

**TOWN OF SALEM, NEW HAMPSHIRE**

**Annual Financial Statement**

**For the Year Ended December 31, 2011**

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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, 2011, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Salem, New Hampshire, as of December 31, 2011, and the respective changes in financial position 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 41 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

*Additional Offices:*

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

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 May 22, 2012 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  
May 22, 2012

## **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, 2011.

### **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 \$ 132,961,285 (i.e., net assets), a change of \$ (4,740,090) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 15,266,766, a change of \$ (1,092,919) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 2,166,543, a change of \$ (1,398,963) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 7,985,000, a change of \$ (1,362,000) 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>2011</u>	<u>2010</u>
Current and other assets	\$ 43,160,563	\$ 41,898,290
Capital assets	<u>124,897,277</u>	<u>128,767,645</u>
Total assets	168,057,840	170,665,935
Long-term liabilities outstanding	11,885,880	12,485,169
Other liabilities	<u>23,210,675</u>	<u>20,479,391</u>
Total liabilities	35,096,555	32,964,560
Net assets:		
Invested in capital assets, net	116,107,184	118,230,999
Restricted	8,777,798	9,096,665
Unrestricted	<u>8,076,303</u>	<u>10,373,711</u>
Total net assets	\$ <u><u>132,961,285</u></u>	\$ <u><u>137,701,375</u></u>

### **CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenues:		
Program revenues		
Charges for services	\$ 9,115,360	\$ 9,134,947
Capital grants and contributions	437,667	2,855,162
General revenues:		
Property taxes	26,803,285	23,296,766
Motor vehicle permits	4,428,944	4,433,867
Penalties and interest on taxes	262,923	298,221
Grants and contributions not restricted to specific programs	2,700,977	4,155,536
Investment income	108,703	329,245
Other	<u>1,643,598</u>	<u>1,720,035</u>
Total revenues	45,501,457	46,223,779

(continued)

(continued)

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Expenses:		
General government	6,560,865	5,763,488
Public safety	20,088,772	20,191,929
Highway and streets	14,412,906	12,229,883
Sanitation	1,030,686	1,107,743
Water distribution and treatment	3,061,400	2,195,837
Sewer distribution and treatment	2,050,298	1,827,002
Health	222,623	310,883
Welfare	320,559	223,783
Culture and recreation	2,319,721	2,181,842
Redevelopment and housing	-	2,992
Interest on long-term debt	377,827	381,968
Miscellaneous	-	20,441
Total expenses	<u>50,445,657</u>	<u>46,437,791</u>
Change in net assets before permanent fund contributions	(4,944,200)	(214,012)
Permanent fund contributions	<u>204,110</u>	<u>325,090</u>
Increase in net assets	<u>(4,740,090)</u>	<u>111,078</u>
Net assets - beginning of year, as restated	<u>137,701,375</u>	<u>137,590,297</u>
Net assets - end of year	<u>\$ 132,961,285</u>	<u>\$ 137,701,375</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 \$ 132,961,285, a change of \$ (4,740,090) from the prior year.

The largest portion of net assets \$ 116,107,184 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 \$ 8,777,798 represents resources that are subject to external restrictions on how they may be used. The remaining balance



of unrestricted net assets \$ 8,076,303 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 \$ (4,740,090). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (979,197)
Water fund activities	(133,873)
Sewer fund activities	574,275
Nonmajor fund activities, accrual basis	5,191,694
Depreciation expense in excess of principal debt service	(8,271,428) <sup>1</sup>
Change in OPEB liability	(1,305,982) <sup>2</sup>
Other	184,421
Total	<u>\$ (4,740,090)</u>

<sup>1</sup> During FY2011, the Town implemented the reporting of infrastructure assets.

<sup>2</sup> During FY2011, the Town's actuarial report was updated with new information and assumptions. See Note 21.

