

**TOWN OF SALEM, NEW HAMPSHIRE**

**Annual Financial Statements**

**For the Year Ended December 31, 2013**

**Town of Salem, New Hampshire**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Salem, New Hampshire

Additional Offices:  
Nashua, NH  
Andover, MA  
Greenfield, MA  
Ellsworth, ME

### **Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

The Town's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **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, 2013, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and Schedule of Funding Progress – OPEB be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2014 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regu-

lations, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*Melanson, Heath + Company P.C.*

May 8, 2014

## **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 year ended December 31, 2013.

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

The Statement of Activities presents information showing how the Town's net position changed during the most recent year. All changes in net position 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 periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements include functions that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities include general government, public safety, highways and streets, sanitation, water distribution and treatment, sewer distribution and treatment, 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 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.

**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 year, the total of assets exceeded liabilities by \$126,380,870 (i.e., net position), a change of \$(3,023,861) in comparison to the prior year.
- As of the close of the current year, governmental funds reported combined ending fund balances of \$20,587,094, a change of \$3,958,183 in comparison to the prior year.
- At the end of the current year, unassigned fund balance for the general fund was \$6,117,781, a change of \$1,830,754 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current year was \$7,097,000, a change of \$487,000 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 years.

### NET POSITION

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 48,268,989	\$ 47,100,877
Capital assets	<u>115,693,168</u>	<u>119,677,984</u>
Total assets	163,962,157	166,778,861
Current liabilities	23,736,374	25,685,521
Noncurrent liabilities	13,802,270	11,649,205
Deferred inflows	<u>42,643</u>	<u>39,404</u>
Total liabilities and deferred inflows	37,581,287	37,374,130
Net position:		
Net investment in capital assets	110,139,801	113,750,260
Restricted	<u>10,305,024</u>	<u>8,991,738</u>
Unrestricted	<u>5,936,045</u>	<u>6,662,733</u>
Total net position	<u>\$ 126,380,870</u>	<u>\$ 129,404,731</u>

### CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues		
Charges for services	\$ 10,208,077	\$ 9,761,909
Capital grants and contributions	310,611	363,665
General revenues:		
Property taxes	26,323,797	26,152,157
Motor vehicle permits	4,872,268	4,494,086
Penalties, interest, and other taxes	483,746	407,379
Grants and contributions not restricted to specific programs	2,921,169	2,081,625
Investment income	187,297	234,103
Miscellaneous	<u>2,613,901</u>	<u>2,890,060</u>
Total revenues	47,920,866	46,384,984

(continued)

(continued)

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
<b>Expenses:</b>		
General government	6,730,813	6,727,526
Public safety	22,268,491	20,230,592
Highway and streets	13,407,724	13,602,645
Sanitation	1,111,765	904,884
Water distribution and treatment	2,470,971	3,070,572
Sewer distribution and treatment	2,145,902	2,727,741
Health	233,814	216,263
Welfare	324,133	302,063
Culture and recreation	2,074,255	2,024,768
Interest on long-term debt	<u>267,788</u>	<u>279,193</u>
<b>Total expenses</b>	<b><u>51,035,656</u></b>	<b><u>50,086,247</u></b>
Change in net position before permanent fund contributions	(3,114,790)	(3,701,263)
Permanent fund contributions	<u>90,929</u>	<u>144,709</u>
<b>Change in net position</b>	<b>(3,023,861)</b>	<b>(3,556,554)</b>
<b>Net position - beginning of year</b>	<b><u>129,404,731</u></b>	<b><u>132,961,285</u></b>
<b>Net position - end of year</b>	<b><u>\$ 126,380,870</u></b>	<b><u>\$ 129,404,731</u></b>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent year, total net position was \$126,380,870, a change of \$(3,023,861) from the prior year.

