of Year	<u>\$ 4,646,254</u>	<u>\$ 1,737,176</u>	<u>\$ 2,986,356</u>	<u>\$ 2,364,244</u>	<u>\$ 4,731,546</u>	<u>\$ 16,465,576</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, 2010

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 721,360
<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	1,248,587
Depreciation	(1,119,833)
<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. 	119,489
<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	(2,273,243)
Repayments of debt	1,594,406
<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. 	1,581
<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	(154,010)
OPEB liability	(37,859)
Landfill liability	10,600
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>111,078</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, 2010

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts (Budgetary <u>Basis</u>)	Variance with Final Budget Positive (Negative)
Revenues and other sources:				
Property taxes	\$ 23,415,801	\$ 23,415,801	\$ 23,415,801	\$ -
Penalties, interest, and other taxes	218,294	218,294	269,120	50,826
Charges for services	1,290,819	1,290,819	1,287,955	(2,864)
Intergovernmental	2,172,712	2,172,712	3,460,570	1,287,858
Licenses and permits	4,846,925	4,846,925	5,102,647	255,722
Investment income	105,916	105,916	172,019	66,103
Miscellaneous	495,498	495,498	700,017	204,519
Other financing sources:				
Transfers in	334,346	334,346	334,346	-
Use of fund balance	<u>1,349,062</u>	<u>1,349,062</u>	<u>1,349,062</u>	<u>-</u>
Total Revenues	34,229,373	34,229,373	36,091,537	1,862,164
Expenditures and other uses:				
Current:				
General government	5,295,777	5,295,777	5,232,485	63,292
Public safety	16,538,548	16,538,548	16,575,674	(37,126)
Highways and streets	4,090,158	4,090,158	3,819,512	270,646
Sanitation	1,198,742	1,198,742	1,125,340	73,402
Health	339,361	339,361	338,228	1,133
Welfare	258,118	258,118	223,543	34,575
Culture and recreation	2,028,247	2,028,247	1,987,969	40,278
Debt service	860,627	860,627	860,627	-
Other financing uses:				
Transfers out	<u>3,619,795</u>	<u>3,619,795</u>	<u>3,610,733</u>	<u>9,062</u>
Total Expenditures	<u>34,229,373</u>	<u>34,229,373</u>	<u>33,774,111</u>	<u>455,262</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,317,426</u>	\$ <u>2,317,426</u>

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2010

	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>		
Cash and short-term investments	\$ 54,582	\$ 1,247,129
Investments	<u>113,038</u>	<u>-</u>
Total Assets	167,620	1,247,129
<u>LIABILITIES AND NET ASSETS</u>		
Other liabilities	<u>-</u>	<u>1,247,129</u>
Total Liabilities	<u>-</u>	<u>1,247,129</u>
<u>NET ASSETS</u>		
Net assets	\$ <u><u>167,620</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, 2010

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions	\$ 25
Investment Income (Loss)	<u>910</u>
Total additions	935
Deductions:	
Other	<u>3,520</u>
Total deductions	<u>3,520</u>
Net increase (decrease)	(2,585)
Net assets:	
Beginning of year	<u>170,205</u>
End of year	<u><u>\$ 167,620</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 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 2010, 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 *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	45
Infrastructure	30 - 75
Vehicles	6 - 20
Equipment	5 - 15

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 Note 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 to 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.

Revenues/Expenditures (GAAP basis)	\$ 34,959,373	\$ 31,173,139
Other financing sources/uses (GAAP basis)	<u>321,175</u>	<u>3,610,733</u>
Subtotal (GAAP Basis)	35,280,548	34,783,872
Adjust tax revenue to accrual basis	143,722	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,219,127)
Add end of year appropriation carryforwards to expenditures	-	904,332
To reverse the effect of non- budgeted State contributions for police and fire retirement	(694,966)	(694,966)
Timing adjustment	13,171	
Recognize use of fund balance as funding source	<u>1,349,062</u>	<u>-</u>
Budgetary basis	<u>\$ 36,091,537</u>	<u>\$ 33,774,111</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, 2010, \$ 81,832 of the Town's bank balance of \$ 34,158,885 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>Other</u>
U.S. Treasury notes	\$ 64,122	N/A	\$ -	\$ 64,122	\$ -	\$ -	\$ -
Corporate bonds	130,069		-	-	27,770	77,220	25,079
Corporate equities	402,754	N/A	402,754	-	-	-	-
Mutual funds	<u>546,721</u>	N/A	<u>546,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>1,143,666</u>		\$ <u>949,475</u>	\$ <u>64,122</u>	\$ <u>27,770</u>	\$ <u>77,220</u>	\$ <u>25,079</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. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