#### **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, unassigned 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 \$ 15,266,766, a change of \$ (1,092,919) in comparison to the prior year. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (979,197)
Water fund activities	(133,873)
Sewer fund activities	574,275
Nonmajor fund activities, accrual basis	<u>(554,124)</u>
Total	<u>\$ (1,092,919)</u>

In fiscal year 2011, the Town implemented *Governmental Accounting Standards Board Statement #54 Fund Balance Reporting and Governmental Fund Type Definitions*. In general, amounts previously reported as undesignated fund balance, are now reported as unassigned fund balance. Full definitions of all fund balance classifications can be found in the notes to the financial statements. Additionally, amounts previously reported in capital reserve funds, are now required to be presented as committed fund balance in the general fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 2,166,543, while total fund balance was \$4,726,362. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>12/31/11</u>	<u>12/31/10</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 2,166,543	\$ 3,565,506	\$ (1,398,963)	5.72%
Total fund balance <sup>3</sup>	4,726,326	5,705,559	(979,233)	12.48%

<sup>3</sup>Now includes capital reserve funds. Prior period balances have been revised to conform to current presentation.

The fund balance of the general fund changed by \$ (979,197) during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 928,773
Expenditures less than budget	230,331
Excess of tax collections vs. net assessment	(35,708)
Current year encumbrance to be expended in subsequent year over prior year encumbrance	5,521
Use of fund balance as a funding source	(2,513,747)
Change in capital reserves	<u>405,633</u>
Total	\$ <u>(979,197)</u>

Included in the total general fund balance are the Town's capital reserve accounts with the following balances:

	<u>12/31/11</u>	<u>12/31/10</u>	<u>Change</u>
Capital reserves	\$ <u>1,464,938</u>	\$ <u>1,059,305</u>	\$ <u>405,633</u>
Total	\$ <u>1,464,938</u>	\$ <u>1,059,305</u>	\$ <u>405,633</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 \$ 124,897,277 (net of accumulated depreciation), a change of \$ (3,870,368) 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	\$	26,171
Highway Department - vehicles & equipment	\$	190,568
Public Safety - police vehicles & equipment	\$	81,098
Water	\$	48,408
Sewer	\$	32,542
Culture & Recreation	\$	24,888

### Construction in Progress:

Brady	\$	738,983
Brookdale	\$	1,428,106
Cluff Crossing	\$	866,498
Cross Street	\$	318,273
ITS Project Phase I	\$	1,472,740
ITS Project Phase II	\$	36,002
South Policy	\$	454,070
Town Wide Fiber	\$	73,389

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 \$ 7,985,000, 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, 2011

	Governmental Activities
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 31,173,554
Investments	1,013,915
Restricted cash	2,093,976
Receivables, net of allowance for uncollectibles:	
Property taxes	2,774,908
User fees	438,716
Departmental and other	589,735
Intergovernmental	259,803
Special assessments	341,527
Other assets	185,028
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	834,012
Special assessments	3,455,389
Capital Assets:	
Land and construction in progress	15,999,904
Other assets, net of accumulated depreciation	<u>108,897,373</u>
<b>TOTAL ASSETS</b>	168,057,840
<b>LIABILITIES</b>	
Current:	
Accounts payable	550,804
Accrued liabilities	1,097,511
Tax refunds payable	125,000
Retainage payable	277,391
Due to other governments	18,973,926
Other current liabilities	62,991
Current portion of long-term liabilities:	
Bonds payable	1,375,000
Other liabilities	748,052
Noncurrent:	
Bonds payable, net of current portion	6,610,000
Other liabilities, net of current portion	<u>5,275,880</u>
<b>TOTAL LIABILITIES</b>	35,096,555
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	116,107,184
Restricted for:	
Grants and other statutory restrictions	6,437,767
Permanent funds:	
Nonexpendable	888,740
Expendable	1,451,291
Unrestricted	<u>8,076,303</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 132,961,285</u></u>