The largest portion of net position \$110,139,801 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 position \$10,305,024 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$5,936,045 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 position of \$(3,023,861). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 1,971,564
Water fund activities	442,923
Sewer fund activities	332,513
Nonmajor fund activities, accrual basis	(670,817)
Depreciation expense in excess of principal debt service	(8,560,662)
Capital asset additions, net of disposals	5,970,846
Other	<u>(2,510,228)</u>
 Total	 <u>\$ (3,023,861)</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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, governmental funds reported combined ending fund balances of \$20,587,094, a change of \$3,958,183 in comparison to the prior year. Key elements of this change are as follows:

General fund operations	\$ 1,971,564
Water fund activities	442,923
Sewer fund activities	332,513
Nonmajor fund activities	<u>1,211,183</u>
 Total	 <u>\$ 3,958,183</u>

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$6,117,781, while total fund balance was \$8,184,358. 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>12/31/13</u>	<u>12/31/12</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 6,117,781	\$ 4,287,027	\$ 1,830,754	18.59%
Total fund balance	\$ 8,184,358	\$ 6,212,794	\$ 1,971,564	24.87%

The fund balance of the general fund changed by \$1,971,564 during the current year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 2,322,604
Expenditures less than budget	88,558
Excess of tax collections vs. net assessment	422,998
Current year encumbrance expended over prior year	
encumbrance to be expended in subsequent year	461,574
Use of fund balance as a funding source	(875,000)
Change in capital reserves	(449,872)
Other	702
<b>Total</b>	<b>\$ <u>1,971,564</u></b>

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

	<u>12/31/13</u>	<u>12/31/12</u>	<u>Change</u>
Capital reserves	\$ 884,188	\$ 1,334,060	\$ (449,872)

## **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no differences between the original budget and the final budget.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental activities at year end amounted to \$115,693,168 (net of accumulated depreciation), a change of \$(3,984,816) from the prior year. This investment in capital assets includes land, buildings and improvements, machinery, equipment and furnishings, and infrastructure.

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

Purchase of:

Dodge Chargers (12)	\$ 312,276
2013 International Ambulance	\$ 232,788
Data Collection Unit	\$ 201,080
Kohler Generator	\$ 65,000
Lifepak (2)	\$ 58,669
Lifepak (2)	\$ 58,075
2013 Honda Pilot	\$ 27,747

Construction in Progress:

Road Reconstruction - Pond St & Sandhill	\$ 2,610,767
Road Reconstruction - Stiles Road	\$ 1,205,228
Bridge Reconstruction - Bluff	\$ 545,946
Bridge Reconstruction - Providence Hill	\$ 428,789

Additional information on capital assets can be found in the Notes to Financial Statements.

**Long-term debt.** At the end of the current year, total bonded debt outstanding was \$7,097,000, 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 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 POSITION  
DECEMBER 31, 2013

	Governmental Activities
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 37,580,667
Investments	1,420,856
Restricted cash	884,188
Receivables, net of allowance for uncollectibles:	
Property taxes	2,085,182
User fees	491,840
Departmental and other	735,666
Intergovernmental	496,911
Special assessments	561,958
Other assets	274,846
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	789,655
Special assessments	2,947,220
Capital Assets:	
Land and construction in progress	17,288,830
Other assets, net of accumulated depreciation	<u>98,404,338</u>
<b>TOTAL ASSETS</b>	<u>163,962,157</u>
<b>LIABILITIES</b>	
Current:	
Accounts payable	481,722
Accrued liabilities	952,392
Tax refunds payable	315,530
Retainage payable	263,390
Due to other governments	19,442,586
Other current liabilities	60,547
Current portion of long-term liabilities:	
Bonds payable	1,507,000
Other liabilities	713,207
Noncurrent:	
Bonds payable, net of current portion	5,590,000
OPEB liability	4,180,159
Other liabilities, net of current portion	4,032,111
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>42,643</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>37,581,287</u>
<b>NET POSITION</b>	
Net investment in capital assets	110,139,801
Restricted for:	
Grants and other statutory restrictions	7,632,515
Permanent funds:	
Nonexpendable	998,896
Expendable	1,673,613
Unrestricted	<u>5,936,045</u>
<b>TOTAL NET POSITION</b>	<u>\$ 126,380,870</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SALEM, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2013

