

TOWN OF SALEM, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended December 31, 2012

Town of Salem, New Hampshire

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
Governmental-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	18
Fiduciary Funds:	
Statement of Fiduciary Net Position	19
Statement of Changes in Fiduciary Net Position	20
Notes to Financial Statements	21
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress - OPEB	41



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Salem, New Hampshire

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, 2012, 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, 2012, 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 June 11, 2013 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 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.

June 11, 2013

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, 2012.

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 \$129,404,731 (i.e., net position), a change of \$(3,556,554) in comparison to the prior year.
- As of the close of the current year, governmental funds reported combined ending fund balances of \$16,628,911, a change of \$1,362,145 in comparison to the prior year.
- At the end of the current year, unassigned fund balance for the general fund was \$4,287,027, a change of \$2,120,484 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current year was \$6,610,000, a change of \$(1,375,000) 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>2012</u>	<u>2011</u>
Current and other assets	\$ 47,100,877	\$ 43,160,563
Capital assets	<u>119,677,984</u>	<u>124,897,277</u>
Total assets	<u>166,778,861</u>	<u>168,057,840</u>
Current liabilities	25,685,521	23,178,162
Noncurrent liabilities	11,649,205	11,885,880
Deferred inflows	<u>39,404</u>	<u>32,513</u>
Total liabilities and deferred inflows	<u>37,374,130</u>	<u>35,096,555</u>
Net position:		
Net investment in capital assets	113,750,260	116,107,184
Restricted	8,991,738	8,777,798
Unrestricted	<u>6,662,733</u>	<u>8,076,303</u>
Total net position	<u>\$ 129,404,731</u>	<u>\$ 132,961,285</u>

CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues		
Charges for services	\$ 9,761,909	\$ 9,115,360
Capital grants and contributions	363,665	437,667
General revenues:		
Property taxes	26,152,157	26,803,285
Motor vehicle permits	4,494,086	4,428,944
Penalties, interest, and other taxes	407,379	262,923
Grants and contributions not restricted to specific programs	2,081,625	2,700,977
Investment income	234,103	108,703
Miscellaneous	<u>2,890,060</u>	<u>1,643,598</u>
Total revenues	46,384,984	45,501,457

(continued)

(continued)

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Expenses:		
General government	6,727,526	6,560,865
Public safety	20,230,592	20,088,772
Highway and streets	13,602,645	14,412,906
Sanitation	904,884	1,030,686
Water distribution and treatment	3,070,572	3,061,400
Sewer distribution and treatment	2,727,741	2,050,298
Health	216,263	222,623
Welfare	302,063	320,559
Culture and recreation	2,024,768	2,319,721
Interest on long-term debt	<u>279,193</u>	<u>377,827</u>
Total expenses	<u>50,086,247</u>	<u>50,445,657</u>
Change in net position before permanent fund contributions	(3,701,263)	(4,944,200)
Permanent fund contributions	<u>144,709</u>	<u>204,110</u>
Change in net position	(3,556,554)	(4,740,090)
Net position - beginning of year	<u>132,961,285</u>	<u>137,701,375</u>
Net position - end of year	<u>\$ 129,404,731</u>	<u>\$ 132,961,285</u>

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 \$129,404,731, a change of \$(3,556,554) from the prior year.

The largest portion of net position \$113,750,260 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 \$8,991,738 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$6,662,733 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 \$(3,556,554). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 1,486,432
Water fund activities	70,972
Sewer fund activities	(244,714)
Nonmajor fund activities, accrual basis	4,206,436
Depreciation expense in excess of principal debt service	(8,718,294)
Other	<u>(357,386)</u>
Total	\$ <u>(3,556,554)</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 \$16,628,911, a change of \$1,362,145 in comparison to the prior year. Key elements of this change are as follows:

General fund operations, as discussed further below	\$ 1,486,432
Water fund activities	70,972
Sewer fund activities	(244,714)
Nonmajor fund activities	<u>49,455</u>
Total	\$ <u>1,362,145</u>