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
General government	\$ 6,560,865	\$ 270,511	\$ -	\$ 12,203	\$ (6,278,151)
Public safety	20,088,772	3,090,450	-	-	(16,998,322)
Highway and streets	14,412,906	-	-	425,464	(13,987,442)
Sanitation	1,030,686	141,144	-	-	(889,542)
Water distribution and treatment	3,061,400	3,254,562	-	-	193,162
Sewer distribution and treatment	2,050,298	2,153,366	-	-	103,068
Health	222,623	64,003	-	-	(158,620)
Welfare	320,559	50,838	-	-	(269,721)
Culture and recreation	2,319,721	90,486	-	-	(2,229,235)
Interest	<u>377,827</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(377,827)</u>
Total Governmental Activities	\$ <u>50,445,657</u>	\$ <u>9,115,360</u>	\$ <u>-</u>	\$ <u>437,667</u>	(40,892,630)
<b>General Revenues and Contributions:</b>					
					26,803,285
					4,428,944
					262,923
					2,700,977
					108,703
					1,643,598
					<u>204,110</u>
Total general revenues and contributions					<u>36,152,540</u>
Change in Net Assets					(4,740,090)
<b>Net Assets:</b>					
					<u>137,701,375</u>
					\$ <u>132,961,285</u>

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
DECEMBER 31, 2011

	<u>General</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and short-term investments	\$ 21,616,047	\$ 1,710,449	\$ 3,386,303	\$ 4,460,755	\$ 31,173,554
Investments	-	-	-	1,013,915	1,013,915
Restricted cash	2,093,976	-	-	-	2,093,976
Receivables:					
Property taxes	3,720,317	-	-	-	3,720,317
User fees	-	276,121	207,931	-	484,052
Departmental and other	1,437,317	4,617	10,536	187,507	1,639,977
Intergovernmental	28,452	-	231,351	-	259,803
Due from other funds	206,307	-	-	5,750	212,057
Other assets	185,028	-	-	-	185,028
<b>TOTAL ASSETS</b>	<b>\$ 29,287,444</b>	<b>\$ 1,991,187</b>	<b>\$ 3,836,121</b>	<b>\$ 5,667,927</b>	<b>\$ 40,782,679</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 376,240	\$ 54,025	\$ 53,151	\$ 67,388	\$ 550,804
Accrued liabilities	944,225	11,397	3,872	17,762	977,256
Deferred revenues	3,837,283	280,738	218,467	-	4,336,488
Tax refunds payable	125,000	-	-	-	125,000
Retainage payable	235,667	41,724	-	-	277,391
Due to other governments	18,973,926	-	-	-	18,973,926
Due to other funds	5,750	-	-	206,307	212,057
Other liabilities	62,991	-	-	-	62,991
<b>TOTAL LIABILITIES</b>	<b>24,561,082</b>	<b>387,884</b>	<b>275,490</b>	<b>291,457</b>	<b>25,515,913</b>
Fund Balances:					
Nonspendable	185,028	-	-	888,740	1,073,768
Restricted	-	-	-	3,698,820	3,698,820
Committed	1,464,938	-	-	-	1,464,938
Assigned	909,853	866,055	1,168,598	788,910	3,733,416
Unassigned	2,166,543	737,248	2,392,033	-	5,295,824
<b>TOTAL FUND BALANCES</b>	<b>4,726,362</b>	<b>1,603,303</b>	<b>3,560,631</b>	<b>5,376,470</b>	<b>15,266,766</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 29,287,444</b>	<b>\$ 1,991,187</b>	<b>\$ 3,836,121</b>	<b>\$ 5,667,927</b>	<b>\$ 40,782,679</b>

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, 2011

<b>Total governmental fund balances</b>	\$ 15,266,766
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	124,897,277
<ul style="list-style-type: none"><li>• Long term receivables not yet billed.</li></ul>	3,796,916
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	3,129,513
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(120,255)
<ul style="list-style-type: none"><li>• 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.</li></ul>	<u>(14,008,932)</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 132,961,285</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, 2011