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	<u>Expenses</u>	Charges for Services	Grants and Contributions	
		Capital	Governmental Activities	
<b>Governmental Activities:</b>				
General government	\$ 6,730,813	\$ 433,661	\$ 305,000	\$ (5,992,152)
Public safety	22,268,491	4,031,070	-	(18,237,421)
Highway and streets	13,407,724	-	5,611	(13,402,113)
Sanitation	1,111,765	200,596	-	(911,169)
Water distribution and treatment	2,470,971	3,284,945	-	813,974
Sewer distribution and treatment	2,145,902	2,107,281	-	(38,621)
Health	233,814	60,022	-	(173,792)
Welfare	324,133	1,541	-	(322,592)
Culture and recreation	2,074,255	88,961	-	(1,985,294)
Interest on long-term debt	<u>267,788</u>	<u>-</u>	<u>-</u>	<u>(267,788)</u>
Total Governmental Activities	<u>\$ 51,035,656</u>	<u>\$ 10,208,077</u>	<u>\$ 310,611</u>	<u>(40,516,968)</u>
<b>General Revenues and Contributions:</b>				
Property taxes				26,323,797
Motor vehicle permits				4,872,268
Penalties, interest and other taxes				483,746
Grants and contributions not restricted to specific programs				2,921,169
Investment income				187,297
Miscellaneous				2,613,901
Permanent fund contributions				<u>90,929</u>
Total general revenues and contributions				<u>37,493,107</u>
Change in Net Position				<u>(3,023,861)</u>
<b>Net Position:</b>				
Beginning of year				<u>129,404,731</u>
End of year				<u>\$ 126,380,870</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SALEM, NEW HAMPSHIRE  
 GOVERNMENTAL FUNDS  
 BALANCE SHEET  
 DECEMBER 31, 2013

	<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	\$ 26,469,852	\$ 2,210,027	\$ 3,450,381	\$ 5,450,407	\$ 37,580,667
Investments	-	-	-	1,420,856	1,420,856
Restricted cash	884,188	-	-	-	884,188
Receivables:					
Property taxes	2,963,456	-	-	-	2,963,456
User fees	-	255,167	176,929	100,116	532,212
Departmental and other	1,341,896	5,060	8,328	199,952	1,555,236
Intergovernmental	291,754	-	205,157	-	496,911
Due from other funds	250,840	-	-	9,500	260,340
Other assets	<u>274,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>274,846</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 32,476,832</u></b>	<b><u>\$ 2,470,254</u></b>	<b><u>\$ 3,840,795</u></b>	<b><u>\$ 7,180,831</u></b>	<b><u>\$ 45,968,712</u></b>
<b>LIABILITIES</b>					
Accounts payable	\$ 401,998	\$ 75,801	\$ 3,505	\$ 418	\$ 481,722
Accrued liabilities	808,026	17,028	3,603	29,075	857,732
Tax refunds payable	315,530	-	-	-	315,530
Retainage payable	-	-	-	263,390	263,390
Due to other governments	19,442,586	-	-	-	19,442,586
Due to other funds	9,500	-	-	250,840	260,340
Other liabilities	<u>60,547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,547</u>
<b>TOTAL LIABILITIES</b>	<b>21,038,187</b>	<b>92,829</b>	<b>7,108</b>	<b>543,723</b>	<b>21,681,847</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>3,254,287</b>	<b>260,227</b>	<b>185,257</b>	<b>-</b>	<b>3,699,771</b>
<b>FUND BALANCES</b>					
Nonspendable	274,846	-	-	998,896	1,273,742
Restricted	-	2,117,198	3,648,430	5,638,212	11,403,840
Committed	884,188	-	-	-	884,188
Assigned	907,543	-	-	-	907,543
Unassigned	<u>6,117,781</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,117,781</u>
<b>TOTAL FUND BALANCES</b>	<b><u>8,184,358</u></b>	<b><u>2,117,198</u></b>	<b><u>3,648,430</u></b>	<b><u>6,637,108</u></b>	<b><u>20,587,094</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 32,476,832</u></b>	<b><u>\$ 2,470,254</u></b>	<b><u>\$ 3,840,795</u></b>	<b><u>\$ 7,180,831</u></b>	<b><u>\$ 45,968,712</u></b>

The accompanying notes are an integral part of these financial statements.