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$4,287,027, while total fund balance was \$6,212,794. 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>12/31/12</u>	<u>12/31/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 4,287,027	\$ 2,166,543	\$ 2,120,484	12.10%
Total fund balance	\$ 6,212,794	\$ 4,726,362	\$ 1,486,432	17.53%

The fund balance of the general fund changed by \$1,486,432 during the current year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 2,173,871
Expenditures less than budget	352,293
Excess of tax collections vs. net assessment	127,961
Prior year encumbrance expended over current year encumbrance to be expended in subsequent year	(496,815)
Use of fund balance as a funding source	(540,000)
Change in capital reserves	<u>(130,878)</u>
Total	\$ <u>1,486,432</u>

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

	<u>12/31/12</u>	<u>12/31/11</u>	<u>Change</u>
Capital reserves	\$ 1,334,060	\$ 1,464,938	\$ (130,878)

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 \$119,677,984 (net of accumulated depreciation), a change of \$(5,219,293) 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 or improvements of:	
Bullard Thermal imaging camera	\$ 11,500
Sign/message center	\$ 27,000
Video Server	\$ 21,950
APC Symmetra LX	\$ 11,439
2012 Chevy Tahoe	\$ 29,482
2013 Chevy Tahoe	\$ 34,788
2012 Ford F150	\$ 22,685
2012 Ford F350	\$ 25,357
2012 Ford F350	\$ 46,762
2012 Harley Davidson FLHTP	\$ 16,505
2012 Harley Davidson FLHTP	\$ 16,505
2012 Harley Davidson FLHTP	\$ 16,505
2012 Harley Davidson FLHTP	\$ 16,505
2008 Int'l Dump/camel - JetVac	\$ 295,000
Road reconstruction - various roads	\$ 7,745,345
Water Pipes	\$ 646,916
Construction in Progress:	
ITS Project Phase I	\$ 148,269
ITS Project Phase II	\$ 315,571
Town Wide Fiber	\$ 56,902
Pleasant St Add'l ITS	\$ 6,502

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 \$6,610,000, 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, 2012

	Governmental Activities
ASSETS	
Current:	
Cash and short-term investments	\$ 34,572,383
Investments	1,206,668
Restricted cash	1,952,930
Receivables, net of allowance for uncollectibles:	
Property taxes	3,031,386
User fees	526,198
Departmental and other	826,151
Intergovernmental	366,002
Special assessments	350,239
Other assets	178,669
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	771,131
Special assessments	3,319,120
Capital Assets:	
Land and construction in progress	12,352,782
Other assets, net of accumulated depreciation	<u>107,325,202</u>
TOTAL ASSETS	166,778,861
LIABILITIES	
Current:	
Accounts payable	1,170,292
Accrued liabilities	690,553
Tax refunds payable	374,907
Retainage payable	175,846
Due to other governments	21,172,280
Other current liabilities	44,254
Current portion of long-term liabilities:	
Bonds payable	1,395,000
Other liabilities	662,389
Noncurrent:	
Bonds payable, net of current portion	5,215,000
Other liabilities, net of current portion	6,434,205
DEFERRED INFLOWS OF RESOURCES	<u>39,404</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	37,374,130
NET POSITION	
Net investment in capital assets	113,750,260
Restricted for:	
Grants and other statutory restrictions	6,709,578
Permanent funds:	
Nonexpendable	942,218
Expendable	1,339,942
Unrestricted	<u>6,662,733</u>
TOTAL NET POSITION	<u>\$ 129,404,731</u>