	<u>General</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Property taxes	\$ 26,774,232	\$ -	\$ -	\$ 63,916	\$ 26,838,148
Penalties, interest, and other taxes	288,579	16,959	13,970	-	319,508
Charges for services	1,358,330	3,330,507	2,301,340	1,618,108	8,608,285
Intergovernmental	2,700,977	-	-	437,667	3,138,644
Licenses and permits	5,178,533	-	-	-	5,178,533
Investment income	99,829	83	149	8,642	108,703
Contributions	68,290	-	-	135,820	204,110
Miscellaneous	<u>582,050</u>	<u>180,504</u>	<u>280,512</u>	<u>617,940</u>	<u>1,661,006</u>
Total Revenues	37,050,820	3,528,053	2,595,971	2,882,093	46,056,937
<b>Expenditures:</b>					
Current:					
General government	5,599,453	-	-	718,938	6,318,391
Public safety	17,363,400	-	-	1,613,311	18,976,711
Highway and streets	10,113,594	61,105	-	1,429,017	11,603,716
Sanitation	1,129,737	-	-	-	1,129,737
Water distribution and treatment	-	2,679,789	-	-	2,679,789
Sewer distribution and treatment	-	-	1,893,159	-	1,893,159
Health	230,360	-	-	-	230,360
Welfare	313,057	-	-	-	313,057
Culture and recreation	2,108,068	-	-	99,456	2,207,524
Debt service	1,004,843	658,725	68,760	-	1,732,328
Capital outlay	<u>-</u>	<u>32,542</u>	<u>32,542</u>	<u>-</u>	<u>65,084</u>
Total Expenditures	<u>37,862,512</u>	<u>3,432,161</u>	<u>1,994,461</u>	<u>3,860,722</u>	<u>47,149,856</u>
Excess (deficiency) of revenues over expenditures	(811,692)	95,892	601,510	(978,629)	(1,092,919)
<b>Other Financing Sources (Uses):</b>					
Transfers in	327,495	-	87,765	520,000	935,260
Transfers out	<u>(495,000)</u>	<u>(229,765)</u>	<u>(115,000)</u>	<u>(95,495)</u>	<u>(935,260)</u>
Total Other Financing Sources (Uses)	<u>(167,505)</u>	<u>(229,765)</u>	<u>(27,235)</u>	<u>424,505</u>	<u>-</u>
Change in fund balance	(979,197)	(133,873)	574,275	(554,124)	(1,092,919)
Fund Equity, at Beginning of Year, as restated	<u>5,705,559</u>	<u>1,737,176</u>	<u>2,986,356</u>	<u>5,930,594</u>	<u>16,359,685</u>
Fund Equity, at End of Year	<u>\$ 4,726,362</u>	<u>\$ 1,603,303</u>	<u>\$ 3,560,631</u>	<u>\$ 5,376,470</u>	<u>\$ 15,266,766</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, 2011

**NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (1,092,919)

- 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	6,147,613
Depreciation	(10,017,981)

- 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. (351,370)

- 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:

Repayments of debt	1,746,553
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- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (7,499)

- 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. (1,164,487)

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ (4,740,090)

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, 2011

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts (Budgetary <u>Basis</u> )	Variance with Final Budget Positive (Negative)
<b>Revenues and other sources:</b>				
Property taxes	\$ 26,809,940	\$ 26,809,940	\$ 26,809,940	\$ -
Penalties, interest, and other taxes	231,837	231,837	288,579	56,742
Charges for services	1,289,678	1,289,678	1,358,330	68,652
Intergovernmental	2,184,420	2,184,420	2,552,305	367,885
Licenses and permits	4,849,229	4,849,229	5,178,533	329,304
Investment income	91,572	91,572	99,314	7,742
Miscellaneous	504,091	504,091	582,050	77,959
Other financing sources:				
Transfers in	307,006	307,006	327,495	20,489
Use of fund balance	<u>2,513,747</u>	<u>2,513,747</u>	<u>2,513,747</u>	<u>-</u>
Total Revenues	38,781,520	38,781,520	39,710,293	928,773
<b>Expenditures and other uses:</b>				
Current:				
General government	5,435,041	5,435,041	5,430,676	4,365
Public safety	17,132,110	17,132,110	17,256,121	(124,011)
Highways and streets	4,944,138	4,944,138	4,704,587	239,551
Sanitation	1,178,554	1,178,554	1,128,286	50,268
Health	240,609	240,609	226,742	13,867
Welfare	312,282	312,282	313,057	(775)
Culture and recreation	2,039,629	2,039,629	1,992,563	47,066
Debt service	1,004,843	1,004,843	1,004,843	-
Other financing uses:				
Transfers out	<u>6,494,314</u>	<u>6,494,314</u>	<u>6,494,314</u>	<u>-</u>
Total Expenditures	<u>38,781,520</u>	<u>38,781,520</u>	<u>38,551,189</u>	<u>230,331</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,159,104</u>	\$ <u>1,159,104</u>