TOWN OF SALEM, NEW HAMPSHIRE

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

DECEMBER 31, 2013

<b>Total governmental fund balances</b>	\$ 20,587,094
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	115,693,168
• Long term receivables not yet billed.	3,509,178
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	2,708,567
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(94,660)
• 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>(16,022,477)</u>
<b>Net position of governmental activities</b>	<u>\$ 126,380,870</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SALEM, NEW HAMPSHIRE  
 GOVERNMENTAL FUNDS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED DECEMBER 31, 2013

	<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	\$ 26,543,637	\$ -	\$ -	\$ 85,326	\$ 26,628,963
Penalties, interest, and other taxes	457,601	15,418	10,727	-	483,746
Charges for services	1,887,622	3,402,849	2,284,536	1,913,500	9,488,507
Intergovernmental	2,921,169	-	-	310,611	3,231,780
Licenses and permits	5,861,002	-	-	-	5,861,002
Investment income	72,941	41,584	32	187,260	301,817
Contributions	1,787	-	-	89,142	90,929
Miscellaneous	<u>1,561,894</u>	<u>160,752</u>	<u>258,519</u>	<u>729,976</u>	<u>2,711,141</u>
Total Revenues	39,307,653	3,620,603	2,553,814	3,315,815	48,797,885
<b>Expenditures:</b>					
Current:					
General government	5,805,558	-	-	746,160	6,551,718
Public safety	19,312,307	-	-	1,913,394	21,225,701
Highway and streets	3,491,862	-	-	5,999,774	9,491,636
Sanitation	915,687	-	-	-	915,687
Water distribution and treatment	-	2,234,377	-	-	2,234,377
Sewer distribution and treatment	-	-	2,155,104	-	2,155,104
Health	224,870	-	-	-	224,870
Welfare	313,638	-	-	-	313,638
Culture and recreation	1,885,932	-	-	70,026	1,955,958
Debt service	<u>952,512</u>	<u>629,221</u>	<u>71,280</u>	<u>-</u>	<u>1,653,013</u>
Total Expenditures	<u>32,902,366</u>	<u>2,863,598</u>	<u>2,226,384</u>	<u>8,729,354</u>	<u>46,721,702</u>
Excess (deficiency) of revenues over expenditures	6,405,287	757,005	327,430	(5,413,539)	2,076,183
<b>Other Financing Sources (Uses):</b>					
Proceeds of bonds	-	-	-	1,882,000	1,882,000
Transfers in	785,342	-	125,083	5,248,065	6,158,490
Transfers out	<u>(5,219,065)</u>	<u>(314,082)</u>	<u>(120,000)</u>	<u>(505,343)</u>	<u>(6,158,490)</u>
Total Other Financing Sources (Uses)	<u>(4,433,723)</u>	<u>(314,082)</u>	<u>5,083</u>	<u>6,624,722</u>	<u>1,882,000</u>
Change in fund balance	1,971,564	442,923	332,513	1,211,183	3,958,183
Fund Equity, at Beginning of Year	<u>6,212,794</u>	<u>1,674,275</u>	<u>3,315,917</u>	<u>5,425,925</u>	<u>16,628,911</u>
Fund Equity, at End of Year	<u>\$ 8,184,358</u>	<u>\$ 2,117,198</u>	<u>\$ 3,648,430</u>	<u>\$ 6,637,108</u>	<u>\$ 20,587,094</u>

The accompanying notes are an integral part of these 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, 2013

<b>Net changes in fund balances - total governmental funds</b>	\$ 3,958,183
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- 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	5,970,846
Depreciation	(9,955,662)

- 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 (i.e., real estate taxes) differ between the two statements.

This amount represents the net change in deferred revenue. (671,570)

- The issuance of long-term debt (i.e., 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 position:

Issuance of debt	(1,882,000)
Repayments of debt	1,395,000
Capital lease additions	(443,089)
Repayments of capital leases	453,480
Issuance of bond premium	(114,520)

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (9,775)

- 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. (1,724,754)

<b>Change in net position of governmental activities</b>	<u>\$ (3,023,861)</u>
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The accompanying notes are an integral part of these 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, 2013

