

TOWN OF NEWMARKET, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Newmarket, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Newmarket, New Hampshire, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Newmarket's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Newmarket, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and other post-employment benefits schedule of funding progress 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.

Melanson, Heath + Company P.C.

March 20, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Newmarket, we offer readers this narrative overview and analysis of the financial activities of the Town of Newmarket for the fiscal year ended June 30, 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 are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, library and recreation, conservation, and economic development. The business-type activities include water services, waste water services, solid waste services, and parking services.

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 three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water, wastewater treatment, solid waste, and parking operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water services, waste water services, solid waste services, and parking services, all of which are considered to be major funds.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information

which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$64,086,029 (i.e., net assets), a change of \$635,509 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$6,114,824, a change of \$1,331,560 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,304,319, a change of \$1,178,297 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$2,931,300, a change of \$(38,140) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 15,608,141	\$ 11,920,553	\$ 2,544,265	\$ 2,537,734	\$ 18,152,406	\$ 14,458,287
Capital assets	<u>50,747,592</u>	<u>52,194,211</u>	<u>7,388,787</u>	<u>7,443,072</u>	<u>58,136,379</u>	<u>59,637,283</u>
Total assets	66,355,733	64,114,764	9,933,052	9,980,806	76,288,785	74,095,570
Long-term liabilities outstanding	2,477,864	2,725,904	909,004	818,439	3,386,868	3,544,343
Other liabilities	<u>9,409,237</u>	<u>7,177,988</u>	<u>(593,349)</u>	<u>(77,281)</u>	<u>8,815,888</u>	<u>7,100,707</u>
Total liabilities	11,887,101	9,903,892	315,655	741,158	12,202,756	10,645,050
Net assets:						
Invested in capital assets, net	47,532,109	50,222,955	6,382,487	6,824,629	53,914,596	57,047,584
Restricted	1,322,251	1,112,475	-	-	1,322,251	1,112,475
Unrestricted	<u>5,614,272</u>	<u>2,875,442</u>	<u>3,234,910</u>	<u>2,415,019</u>	<u>8,849,182</u>	<u>5,290,461</u>
Total net assets	<u>\$ 54,468,632</u>	<u>\$ 54,210,872</u>	<u>\$ 9,617,397</u>	<u>\$ 9,239,648</u>	<u>\$ 64,086,029</u>	<u>\$ 63,450,520</u>

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 747,341	\$ 724,082	\$ 2,432,118	\$ 2,019,182	\$ 3,179,459	\$ 2,743,264
Operating grants and contributions	34,011	31,143	6,321	6,895	40,332	38,038
Capital grants and contributions	243,612	584,350	-	444,746	243,612	1,029,096
General revenues	<u>7,229,193</u>	<u>5,501,686</u>	<u>6,887</u>	<u>2,454</u>	<u>7,236,080</u>	<u>5,504,140</u>
Total revenues	8,254,157	6,841,261	2,445,326	2,473,277	10,699,483	9,314,538
Expenses:						
General government	2,562,884	2,898,693	-	-	2,562,884	2,898,693
Public safety	2,119,813	2,033,700	-	-	2,119,813	2,033,700
Highway and streets	2,245,987	2,126,285	-	-	2,245,987	2,126,285
Welfare	88,494	110,474	-	-	88,494	110,474
Library and recreation	1,061,898	720,003	-	-	1,061,898	720,003
Conservation	13,372	6,178	-	-	13,372	6,178
Economic development	2,000	1,250	-	-	2,000	1,250
Interest expense	84,496	94,615	-	-	84,496	94,615
Miscellaneous	-	16,975	-	-	-	16,975
Water services	-	-	580,755	698,917	580,755	698,917
Waste water services	-	-	899,481	924,623	899,481	924,623
Solid waste services	-	-	412,194	460,413	412,194	460,413
Total expenses	<u>8,178,944</u>	<u>8,008,173</u>	<u>1,892,430</u>	<u>2,083,953</u>	<u>10,071,374</u>	<u>10,092,126</u>
Change in net assets before transfers	75,213	(1,166,912)	552,896	389,324	628,109	(777,588)
Transfers in (out)	175,147	795,182	(175,147)	(795,182)	-	-
Permanent fund contributions	<u>7,400</u>	<u>9,481</u>	<u>-</u>	<u>-</u>	<u>7,400</u>	<u>9,481</u>
Change in net assets	257,760	(362,249)	377,749	(405,858)	635,509	(768,107)
Net assets - beginning of year (as restated)	<u>54,210,872</u>	<u>54,573,121</u>	<u>9,239,648</u>	<u>9,645,506</u>	<u>63,450,520</u>	<u>64,218,627</u>
Net assets - end of year	<u>\$ 54,468,632</u>	<u>\$ 54,210,872</u>	<u>\$ 9,617,397</u>	<u>\$ 9,239,648</u>	<u>\$ 64,086,029</u>	<u>\$ 63,450,520</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$64,086,029, a change of \$635,509 from the prior year.