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	<u>Expenses</u>	Capital		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Grants and Contributions</u>	
Governmental Activities:				
General government	\$ 6,727,526	\$ 362,212	\$ 2,762	\$ (6,362,552)
Public safety	20,230,592	3,532,162	-	(16,698,430)
Highway and streets	13,602,645	-	360,903	(13,241,742)
Sanitation	904,884	148,690	-	(756,194)
Water distribution and treatment	3,070,572	3,419,636	-	349,064
Sewer distribution and treatment	2,727,741	2,142,326	-	(585,415)
Health	216,263	56,211	-	(160,052)
Welfare	302,063	18,438	-	(283,625)
Culture and recreation	2,024,768	82,234	-	(1,942,534)
Interest on long-term debt	<u>279,193</u>	<u>-</u>	<u>-</u>	<u>(279,193)</u>
Total Governmental Activities	<u>\$ 50,086,247</u>	<u>\$ 9,761,909</u>	<u>\$ 363,665</u>	<u>(39,960,673)</u>
General Revenues and Contributions:				
Property taxes				26,152,157
Motor vehicle permits				4,494,086
Penalties, interest and other taxes				407,379
Grants and contributions not restricted to specific programs				2,081,625
Investment income				234,103
Miscellaneous				2,890,060
Permanent fund contributions				<u>144,709</u>
Total general revenues and contributions				<u>36,404,119</u>
Change in Net Position				(3,556,554)
Net Position:				
Beginning of year				<u>132,961,285</u>
End of year				<u>\$ 129,404,731</u>

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 DECEMBER 31, 2012

	<u>General</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 25,101,359	\$ 1,753,752	\$ 3,070,156	\$ 4,647,116	\$ 34,572,383
Investments	-	-	-	1,206,668	1,206,668
Restricted cash	1,952,930	-	-	-	1,952,930
Receivables:					
Property taxes	3,920,105	-	-	-	3,920,105
User fees	-	328,416	240,602	-	569,018
Departmental and other	1,453,501	5,559	8,333	204,861	1,672,254
Intergovernmental	82,901	-	283,101	-	366,002
Due from other funds	467,286	112,805	4,102	-	584,193
Other assets	<u>178,669</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,669</u>
TOTAL ASSETS	<u>\$ 33,156,751</u>	<u>\$ 2,200,532</u>	<u>\$ 3,606,294</u>	<u>\$ 6,058,645</u>	<u>\$ 45,022,222</u>
LIABILITIES					
Accounts payable	\$ 952,601	\$ 158,093	\$ 37,985	\$ 21,613	\$ 1,170,292
Accrued liabilities	561,978	14,169	2,607	26,914	605,668
Tax refunds payable	374,907	-	-	-	374,907
Retainage payable	154,976	20,020	850	-	175,846
Due to other governments	21,172,280	-	-	-	21,172,280
Due to other funds	-	-	-	584,193	584,193
Other liabilities	<u>44,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,254</u>
TOTAL LIABILITIES	<u>23,260,996</u>	<u>192,282</u>	<u>41,442</u>	<u>632,720</u>	<u>24,127,440</u>
DEFERRED INFLOWS OF RESOURCES	<u>3,682,961</u>	<u>333,975</u>	<u>248,935</u>	<u>-</u>	<u>4,265,871</u>
FUND BALANCES					
Nonspendable	178,669	-	-	942,218	1,120,887
Restricted	-	-	-	4,011,132	4,011,132
Committed	1,334,060	-	-	-	1,334,060
Assigned	413,038	577,214	1,189,685	472,575	2,652,512
Unassigned	<u>4,287,027</u>	<u>1,097,061</u>	<u>2,126,232</u>	<u>-</u>	<u>7,510,320</u>
TOTAL FUND BALANCES	<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>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 33,156,751</u>	<u>\$ 2,200,532</u>	<u>\$ 3,606,294</u>	<u>\$ 6,058,645</u>	<u>\$ 45,022,222</u>

See notes to 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, 2012

Total governmental fund balances	\$ 16,628,911
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	119,677,984
• Long term receivables not yet billed.	3,669,359
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	3,219,956
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(84,885)
• Long-term liabilities, including bonds payable, compensated absences, OPEB liability, and landfill liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(13,706,594)</u>
Net position of governmental activities	<u>\$ 129,404,731</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, 2012