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
				Positive (Negative)
<b>Revenues and other sources:</b>				
Property taxes	\$ 26,120,639	\$ 26,120,639	\$ 26,120,639	\$ -
Penalties, interest, and other taxes	387,484	387,484	457,601	70,117
Charges for services	1,904,208	1,904,208	1,887,622	(16,586)
Intergovernmental	2,178,064	2,178,064	2,921,169	743,105
Licenses and permits	5,222,589	5,222,589	5,861,002	638,413
Investment income	2,000	2,000	72,729	70,729
Miscellaneous	513,126	513,126	1,296,171	783,045
Other financing sources:				
Transfers in	358,000	358,000	391,781	33,781
Use of fund balance	<u>875,000</u>	<u>875,000</u>	<u>875,000</u>	<u>-</u>
Total Revenues	37,561,110	37,561,110	39,883,714	2,322,604
<b>Expenditures and other uses:</b>				
Current:				
General government	5,617,459	5,617,459	5,819,400	(201,941)
Public safety	19,212,202	19,212,202	19,122,072	90,130
Highways and streets	3,365,122	3,365,122	3,328,428	36,694
Sanitation	1,052,908	1,052,908	931,920	120,988
Health	211,273	211,273	225,036	(13,763)
Welfare	300,763	300,763	312,438	(11,675)
Culture and recreation	1,956,871	1,956,871	1,888,746	68,125
Debt service	952,512	952,512	952,512	-
Other financing uses:				
Transfers out	<u>4,892,000</u>	<u>4,892,000</u>	<u>4,892,000</u>	<u>-</u>
Total Expenditures	<u>37,561,110</u>	<u>37,561,110</u>	<u>37,472,552</u>	<u>88,558</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,411,162</u>	<u>\$ 2,411,162</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SALEM, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2013

	Private Purpose Trust <u>Funds</u>	Agency Funds
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ <u>201,636</u>	\$ <u>1,444,919</u>
Total Assets	201,636	1,444,919
<b><u>LIABILITIES AND NET POSITION</u></b>		
Other liabilities	<u>-</u>	<u>1,444,919</u>
Total Liabilities	<u>-</u>	<u>1,444,919</u>
<b><u>NET POSITION</u></b>		
Total net position held in trust	\$ <u>201,636</u>	\$ <u>-</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SALEM, NEW HAMPSHIRE  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Private Purpose <u>Trust Funds</u>
<b>Additions:</b>	
Investment Income	\$ <u>14,905</u>
Total additions	<u>14,905</u>
<b>Deductions:</b>	
Other	<u>3,844</u>
Total deductions	<u>3,844</u>
Net increase	11,061
<b>Net position:</b>	
Beginning of year	<u>190,575</u>
End of year	<u>\$ 201,636</u>

The accompanying notes are an integral part of these 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 Town 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 2013, 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 Position and the Statement of Activities) 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.

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 are 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 Town considers property tax revenues to be available if they are collected within 60 days of the end of the current 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 Town 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 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 are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Town 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.

Capital assets are 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 Town'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 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 governmental activities Statement of Net Position.

*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 position".

*Fund Balance* - Generally, fund balance represents the difference between the current assets and current liabilities/deferred inflows. 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 Town (i.e., the Town Meeting).
- 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 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 Position - Net position represents the difference between assets and liabilities/deferred inflows. Net investment in capital assets, consists 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 position is 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. The remaining net position is 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 year. Actual results could vary from estimates that were used.

## **2. Stewardship, Compliance, and Accountability**

### ***A. Budgetary Information***

The Town's budget is originally prepared by the 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 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 budget.

### ***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)	\$ 39,307,653	\$ 32,902,366
Other financing sources/uses (GAAP basis)	<u>785,342</u>	<u>5,219,065</u>
Subtotal (GAAP Basis)	40,092,995	38,121,431
Adjust tax revenue to accrual basis	(422,998)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(373,821)
Add end-of-year appropriation carryforwards from expenditures	-	835,395
To reverse the effect of non- budgeted transfers and grants	(533,941)	(533,239)
Recognize use of fund balance as funding source	875,000	-
Eliminate capital reserve activity	<u>(127,342)</u>	<u>(577,214)</u>
Budgetary basis	<u>\$ 39,883,714</u>	<u>\$ 37,472,552</u>

### **3. Cash and Investments**

#### **A. Custodial Credit Risk**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of a 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.