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
DECEMBER 31, 2011

	Private Purpose Trust Funds	Agency Funds
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 44,870	\$ 1,259,138
Investments	<u>132,306</u>	<u>-</u>
Total Assets	177,176	1,259,138
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
Other liabilities	<u>-</u>	<u>1,259,138</u>
Total Liabilities	<u>-</u>	<u>1,259,138</u>
 <b><u>NET ASSETS</u></b>		
Net assets	\$ <u><u>177,176</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, 2011

	<u>Private Purpose Trust Funds</u>
<b>Additions:</b>	
Contributions	\$ 50
Investment Income (Loss)	<u>13,644</u>
Total additions	<u>13,694</u>
<b>Deductions:</b>	
Other	<u>4,138</u>
Total deductions	<u>4,138</u>
Net increase	9,556
<b>Net assets:</b>	
Beginning of year	<u>167,620</u>
End of year	<u><u>\$ 177,176</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. 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 2011, 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 *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the 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 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.

*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, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities type statement of net assets.

#### *J. Fund Equity*

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Board of Selectmen).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

#### 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 Notes 24 and 25.

**2. 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.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 37,050,820	\$ 37,862,512
Other financing sources/uses (GAAP basis)	<u>327,495</u>	<u>495,000</u>
Subtotal (GAAP Basis)	37,378,315	38,357,512
Adjust tax revenue to accrual basis	35,708	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(904,332)
Add end-of-year appropriation carryforwards from expenditures	-	909,853
To reverse the effect of non- budgeted State contributions for police retirement	(148,672)	(148,672)
Recognize use of fund balance as funding source	2,513,747	-
Eliminate capital reserve activity	<u>(68,805)</u>	<u>336,828</u>
Budgetary basis	<u>\$ 39,710,293</u>	<u>\$ 38,551,189</u>

### 3. 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 have a deposit policy for custodial credit risk.

As of December 31, 2011, \$ 53,272 of the Town's bank balance of \$ 36,490,939 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name. The uncollateralized amount of \$ 53,272 represents the cash and cash equivalents portion of a diversified investment fund under the control of the Trustees of the Trust funds.

### 4. 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	\$ 65,369	N/A	\$ -	\$ 65,369	\$ -	\$ -	\$ -
Corporate bonds	205,513		-	-	53,625	127,180	24,708
Corporate equities	351,473	N/A	351,473	-	-	-	-
Mutual funds	<u>523,866</u>	N/A	<u>523,866</u>	-	-	-	-
Total investments	<u>\$ 1,146,221</u>		<u>\$ 875,339</u>	<u>\$ 65,369</u>	<u>\$ 53,625</u>	<u>\$ 127,180</u>	<u>\$ 24,708</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/or 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	\$ 85,984
Equities	
iShare gold trust CUSIP 464285105	63,357
iShares S&P small cap index	84,214
SPDR S&P midcap 400 ETF	<u>107,815</u>
Total of individual holdings each in excess of 5% of total investments	<u>\$ 341,370</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>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Debt Related Securities:					
U.S. Treasury notes	\$ 65,369	\$ -	\$ 65,369	\$ -	\$ -
Corporate bonds	<u>205,513</u>	<u>25,440</u>	<u>104,609</u>	<u>49,602</u>	<u>25,862</u>
Total	<u>\$ 270,882</u>	<u>\$ 25,440</u>	<u>\$ 169,978</u>	<u>\$ 49,602</u>	<u>\$ 25,862</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.