	<u>General</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 26,207,451	\$ -	\$ -	\$ 151,260	\$ 26,358,711
Penalties, interest, and other taxes	400,701	14,983	10,557	-	426,241
Charges for services	1,593,931	3,357,130	2,246,168	1,548,988	8,746,217
Intergovernmental	2,081,625	-	-	363,665	2,445,290
Licenses and permits	5,518,423	-	-	-	5,518,423
Investment income	117,590	35	73	116,405	234,103
Contributions	45,568	-	-	99,141	144,709
Miscellaneous	<u>1,122,349</u>	<u>185,934</u>	<u>291,634</u>	<u>1,093,196</u>	<u>2,693,113</u>
Total Revenues	37,087,638	3,558,082	2,548,432	3,372,655	46,566,807
Expenditures:					
Current:					
General government	5,417,001	-	-	898,343	6,315,344
Public safety	17,672,514	-	-	1,548,440	19,220,954
Highway and streets	7,999,132	-	-	1,104,727	9,103,859
Sanitation	1,023,718	-	-	-	1,023,718
Water distribution and treatment	-	2,670,517	-	-	2,670,517
Sewer distribution and treatment	-	-	2,727,741	-	2,727,741
Health	203,208	-	-	-	203,208
Welfare	291,487	-	-	-	291,487
Culture and recreation	1,858,881	-	-	99,390	1,958,271
Debt service	<u>977,658</u>	<u>645,485</u>	<u>66,420</u>	<u>-</u>	<u>1,689,563</u>
Total Expenditures	<u>35,443,599</u>	<u>3,316,002</u>	<u>2,794,161</u>	<u>3,650,900</u>	<u>45,204,662</u>
Excess (deficiency) of revenues over expenditures	1,644,039	242,080	(245,729)	(278,245)	1,362,145
Other Financing Sources (Uses):					
Transfers in	672,393	112,805	122,015	830,000	1,737,213
Transfers out	<u>(830,000)</u>	<u>(283,913)</u>	<u>(121,000)</u>	<u>(502,300)</u>	<u>(1,737,213)</u>
Total Other Financing Sources (Uses)	<u>(157,607)</u>	<u>(171,108)</u>	<u>1,015</u>	<u>327,700</u>	<u>-</u>
Change in fund balance	1,486,432	70,972	(244,714)	49,455	1,362,145
Fund Equity, at Beginning 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>
Fund Equity, at End 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>

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, 2012

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 1,362,145
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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	5,146,939
Depreciation	(10,366,232)

- 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 and personal property taxes) differ between the two statements. This amount represents the net change in deferred revenue. (37,114)

- 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:

Repayments of debt	1,802,722
Capital lease additions	(154,784)

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 35,370
- 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. (1,345,600)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>(3,556,554)</u>
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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, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues and other sources:				
Property taxes	\$ 26,079,490	\$ 26,079,490	\$ 26,079,490	\$ -
Penalties, interest, and other taxes	337,433	337,433	400,701	63,268
Charges for services	1,381,154	1,381,154	1,593,931	212,777
Intergovernmental	1,903,078	1,903,078	2,081,625	178,547
Licenses and permits	4,815,972	4,815,972	5,518,423	702,451
Investment income	97,050	97,050	117,590	20,540
Miscellaneous	474,454	474,454	1,122,349	647,895
Other financing sources:				
Transfers in	324,000	324,000	672,393	348,393
Use of fund balance	<u>540,000</u>	<u>540,000</u>	<u>540,000</u>	<u>-</u>
Total Revenues	35,952,631	35,952,631	38,126,502	2,173,871
Expenditures and other uses:				
Current:				
General government	5,202,452	5,202,452	5,553,069	(350,617)
Public safety	17,864,444	17,864,444	17,561,229	303,215
Highways and streets	2,487,522	2,487,522	2,172,911	314,611
Sanitation	1,074,829	1,074,829	1,005,013	69,816
Health	196,670	196,670	203,208	(6,538)
Welfare	298,975	298,975	292,687	6,288
Culture and recreation	1,853,080	1,853,080	1,837,562	15,518
Debt service	977,659	977,659	977,659	-
Other financing uses:				
Transfers out	<u>5,997,000</u>	<u>5,997,000</u>	<u>5,997,000</u>	<u>-</u>
Total Expenditures	<u>35,952,631</u>	<u>35,952,631</u>	<u>35,600,338</u>	<u>352,293</u>
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,526,164	\$ 2,526,164