*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, 2013, none of the Town's bank balance of \$42,402,800 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

***B. 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>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	\$ 62,842	\$ -	\$ 62,842	\$ -	\$ -	\$ -
Corporate bonds	155,378	-	-	25,674	104,666	25,038
Corporate equities	1,006,847	1,006,847	-	-	-	-
Mutual funds	195,789	195,789	-	-	-	-
Total investments	\$ 1,420,856	\$ 1,202,636	\$ 62,842	\$ 25,674	\$ 104,666	\$ 25,038

***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	\$ 83,576
Equities	
iShare core S&P 500 ETF CUSIP 464287200	155,946
SPDR S&P Midcap 400 ETF TR Utser1	
S&Pdcrp CYSUO: 78467Y107	<u>110,134</u>
Total of individual holdings each in excess of 5% of total investments	\$ <u>349,656</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>
Debt Related Securities:				
U.S. Treasury notes	\$ 62,842	\$ 25,039	\$ 37,803	\$ -
Corporate bonds	<u>155,378</u>	<u>25,038</u>	<u>77,689</u>	<u>52,651</u>
Total	<u>\$ 218,220</u>	<u>\$ 50,077</u>	<u>\$ 115,492</u>	<u>\$ 52,651</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.

**4. Restricted Cash**

Restricted cash represents capital reserve funds held by the trustees of trust funds as of December 31, 2013.

**5. Taxes Receivable**

The Town bills property taxes semi-annually, in May and November. Property tax revenues are recognized in the 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, 2013 consist of the following:

Real Estate		
2013	\$	2,139,959
Land Use		
2013		9,500
Tax Liens		
2012	496,509	
2011	293,617	
2010	14,934	
2009	6,450	
2008 & older	<u>2,487</u>	
		<u>813,997</u>
Total	\$	<u>2,963,456</u>

Taxes Collected for Others

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

**6. 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	\$ 88,619
User fees	\$ 40,372
Departmental and other	\$ 819,570

**7. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in 2013.

## 8. 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, 2013 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 250,840	\$ 9,500
Special Revenue fund	9,500	-
Permanent trust funds	<u>-</u>	<u>250,840</u>
Total	<u>\$ 260,340</u>	<u>\$ 260,340</u>

## 9. Capital Assets

Capital asset activity for the year ended December 31, 2013 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	\$ 7,713,761	\$ -	\$ (57,900)	\$ 7,655,861
Machinery, equipment, and furnishings	15,028,063	1,112,524	(585,520)	15,555,067
Infrastructure	<u>221,378,736</u>	<u>-</u>	<u>-</u>	<u>221,378,736</u>
Total capital assets, being depreciated	244,120,560	1,112,524	(643,420)	244,589,664
Less accumulated depreciation for:				
Buildings and improvements	(3,733,388)	(156,869)	57,900	(3,832,357)
Machinery, equipment, and furnishings	(9,225,910)	(874,340)	507,794	(9,592,456)
Infrastructure	<u>(123,836,060)</u>	<u>(8,924,453)</u>	<u>-</u>	<u>(132,760,513)</u>
Total accumulated depreciation	<u>(136,795,358)</u>	<u>(9,955,662)</u>	<u>565,694</u>	<u>(146,185,326)</u>
Total capital assets, being depreciated, net	107,325,202	(8,843,138)	(77,726)	98,404,338
Capital assets, not being depreciated:				
Land and improvements	10,243,406	-	-	10,243,406
Construction in progress	<u>2,109,376</u>	<u>4,936,048</u>	<u>-</u>	<u>7,045,424</u>
Total capital assets, not being depreciated	<u>12,352,782</u>	<u>4,936,048</u>	<u>-</u>	<u>17,288,830</u>
Governmental activities capital assets, net	<u>\$ 119,677,984</u>	<u>\$ (3,907,090)</u>	<u>\$ (77,726)</u>	<u>\$ 115,693,168</u>

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

Governmental Activities:	
General government	\$ 53,335
Public safety	381,596
Highway and streets	8,838,970
Sanitation	222,912
Water distribution and treatment	431,943
Health and welfare	4,946
Culture and recreation	<u>21,960</u>
Total depreciation expense - governmental activities	\$ <u>9,955,662</u>

## **10. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses represent 2013 expenditures paid in 2014.

## **11. 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.

## **12. Capital Lease Obligations**

The Town is the lessee of certain equipment under capital leases expiring in various years through 2016. Future minimum lease payments under the capital and operating leases consisted of the following as of December 31, 2013:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2014	\$ 324,678
2015	182,908
2016	<u>32,826</u>
Total minimum lease payments	540,412
Less amounts representing interest	<u>18,648</u>
Present Value of Minimum Lease Payments	\$ <u>521,764</u>