**5. Restricted Cash**

Restricted cash represents capital reserve funds held by the trustees of trust funds as of December 31, 2011.

**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, 2011 consist of the following:

Real Estate		
2011		\$ 2,853,479
Resident Taxes		
2010		6,910
Yield taxes		
2011		172
Tax Liens		
2010	572,586	
2009	270,447	
2008	7,644	
2007	6,608	
2006	865	
Prior	<u>1,606</u>	
		<u>859,756</u>
Total		\$ <u><u>3,720,317</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:

	<u>Governmental</u>
Property taxes	\$ 111,397
User fees	\$ 45,336
Departmental and other	\$ 1,050,242

### **8. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2011.

## 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, 2011 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 206,307	\$ 5,750
Permanent trust funds	-	206,307
Conservation commission fund	<u>5,750</u>	<u>-</u>
Total	<u>\$ 212,057</u>	<u>\$ 212,057</u>

## 10. Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 7,821,790	\$ 26,171	\$ -	\$ 7,847,961
Machinery, equipment, and furnishings	14,800,648	377,504	(49,800)	15,128,352
Infrastructure	<u>216,203,218</u>	<u>755,920</u>	<u>(2,987,133)</u>	<u>213,972,005</u>
Total capital assets, being depreciated	238,825,656	1,159,595	(3,036,933)	236,948,318
Less accumulated depreciation for:				
Buildings and improvements	(3,421,619)	(165,037)	-	(3,586,656)
Machinery, equipment, and furnishings	(8,050,439)	(938,489)	17,707	(8,971,221)
Infrastructure	<u>(108,840,039)</u>	<u>(8,914,455)</u>	<u>2,261,426</u>	<u>(115,493,068)</u>
Total accumulated depreciation	<u>(120,312,097)</u>	<u>(10,017,981)</u>	<u>2,279,133</u>	<u>(128,050,945)</u>
Total capital assets, being depreciated, net	118,513,559	(8,858,386)	(757,800)	108,897,373
Capital assets, not being depreciated:				
Land and improvements	10,254,086	-	-	10,254,086
Construction in progress	<u>-</u>	<u>5,745,818</u>	<u>-</u>	<u>5,745,818</u>
Total capital assets, not being depreciated	<u>10,254,086</u>	<u>5,745,818</u>	<u>-</u>	<u>15,999,904</u>
Governmental activities capital assets, net	<u>\$ 128,767,645</u>	<u>\$ (3,112,568)</u>	<u>\$ (757,800)</u>	<u>\$ 124,897,277</u>



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

Governmental Activities:	
General government	\$ 53,073
Public safety	489,399
Highway and streets	8,903,848
Health and welfare	4,946
Sanitation	126,634
Water distribution and treatment	268,801
Sewer distribution and treatment	157,139
Culture and recreation	14,141
	<hr/>
Total depreciation expense - governmental activities	\$ 10,017,981

**11. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses represent additional 2011 expenditures paid in 2012.

**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, 2011 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, 2011:

	<u>Fiscal</u> <u>Year</u>	<u>Capital</u> <u>Leases</u>
	2012	\$ 423,232
	2013	288,064
	2014	<u>141,770</u>
Total minimum lease payments		853,066
Less amounts representing interest		<u>47,973</u>
Present Value of Minimum Lease Payments		<u><u>\$ 805,093</u></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	Interest Rate(s) %	Amount Outstanding as of <u>12/31/11</u>
<u>Governmental Activities:</u>	<u>Through</u>		
General obligation bond	11/01/16	3.75-4.00%	\$ 2,000,000
Water treatment plant (20% general fund)	08/15/14	4.70-7.00%	135,000
Bridge construction	12/31/19	2.00-3.00%	1,910,000
General obligation bond - bridges	12/31/20	2.00-4.00%	1,165,000
Canobie sewer/water (72% sewer fund)	08/15/18	3.90-5.00%	392,400
Water treatment plant (80% water fund)	08/15/14	4.70-7.00%	540,000
Canobie sewer/water (28% water fund)	08/15/18	3.90-5.00%	152,600
Spicket Hill water	08/15/13	3.90-5.00%	180,000
Pipeline construction	08/15/16	5.63-5.75%	1,055,000
Blake Road project	08/15/24	3.00-5.00%	<u>455,000</u>
Total Governmental Activities:			<u><u>\$ 7,985,000</u></u>

### B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of December 31, 2011 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,375,000	\$ 314,564	\$ 1,689,564
2013	1,395,000	258,013	1,653,013
2014	1,315,000	200,332	1,515,332
2015	1,100,000	145,926	1,245,926
2016	1,120,000	104,726	1,224,726
2017 - 2021	1,575,000	147,925	1,722,925
2022 - 2026	<u>105,000</u>	<u>8,956</u>	<u>113,956</u>
Total	<u>\$ 7,985,000</u>	<u>\$ 1,180,442</u>	<u>\$ 9,165,442</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, 2011:

General Fund	\$ 5,210,000
Water Fund	2,382,600
Sewer Fund	<u>392,400</u>
Total	<u>\$ 7,985,000</u>

### *C. Changes in General Long-Term Liabilities*

During the year ended December 31, 2011, the following changes occurred in long-term liabilities:

	Total Balance 12/31/10	Additions	Reductions	Total Balance 12/31/11	Less Current Portion	Equals Long-Term Portion 12/31/11
<u>Governmental Activities</u>						
Bonds payable	\$ 9,347,000	\$ -	\$ (1,362,000)	\$ 7,985,000	\$ (1,375,000)	\$ 6,610,000
Other:						
Capital leases	1,189,646	-	(384,553)	805,093	(394,524)	410,569
Landfill closure	638,000	-	(134,000)	504,000	(24,000)	480,000
OPEB liability	113,577	1,305,982	-	1,419,559	-	1,419,559
Accrued employment benefits	<u>3,302,775</u>	<u>-</u>	<u>(7,495)</u>	<u>3,295,280</u>	<u>(329,528)</u>	<u>2,965,752</u>
Totals	<u>\$ 14,590,998</u>	<u>\$ 1,305,982</u>	<u>\$ (1,888,048)</u>	<u>\$ 14,008,932</u>	<u>\$ (2,123,052)</u>	<u>\$ 11,885,880</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. **Governmental Funds - Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

In fiscal year 2011, the Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at December 31, 2011:

**Nonspendable** - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

**Restricted** - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

**Committed** - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, capital reserve funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

**Assigned** - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification

includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

## 19. **General Fund Unassigned Fund Balance**

The unassigned 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 unassigned fund balance:

GAAP basis balance	\$ 2,166,543
Deferred revenue	3,837,283
Allowance for doubtful accounts	(111,397)
Departmental accounts receivable - allowance	<u>(1,059,856)</u>
Tax Rate Setting Balance	<u>\$ 4,832,573</u>

## 20. **Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues 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 Healthcare 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 Activities 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, 2011, there were 234 retiree subscribers, including eligible spouses and dependents, and 244 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 2011 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, 2011, 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, 2011.

Annual Required Contribution (ARC)	\$ 2,129,402
Interest on net OPEB obligation	5,111
Adjustment to ARC	<u>(6,972)</u>
Annual OPEB cost	2,127,541
Contributions made	<u>(821,559)</u>
Increase in net OPEB obligation	1,305,982 *
Net OPEB obligation - beginning of year	<u>113,577</u>
Net OPEB obligation - end of year	<u>\$ 1,419,559</u>

\* During fiscal year 2011, the Town's actuarial report was updated with revised information and assumptions.