<u>Holdings</u>	<u>Market Value</u>
Bonds	
Vanguard intermediate term bond	\$ 80,651
Equities	
iShare gold trust CUSIP 464285105	71,029
iShares S&P small cap index	84,424
SPDR S&P midcap 400 ETF	<u>111,324</u>
Total of individual holdings each in excess of 5% of total investments	<u>\$ 347,428</u>

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	\$ 64,122	\$ -	\$ 64,122	\$ -	\$ -	\$ -
Corporate bonds	<u>130,069</u>	<u>25,079</u>	<u>78,833</u>	<u>26,157</u>	-	-
Total	<u>\$ 194,191</u>	<u>\$ 25,079</u>	<u>\$ 142,955</u>	<u>\$ 26,157</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 lienied 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, 2010 consist of the following:

Real Estate		
2010		\$ 2,444,717
Resident Taxes		
2010	25,030	
2009	8,580	
2008	<u>1,830</u>	
		35,440
Tax Liens		
2009	498,186	
2008	277,129	
2007	75,983	
2006	53,196	
2005	1,720	
2004	<u>1,085</u>	
		<u>907,299</u>
Total		\$ <u><u>3,387,456</u></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:

Property taxes	\$ 101,624
User fees	\$ 54,558
Departmental and other	\$ 884,508

8. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010.

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, 2010 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 27,118	\$ (22,584)
Permanent trust funds	-	(27,118)
Conservation commision fund	<u>22,584</u>	<u>-</u>
Total	<u>\$ 49,702</u>	<u>\$ (49,702)</u>

10. Capital Assets

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,378,379	\$ -	\$ (47,300)	\$ 8,331,079
Machinery, equipment, and furnishings	<u>14,384,590</u>	<u>1,328,372</u>	<u>(912,314)</u>	<u>14,800,648</u>
Total capital assets, being depreciated	22,762,969	1,328,372	(959,614)	23,131,727
Less accumulated depreciation for:				
Buildings and improvements	(3,288,045)	(169,312)	35,738	(3,421,619)
Machinery, equipment, and furnishings	<u>(7,944,010)</u>	<u>(950,521)</u>	<u>844,092</u>	<u>(8,050,439)</u>
Total accumulated depreciation	<u>(11,232,055)</u>	<u>(1,119,833)</u>	<u>879,830</u>	<u>(11,472,058)</u>
Total capital assets, being depreciated, net	11,530,914	208,539	(79,784)	11,659,669
Capital assets, not being depreciated:				
Land	<u>9,744,797</u>	<u>12,587</u>	<u>(12,587)</u>	<u>9,744,797</u>
Total capital assets, not being depreciated	<u>9,744,797</u>	<u>12,587</u>	<u>(12,587)</u>	<u>9,744,797</u>
Governmental activities capital assets, net	<u>\$ 21,275,711</u>	<u>\$ 221,126</u>	<u>\$ (92,371)</u>	<u>\$ 21,404,466</u>

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

Governmental Activities:	
General government	\$ 65,267
Public safety	548,568
Health and wealfare	2,127
Highway and streets	305,878
Sanitation	10,985
Water distribution and treatment	130,875
Culture and recreation	<u>56,133</u>
Total depreciation expense - governmental activities	<u>\$ 1,119,833</u>

11. Accounts Payable and Accrued Expenses

Accounts payable represent additional 2010 expenditures paid in 2011.

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, 2010 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 2014. Future minimum lease payments under the capital and operating leases consisted of the following as of December 31, 2010:

	Capital Leases
2011	\$ 423,231
2012	423,231
2013	288,065
2014	141,770
Total minimum lease payments	1,276,297
Less amounts representing interest	86,651
Present Value of Minimum Lease Payments	\$ <u>1,189,646</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:

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 12/31/10
<u>Governmental Activities:</u>			
General obligation bond	11/01/16	3.75 - 4.00%	\$ 2,400,000
Water treatment plant (20% general fund)	08/15/14	4.70 - 7.00%	180,000
Bridge construction	12/31/19	2.00 - 3.00%	2,150,000
General obligation bond - bridges	12/31/20	2.00-4.00%	1,297,000
Canobie sewer/water (72% sewer fund)	08/15/18	3.90 - 5.00%	439,200
Water treatment plant (80% water fund)	08/15/14	4.70 - 7.00%	720,000
Canobie sewer/water (28% water fund)	08/15/18	3.90 - 5.00%	170,800
Spicket hill water	08/15/13	3.90 - 5.00%	265,000
Pipeline construction	08/15/16	5.63 - 5.75%	1,235,000
Blake road project	08/15/24	3.00 - 5.00%	490,000
Total Governmental Activities:			\$ <u>9,347,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of December 31, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,362,000	\$ 370,328	\$ 1,732,328
2012	1,375,000	314,563	1,689,563
2013	1,395,000	258,012	1,653,012
2014	1,315,000	200,331	1,515,331
2015	1,100,000	145,925	1,245,925
2016-2020	2,660,000	247,191	2,907,191
2021-2024	<u>140,000</u>	<u>17,500</u>	<u>157,500</u>
Total	<u>\$ 9,347,000</u>	<u>\$ 1,553,850</u>	<u>\$ 10,900,850</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, 2010:

General fund	\$ 6,027,000
Water fund	2,880,800
Sewer fund	<u>439,200</u>
Total	<u>\$ 9,347,000</u>

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2010, the following changes occurred in long-term liabilities:

	Total Balance <u>12/31/09</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>12/31/10</u>	Less Current Portion	Equals Long-Term Portion <u>12/31/10</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 9,264,500	\$ 1,297,000	\$ (1,214,500)	\$ 9,347,000	\$ (1,362,000)	\$ 7,985,000
Other:						
Capital leases	593,309	976,243	(379,906)	1,189,646	(384,552)	805,094
Landfill closure	648,600	-	(10,600)	638,000	(29,000)	609,000
OPEB liability	75,718	37,859	-	113,577	-	113,577
Accrued employee benefits	<u>3,148,765</u>	<u>154,010</u>	<u>-</u>	<u>3,302,775</u>	<u>(330,277)</u>	<u>2,972,498</u>
Totals	<u>\$ 13,730,892</u>	<u>\$ 2,465,112</u>	<u>\$ (1,605,006)</u>	<u>\$ 14,590,998</u>	<u>\$ (2,105,829)</u>	<u>\$ 12,485,169</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, 2010:

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	\$ 3,565,506
Deferred revenue	3,687,603
Deferred revenue - nonproperty tax	(52,364)
Deferred revenue - allowance	101,624
Reserved for prepaids	176,416
Allowance for doubtful accounts	<u>(986,132)</u>
Tax Rate Setting Balance	<u>\$ 6,492,653</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**

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, (non-accidental 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, for accidental retirees as designated by the Town at the time of the retirement the Town provides benefits as described in paragraph B. Although the Town does not supplement the cost of these plans, except for accidental retirees, 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, 2010, there were 22 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 for both active employees and accidental retirees.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2010 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, 2010, 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	75,718
Net OPEB obligation - end of year	\$ 113,577

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>
2010	\$ 165,611	31.4%	\$ 113,577
2009	\$ 165,611	54.3%	\$ 75,718
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	-
Unfunded actuarial accrued liability (UAAL)	\$ 2,297,442
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 16,743,573
UAAL as a percentage of covered payroll	13.7%

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 require-

ments 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, for January – June 2010, 9.16% for employees, 13.66% for police, and 17.28% for fire and then for July – December 31, 2010, 9.16% for employees, 14.63% for police, and 18.52% for fire. The Town's contributions to the System for the years ended December 31, 2010, 2009, and 2008 were \$ 2,202,158, \$ 1,855,547, and \$ 1,973,971 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, 2010, was \$ 16,856,167. Contribution requirements for the year ended December 31, 2010, were as follows:

State of New Hampshire	\$ 694,966
Town	2,202,158
Employees' contributions	<u>842,808</u>
Total	<u>\$ 3,739,932</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 Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2010, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/09 (as previously reported)	Reclassification	Fund Equity 6/30/09 (as restated)
Nonmajor funds	\$ 1,980,703	\$ 3,580,304	\$ 5,561,007
Capital project fund	<u>3,580,304</u>	<u>(3,580,304)</u>	<u>-</u>
Total	<u>\$ 5,561,007</u>	<u>\$ -</u>	<u>\$ 5,561,007</u>

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

December 31, 2010

(Unaudited)

Other Post-Employment Benefits

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

See Independent Auditors' Report.