## 13. 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 <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>12/31/13</u>
<u>Governmental Activities:</u>			
General obligation bond	11/01/16	3.75-4.00%	\$ 1,200,000
Water treatment plant (20% general fund)	08/15/14	4.70-7.00%	45,000
Bridge construction	12/31/19	2.00-3.00%	1,430,000
General obligation bond - bridges	12/31/20	2.00-4.00%	905,000
Bridge replacement - Bluff & Providence	07/01/23	3.00%	1,189,909
Canobie sewer/water (72% sewer fund)	08/15/18	3.90-5.00%	291,600
Water treatment plant (80% water fund)	08/15/14	4.70-7.00%	180,000
Canobie sewer/water (28% water fund)	08/15/18	3.90-5.00%	113,400
Pipeline construction	08/15/16	5.63-5.75%	665,000
Blake Road project	08/15/24	3.00-5.00%	385,000
Water Main Improvements	07/01/23	3.00%	<u>692,091</u>
Total Governmental Activities:			\$ <u>7,097,000</u>

### B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of December 31, 2013 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,507,000	\$ 256,512	\$ 1,763,512
2015	1,290,000	195,876	1,485,876
2016	1,310,000	149,726	1,459,726
2017	680,000	99,219	779,219
2018	680,000	87,519	767,519
2019 - 2023	1,595,000	163,553	1,758,553
2024 - 2027	<u>35,000</u>	<u>1,057</u>	<u>36,057</u>
Total	\$ <u>7,097,000</u>	\$ <u>953,462</u>	\$ <u>8,050,462</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, 2013:

General Fund	\$ 4,769,909
Water Fund	2,035,491
Sewer Fund	<u>291,600</u>
<b>Total</b>	<b>\$ <u>7,097,000</u></b>

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

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

	Total Balance 1/1/13	Additions	Reductions	Total Balance 12/31/13	Less Current Portion	Equals Long-Term Portion 12/31/13
<b>Governmental Activities</b>						
Bonds payable	\$ 6,610,000	\$ 1,882,000	\$ (1,395,000)	\$ 7,097,000	\$ (1,507,000)	\$ 5,590,000
OPEB liability	2,725,541	1,454,618	-	4,180,159	-	4,180,159
Other:						
Capital leases	532,155	443,089	(453,480)	521,764	(312,452)	209,312
Landfill closure	480,000	-	(24,000)	456,000	(24,000)	432,000
Accrued employment benefits	3,358,898	294,136	-	3,653,034	(365,303)	3,287,731
Bond premium	-	114,520	-	114,520	(11,452)	103,068
<b>Subtotal</b>	<b>\$ 4,371,053</b>	<b>\$ 851,745</b>	<b>\$ (477,480)</b>	<b>\$ 4,745,318</b>	<b>\$ (713,207)</b>	<b>\$ 4,032,111</b>
<b>Totals</b>	<b>\$ 13,706,594</b>	<b>\$ 4,188,363</b>	<b>\$ (1,872,480)</b>	<b>\$ 16,022,477</b>	<b>\$ (2,220,207)</b>	<b>\$ 13,802,270</b>

**14. 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.

**15. Deferred Inflows of Resources**

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of December 31, 2013:

<u>Governmental Activities</u>			
Entity-wide Basis:			
Taxes paid in advance	\$ 23,562		
Unearned grants	<u>19,081</u>		
Total	<u><u>\$ 42,643</u></u>		
<u>Governmental Funds</u>			
	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Unearned revenue	\$ 3,211,644	\$ 260,227	\$ 185,257
Taxes paid in advance	23,562	-	-
Unearned grants	<u>19,081</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ 3,254,287</u></u>	<u><u>\$ 260,227</u></u>	<u><u>\$ 185,257</u></u>

## **16. Restricted Net Position**

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

Permanent fund restricted net position is 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.

## **17. 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.

The Town has 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, 2013:

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 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.