The largest portion of net assets, \$53,914,596, reflects our investment in capital assets (e.g., land, buildings, infrastructure, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$1,322,251 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$8,849,182 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$257,760. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 2,748,925
Nonmajor operating results	(1,417,365)
Depreciation expense in excess of principal debt service	(1,470,446)
Other GAAP accruals	<u>396,646</u>
Total	<u>\$ 257,760</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$377,749. Key elements of this change are as follows:

Water operations	\$ 34,692
Wastewater operations	264,462
Solid waste operations	73,509
Parking operations	<u>5,086</u>
Total	<u>\$ 377,749</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 fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$6,114,824, a change of \$1,331,560 in comparison to the prior year. Key elements of this change are as follows:

General fund operations	\$ 2,748,925
Nonmajor fund activity:	
Special revenue operating results	69,531
Capital projects operating results	(1,499,732)
Permanent trust fund operating results	<u>12,836</u>
Total	<u>\$ 1,331,560</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,304,319, while total fund balance was \$6,083,056. 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 fund expenditures. Refer to the table below:

<u>General Fund</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	% of Total General Fund Expenditures
Unassigned fund balance	\$ 1,304,319	\$ 126,022	\$ 1,178,297	22.9%
Total fund balance	\$ 6,083,056	\$ 3,334,131	\$ 2,748,925	106.8%

The total fund balance of the general fund changed by \$2,748,925 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ (61,431)
Expenditures less than budget	504,453
Tax collections of prior years plus current year tax levies in excess of current year tax assessment	97,988
Change in capital reserves	1,488,068
Other	<u>719,847</u>
Total	<u>\$ 2,748,925</u>

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

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
Capital reserves	\$ <u>3,417,054</u>	\$ <u>1,928,986</u>	\$ <u>1,488,068</u>
Total	\$ <u>3,417,054</u>	\$ <u>1,928,986</u>	\$ <u>1,488,068</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$3,234,910. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no changes between the original and final budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$58,136,379 (net of accumulated depreciation), a change of \$(1,500,904) from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events consisted of the following purchases:

Governmental:		
Dugout improvements	\$	22,854
Council laptops	\$	4,061
Upgrade Communication Network	\$	14,475
Server Upgrade	\$	11,070
2012 Ford Expedition	\$	37,737
2012 Ford F150	\$	15,795
Business-Type:		
Scada Software	\$	11,450

The following capital assets were re-classed from construction in progress to a depreciable asset during fiscal year 2012:

Governmental:		
Blackbear TIF	\$	811,812
Main St Enhancements	\$	9,013,680
Waterfront	\$	629,526
Business-Type:		
New Village - Sewer	\$	828,512
New Village - Water	\$	1,147,512

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$2,931,300, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Newmarket'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:

Office of the Finance Director
Town of Newmarket
186 Main Street
Newmarket, New Hampshire 03857

TOWN OF NEWMARKET, NEW HAMPSHIRE

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 11,624,097	\$ 381,178	\$ 12,005,275
Restricted cash	3,449,541	860,371	4,309,912
Receivables, net of allowance for uncollectibles:			
Property taxes	1,008	-	1,008
User fees	107,997	1,147,586	1,255,583
Intergovernmental	-	15,513	15,513
Other assets	42,138	-	42,138
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	383,360	-	383,360
Intergovernmental	-	139,617	139,617
Capital assets:			
Land and construction in progress	16,395,103	1,024,801	17,419,904
Other assets, net of accumulated depreciation	<u>34,352,489</u>	<u>6,363,986</u>	<u>40,716,475</u>
TOTAL ASSETS	66,355,733	9,933,052	76,288,785
LIABILITIES			
Current:			
Vouchers payable	259,303	756,867	1,016,170
Accrued liabilities	111,590	-	111,590
Due to school district	10,000	-	10,000
Internal activity	1,505,283	(1,483,984)	21,299
Other current liabilities	191,154	-	191,154
Taxes collected in advance	7,113,482	-	7,113,482
Current portion of long-term liabilities:			
Bonds payable	175,000	132,296	307,296
Other liabilities	43,425	1,472	44,897
Noncurrent:			
Bonds payable, net of current portion	1,750,000	874,004	2,624,004
Other liabilities, net of current portion	<u>727,864</u>	<u>35,000</u>	<u>762,864</u>
TOTAL LIABILITIES	11,887,101	315,655	12,202,756
NET ASSETS			
Invested in capital assets, net of related debt	47,532,109	6,382,487	53,914,596
Restricted for:			
Grants	734,580	-	734,580
Permanent funds:			
Nonexpendable	494,155	-	494,155
Expendable	93,516	-	93,516
Unrestricted	<u>5,614,272</u>	<u>3,234,910</u>	<u>8,849,182</u>
TOTAL NET ASSETS	\$ <u>54,468,632</u>	\$ <u>9,617,397</u>	\$ <u>64,086,029</u>

See notes to financial statements.