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2012

	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
ASSETS		
Cash and short-term investments	\$ 86,943	\$ 1,393,510
Investments	<u>103,632</u>	<u>-</u>
Total Assets	190,575	1,393,510
LIABILITIES AND NET POSITION		
Other liabilities	<u>-</u>	1,393,510
Total Liabilities	<u>-</u>	<u>1,393,510</u>
NET POSITION		
Total net position held in trust	\$ <u>190,575</u>	\$ <u>-</u>

See notes to financial statements.

TOWN OF SALEM, NEW HAMPSHIRE
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Private Purpose <u>Trust Funds</u>
Additions:	
Investment Income (Loss)	\$ 16,538
Total additions	<u>16,538</u>
Deductions:	
Other	3,139
Total deductions	<u>3,139</u>
Net increase	13,399
Net position:	
Beginning of year	<u>177,176</u>
End of year	<u>\$ 190,575</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 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 2012, 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)	\$ 37,087,638	\$ 35,443,599
Other financing sources/uses (GAAP basis)	672,393	830,000
Subtotal (GAAP Basis)	37,760,031	36,273,599
Adjust tax revenue to accrual basis	(127,961)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(909,853)
Add end-of-year appropriation carryforwards from expenditures	-	413,038
Recognize use of fund balance as funding source	540,000	-
Eliminate capital reserve activity	(45,568)	(176,446)
Budgetary basis	<u>\$ 38,126,502</u>	<u>\$ 35,600,338</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, 2012, none of the Town's bank balance of \$39,697,526 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:

Investment Type	Fair Value	Exempt From Disclosure		Rating as of Year End		
		Aaa	Aa to Aa3	A to Baa3	Other	
Cash & cash equivalents	\$ 86,942	\$ 86,942	\$ -	\$ -	\$ -	\$ -
U.S. Treasury notes	64,723	-	64,723	-	-	-
Corporate bonds	186,770	-	-	52,946	108,237	25,587
Corporate equities	806,641	806,641	-	-	-	-
Mutual funds	165,224	165,224	-	-	-	-
Total investments	\$ 1,310,300	\$ 1,058,807	\$ 64,723	\$ 52,946	\$ 108,237	\$ 25,587

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	\$ 89,152
Equities	
iShare core S&P 500 ETF CUSIP 464287200	120,238
SPDR S&P Midcap 400 ETF TR Utser1	
S&Pdcrp CYSUO: 78467Y107	<u>83,755</u>
Total of individual holdings each in excess of 5% of total investments	\$ <u>293,145</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	\$ 64,723	\$ -	\$ 64,723	\$ -
Corporate bonds	<u>186,670</u>	<u>26,136</u>	<u>105,547</u>	<u>54,987</u>
Total	<u>\$ 251,393</u>	<u>\$ 26,136</u>	<u>\$ 170,270</u>	<u>\$ 54,987</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, 2012.

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, 2012 consist of the following:

Real Estate		
2012		\$ 3,124,629
Yield taxes		
2011		499
Tax Liens		
2011	531,363	
2010	242,899	
2009	12,668	
2008	2,369	
2007	<u>5,678</u>	
		<u>794,977</u>
Total		\$ <u>3,920,105</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	\$ 117,588
User fees	\$ 42,820
Departmental and other	\$ 846,103

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in 2012.