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>
2011	\$ 2,127,541	39.0%	\$ 1,419,559
2010	\$ 165,611	31.4%	\$ 113,577

#### E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 26,807,876
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 26,807,876</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 17,834,523</u>
UAAL as a percentage of covered payroll	<u>150.3%</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, 2011 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 4.00% investment rate of return and an initial annual healthcare cost trend rate of 10% 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 54 Regional Drive, Concord, New Hampshire 03301-8507.

**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 2011, 9.16% for employees, 14.63% for police, and 18.52% for fire, for July – August 2011, 11.09% for employees, 25.57% for police, and 30.90% for fire and then August 2011 to December 31, 2011, 8.80% for employees, 19.95% for police, 22.89% for fire. The Town's contributions to the System for the years ended December 31, 2011, 2010, and 2009 were \$ 2,612,824, \$ 2,202,158, and \$ 1,855,547 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, 2011 was \$ 17,834,523.

**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 Net Assets Restatement**

The beginning (January 1, 2011) fund balances of the Town have been restated as follows:

	Governmental Activities
As previously reported	\$ 30,444,087
Reclass of trust funds to agency	(105,891)
Prior year infrastructure capital assets	107,363,179
As restated	<u>\$ 137,701,375</u>

## 25. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2011, as defined by GASB Statement 54, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 12/31/10 (as previously reported)	<u>Reclassification</u>	Fund Equity 12/31/10 (as restated)
General Fund	\$ 4,646,254	\$ 1,059,305	\$ 5,705,559
Water Fund	1,737,176	-	1,737,176
Sewer Fund	2,986,356	-	2,986,356
Expendable Trust	2,364,244	(2,364,244)	-
Nonmajor Funds	<u>4,731,546</u>	<u>1,199,048</u>	<u>5,930,594</u>
Total	\$ <u>16,465,576</u>	\$ * <u>(105,891)</u>	\$ <u>16,359,685</u>

\* During the implementation of GASB 54, \$105,891 was reclassified to Agency Funds for amounts that are being held by the Trustees on behalf of the Salem School District.

The reclassification was due to reclassifying Capital Reserve Funds from the Expendable Trust Funds into the General Fund per GASB 54. Accordingly, the following table is provided to reflect a bridge of the ending balances of the current year under GASB 54:

	<u>Non Spendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total</u>
General Fund						
Reserve for:						
Encumbrance	\$ -	\$ -	\$ -	\$ 909,853	\$ -	\$ 909,853
Prepaid Expenses	185,028	-	-	-	-	185,028
Capital Reserve	-	-	1,464,938	-	-	1,464,938
Undesignated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,166,543</u>	<u>2,166,543</u>
sub total	<u>185,028</u>	<u>-</u>	<u>1,464,938</u>	<u>909,853</u>	<u>2,166,543</u>	<u>4,726,362</u>
Major						
Water Fund	-	-	-	866,055	737,248	1,603,303
Sewer Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,168,598</u>	<u>2,392,033</u>	<u>3,560,631</u>
sub total	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,034,653</u>	<u>3,129,281</u>	<u>5,163,934</u>
Non Major						
Special Revenue	-	1,223,502	-	50,331	-	1,273,833
Capital Projects	-	1,024,027	-	738,579	-	1,762,606
Permanent Funds	<u>888,740</u>	<u>1,451,291</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,340,031</u>
sub total	<u>888,740</u>	<u>3,698,820</u>	<u>-</u>	<u>788,910</u>	<u>-</u>	<u>5,376,470</u>
Grand Total	\$ <u>1,073,768</u>	\$ <u>3,698,820</u>	\$ <u>1,464,938</u>	\$ <u>3,733,416</u>	\$ <u>5,295,824</u>	\$ <u>15,266,766</u>

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

**December 31, 2011  
(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]
01/01/11	\$ -	\$ 26,807,576	\$ 26,807,576	0.0%	\$ 17,834,523	150.3%

See Independent Auditors' Report.