Following is a breakdown of the Town's fund balances at December 31, 2013:

	General Fund	Water Fund	Sewer Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>					
Prepaid expenditures	\$ 274,846	\$ -	\$ -	\$ -	\$ 274,846
Nonexpendable permanent funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>998,896</u>	<u>998,896</u>
<b>Total Nonspendable</b>	<b>274,846</b>	<b>-</b>	<b>-</b>	<b>998,896</b>	<b>1,273,742</b>
<b>Restricted</b>					
Bonded projects	-	-	-	2,065,397	2,065,397
Special revenue funds	-	2,117,198	3,648,430	1,866,887	7,632,515
Expendable permanent funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,705,928</u>	<u>1,705,928</u>
<b>Total Restricted</b>	<b>-</b>	<b>2,117,198</b>	<b>3,648,430</b>	<b>5,638,212</b>	<b>11,403,840</b>
<b>Committed</b>					
Capital reserve funds	<u>884,188</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>884,188</u>
<b>Total Committed</b>	<b>884,188</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>884,188</b>
<b>Assigned</b>					
Encumbrances	835,395	-	-	-	835,395
Reserved for expenditures	<u>72,148</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,148</u>
<b>Total Assigned</b>	<b>907,543</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>907,543</b>
<b>Unassigned</b>					
Unassigned	<u>6,117,781</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,117,781</u>
<b>Total Unassigned</b>	<b>6,117,781</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,117,781</b>
<b>Total Fund Balance</b>	<b>\$ 8,184,358</b>	<b>\$ 2,117,198</b>	<b>\$ 3,648,430</b>	<b>\$ 6,637,108</b>	<b>\$ 20,587,094</b>

## **18. 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	\$ 6,117,781
Deferred inflows of resources	3,254,287
Allowance for doubtful accounts	(88,619)
Departmental accounts receivable - allowance	<u>(862,213)</u>
Tax Rate Setting Balance	\$ <u>8,421,236</u>

## **19. 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.

## **20. Post-Employment Healthcare and Life Insurance Benefits Other Post-Employment Benefits**

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, 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 Position over time.

*A. Plan Description*

In addition to providing the pension benefits described, Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of January 1, 2013, the actuarial valuation date, approximately 239 retirees and 230 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.

*D. Annual OPEB Costs and Net OPEB Obligation*

The Town's 2013 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, 2013, 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, 2013.

Annual Required Contribution (ARC)	\$ 2,313,628
Interest on net OPEB obligation	109,022
Adjustment to ARC	<u>(157,637)</u>
Annual OPEB cost	2,265,013
Contributions made	<u>(810,395)</u>
Increase in net OPEB obligation	1,454,618
Net OPEB obligation - beginning of year	<u>2,725,541</u>
Net OPEB obligation - end of year	\$ <u>4,180,159</u>

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

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 2,265,013	36.0%	\$ 4,180,159
2012	\$ 2,127,541	39.0%	\$ 2,725,541
2011	\$ 2,127,541	39.0%	\$ 1,419,559

The Town's net OPEB obligation as of December 31, 2013 is recorded as a component of the "other long-term liabilities" line item in the Statement of Net Position.

#### *E. Funded Status and Funding Progress*

The funded status of the plan as of January 1, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 32,922,106
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>32,922,106</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	\$ <u>17,169,619</u>
UAAL as a percentage of covered payroll	<u>191.7%</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 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, 2013 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%.

## **21. 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 03301-8509.

***B. Funding Policy***

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 7% for employees and 11.55% - 11.80% 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 2013, 8.80% for employees, 19.95% for police, and 22.89% for fire. Then from July – December 31, 2013, 10.77% for employees, 25.30% for police and 27.74% for fire. The Town's contributions to the System for the years ended December 31, 2013, 2012, and 2011 were \$3,299,930, \$2,800,998, and \$2,612,824 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, 2013 was \$17,169,619.

**22. 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 Town 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 years.

**23. Implementation of New GASB Standards**

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the New Hampshire Retirement System's actuarially accrued liability.

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

**December 31, 2013**  
**(Unaudited)**

**Other Post-Employment Benefits**

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Actuarial Valuation Date	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>		Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>[(b-a)/c]</u>
01/01/13	\$ -	\$ 32,922,106		\$ 32,922,106	0.0%	\$ 17,169,619	191.7%
01/01/11	\$ -	\$ 26,807,576		\$ 26,807,576	0.0%	\$ 17,834,523	150.3%

See Independent Auditors' Report.