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, 2012 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 467,286	\$ -
Capital projects fund	-	427,224
Sewer fund	4,102	-
Permanent trust funds	-	156,969
Water fund	<u>112,805</u>	-
Total	<u>\$ 584,193</u>	<u>\$ 584,193</u>

9. Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 7,847,961	\$ -	\$ (134,200)	\$ 7,713,761
Machinery, equipment, and furnishings	15,128,352	591,983	(692,272)	15,028,063
Infrastructure	<u>213,972,005</u>	<u>8,392,261</u>	<u>(985,530)</u>	<u>221,378,736</u>
Total capital assets, being depreciated	236,948,318	8,984,244	(1,812,002)	244,120,560
Less accumulated depreciation for:				
Buildings and improvements	(3,586,656)	(157,349)	10,617	(3,733,388)
Machinery, equipment, and furnishings	(8,971,221)	(912,767)	658,078	(9,225,910)
Infrastructure	<u>(115,493,068)</u>	<u>(9,296,116)</u>	<u>953,124</u>	<u>(123,836,060)</u>
Total accumulated depreciation	<u>(128,050,945)</u>	<u>(10,366,232)</u>	<u>1,621,819</u>	<u>(136,795,358)</u>
Total capital assets, being depreciated, net	108,897,373	(1,381,988)	(190,183)	107,325,202
Capital assets, not being depreciated:				
Land and improvements	10,254,086	-	(10,680)	10,243,406
Construction in progress	<u>5,745,818</u>	<u>4,108,902</u>	<u>(7,745,344)</u>	<u>2,109,376</u>
Total capital assets, not being depreciated	<u>15,999,904</u>	<u>4,108,902</u>	<u>(7,756,024)</u>	<u>12,352,782</u>
Governmental activities capital assets, net	<u>\$ 124,897,277</u>	<u>\$ 2,726,914</u>	<u>\$ (7,946,207)</u>	<u>\$ 119,677,984</u>

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

Governmental Activities:

General government	\$ 53,073
Public safety	418,549
Highway and streets	9,255,953
Sanitation	211,711
Water distribution and treatment	406,015
Health and welfare	4,946
Culture and recreation	<u>15,985</u>
Total depreciation expense - governmental activities	<u>\$ 10,366,232</u>

10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses represent 2012 expenditures paid in 2013.

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, 2012:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2013	\$ 320,891
2014	174,597
2015	32,827
2016	<u>32,826</u>
Total minimum lease payments	561,141
Less amounts representing interest	<u>28,986</u>
Present Value of Minimum Lease Payments	\$ <u>532,155</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:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 12/31/12</u>
General obligation bond	11/01/16	3.75-4.00%	\$ 1,600,000
Water treatment plant (20% general fund)	08/15/14	4.70-7.00%	90,000
Bridge construction	12/31/19	2.00-3.00%	1,670,000
General obligation bond - bridges	12/31/20	2.00-4.00%	1,035,000
Canobie sewer/water (72% sewer fund)	08/15/18	3.90-5.00%	345,600
Water treatment plant (80% water fund)	08/15/14	4.70-7.00%	360,000
Canobie sewer/water (28% water fund)	08/15/18	3.90-5.00%	134,400
Spicket Hill water	08/15/13	3.90-5.00%	90,000
Pipeline construction	08/15/16	5.63-5.75%	865,000
Blake Road project	08/15/24	3.00-5.00%	<u>420,000</u>
Total Governmental Activities:			\$ <u>6,610,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of December 31, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,395,000	\$ 258,013	\$ 1,653,013
2014	1,315,000	199,582	1,514,582
2015	1,100,000	145,176	1,245,176
2016	1,120,000	104,726	1,224,726
2017	490,000	59,919	549,919
2018 - 2022	1,120,000	92,484	1,212,484
2023 - 2027	<u>70,000</u>	<u>3,785</u>	<u>73,785</u>
Total	<u>\$ 6,610,000</u>	<u>\$ 863,685</u>	<u>\$ 7,473,685</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, 2012:

General Fund	\$ 4,395,000
Water Fund	1,869,400
Sewer Fund	<u>345,600</u>
Total	<u>\$ 6,610,000</u>

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2012, the following changes occurred in long-term liabilities:

	Total Balance 12/31/11	Additions	Reductions	Total Balance 12/31/12	Less Current Portion	Equals Long-Term Portion 12/31/12
<u>Governmental Activities</u>						
Bonds payable	\$ 7,985,000	\$ -	\$ (1,375,000)	\$ 6,610,000	\$ (1,395,000)	\$ 5,215,000
Other:						
Capital leases	805,093	154,784	(427,722)	532,155	(302,499)	229,656
Landfill closure	504,000	-	(24,000)	480,000	(24,000)	456,000
OPEB liability	1,419,559	1,305,982	-	2,725,541	-	2,725,541
Accrued employment benefits	<u>3,295,280</u>	<u>63,618</u>	<u>-</u>	<u>3,358,898</u>	<u>(335,890)</u>	<u>3,023,008</u>
Totals	<u>\$ 14,008,932</u>	<u>\$ 1,524,384</u>	<u>\$ (1,826,722)</u>	<u>\$ 13,706,594</u>	<u>\$ (2,057,389)</u>	<u>\$ 11,649,205</u>

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, 2012:

<u>Governmental Activities</u>			
Entity-wide Basis:			
Services paid in advance	\$ 16,504		
Taxes paid in advance	<u>22,900</u>		
Total	\$ <u>39,404</u>		
<u>Governmental Funds</u>			
	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Services paid in advance	\$ 16,504	\$ -	\$ -
Taxes paid in advance	22,900	-	-
Deferred revenue	<u>3,643,557</u>	<u>333,975</u>	<u>248,935</u>
Total	\$ <u>3,682,961</u>	\$ <u>333,975</u>	\$ <u>248,935</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, 2012:

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, 2012:

	<u>Non Spendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total</u>
General Fund						
Reserve for:						
Encumbrance	\$ -	\$ -	\$ -	\$ 413,038	\$ -	\$ 413,038
Prepaid Expenses	178,669	-	-	-	-	178,669
Capital Reserve	-	-	1,334,060	-	-	1,334,060
Undesignated	-	-	-	-	4,287,027	4,287,027
	<u>sub total</u>	<u>178,669</u>	<u>-</u>	<u>1,334,060</u>	<u>413,038</u>	<u>4,287,027</u>
						<u>6,212,794</u>
Major						
Water Fund	-	-	-	577,214	1,097,061	1,674,275
Sewer Fund	-	-	-	1,189,685	2,126,232	3,315,917
	<u>sub total</u>	<u>-</u>	<u>-</u>	<u>1,766,899</u>	<u>3,223,293</u>	<u>4,990,192</u>
Non Major						
Special Revenue	-	1,700,046	-	19,340	-	1,719,386
Capital Projects	-	761,196	-	453,235	-	1,214,431
Permanent Funds	<u>942,218</u>	<u>1,549,890</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,492,108</u>
	<u>sub total</u>	<u>942,218</u>	<u>4,011,132</u>	<u>-</u>	<u>472,575</u>	<u>-</u>
						<u>5,425,925</u>
	<u>Grand Total</u>	<u>\$ 1,120,887</u>	<u>\$ 4,011,132</u>	<u>\$ 1,334,060</u>	<u>\$ 2,652,512</u>	<u>\$ 7,510,320</u>
						<u>\$ 16,628,911</u>

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	\$ 4,287,027
Deferred revenue	3,682,961
Allowance for doubtful accounts	(156,992)
Departmental accounts receivable - allowance	<u>(846,103)</u>
Tax Rate Setting Balance	\$ <u>6,966,893</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, 2011, the actuarial valuation date, approximately 234 retirees 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.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's 2012 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, 2012, 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>1,419,559</u>
Net OPEB obligation - end of year	\$ <u>2,725,541</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
2012	\$ 2,127,541	39.0%	\$ 2,725,541
2011	\$ 2,127,541	39.0%	\$ 1,419,559
* 2010	\$ 165,611	31.4%	\$ 113,577

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

The Town's net OPEB obligation as of December 31, 2012 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, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 26,807,576
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ <u>26,807,576</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 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%.

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, 8.80% for employees, 19.95% for police and 22.89% for fire. The Town's contributions to the System for the years ended December 31, 2012, 2011, and 2010 were \$2,800,998, \$2,612,824, and \$2,202,158 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, 2012 was \$16,457,966.

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, 2012
(Unaudited)

Other Post-Employment Benefits

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

See Independent Auditors' Report.