TOWN OF NEWMARKET, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 2,562,884	\$ 210,894	\$ -	\$ 199,670	\$ (2,152,320)	\$ -	\$ (2,152,320)
Public safety	2,119,813	352,579	-	-	(1,767,234)	-	(1,767,234)
Highway and streets	2,245,987	-	34,011	43,942	(2,168,034)	-	(2,168,034)
Welfare	88,494	1,401	-	-	(87,093)	-	(87,093)
Library and recreation	1,061,898	179,734	-	-	(882,164)	-	(882,164)
Conservation	13,372	-	-	-	(13,372)	-	(13,372)
Economic development	2,000	2,733	-	-	733	-	733
Interest expense	84,496	-	-	-	(84,496)	-	(84,496)
Total Governmental Activities	8,178,944	747,341	34,011	243,612	(7,153,980)	-	(7,153,980)
Business-Type Activities:							
Water services	580,755	1,012,713	-	-	-	431,958	431,958
Waste water services	899,481	1,193,099	6,321	-	-	299,939	299,939
Solid waste services	412,194	221,261	-	-	-	(190,933)	(190,933)
Parking services	-	5,045	-	-	-	5,045	5,045
Total Business-Type Activities	1,892,430	2,432,118	6,321	-	-	546,009	546,009
Total	\$ 10,071,374	\$ 3,179,459	\$ 40,332	\$ 243,612	(7,153,980)	546,009	(6,607,971)
General Revenues, Interfund Transfers, and Contributions:							
Taxes					5,179,029	-	5,179,029
Motor vehicle permits					1,148,779	-	1,148,779
Penalties, interest, and other taxes					154,273	-	154,273
Grants and contributions not restricted to specific programs					648,028	-	648,028
Investment income					41,677	6,610	48,287
Miscellaneous					57,407	277	57,684
Interfund					175,147	(175,147)	-
Permanent fund contributions					7,400	-	7,400
Total general revenues, interfund transfers, and contributions					7,411,740	(168,260)	7,243,480
Change in Net Assets					257,760	377,749	635,509
Net Assets:							
Beginning of year, as restated					54,210,872	9,239,648	63,450,520
End of year					\$ 54,468,632	\$ 9,617,397	\$ 64,086,029

See notes to financial statements.

TOWN OF NEWMARKET, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 10,188,269	\$ 1,434,787	\$ 11,623,056
Restricted cash	3,449,541	-	3,449,541
Receivables:			
Property taxes	442,952	-	442,952
User fees	142,527	10,331	152,858
Other	42,138	-	42,138
Due from other funds	743,967	741,785	1,485,752
Advance to other funds	<u>1,360,000</u>	<u>-</u>	<u>1,360,000</u>
TOTAL ASSETS	<u>\$ 16,369,394</u>	<u>\$ 2,186,903</u>	<u>\$ 18,556,297</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Vouchers payable	\$ 216,616	\$ 42,687	\$ 259,303
Accrued liabilities	73,683	-	73,683
Due to school district	10,000	-	10,000
Due to other funds	2,243,821	746,173	2,989,994
Advance from other funds	-	1,360,000	1,360,000
Deferred revenues	443,857	-	443,857
Taxes collected in advance	7,113,482	-	7,113,482
Other liabilities	<u>184,879</u>	<u>6,275</u>	<u>191,154</u>
TOTAL LIABILITIES	10,286,338	2,155,135	12,441,473
Fund Balances:			
Nonspendable	1,360,000	494,155	1,854,155
Restricted	-	713,391	713,391
Committed	3,417,054	138,646	3,555,700
Assigned	1,683	114,705	116,388
Unassigned	<u>1,304,319</u>	<u>(1,429,129)</u>	<u>(124,810)</u>
TOTAL FUND BALANCES	<u>6,083,056</u>	<u>31,768</u>	<u>6,114,824</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 16,369,394</u>	<u>\$ 2,186,903</u>	<u>\$ 18,556,297</u>

See notes to financial statements.

TOWN OF NEWMARKET, NEW HAMPSHIRE
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2012

Total governmental fund balances	\$ 6,114,824
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	50,747,592
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	340,412
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(37,907)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(2,696,289)</u>
Net assets of governmental activities	<u><u>\$ 54,468,632</u></u>

See notes to financial statements.

TOWN OF NEWMARKET, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 4,879,528	\$ 240,170	\$ 5,119,698
Penalties, interest, and other taxes	154,273	-	154,273
Charges for services	194,504	258,604	453,108
Intergovernmental	683,814	241,837	925,651
Licenses and permits	1,396,501	980	1,397,481
Investment income	6,517	35,160	41,677
Contributions	-	7,400	7,400
Miscellaneous	57,007	400	57,407
Total Revenues	<u>7,372,144</u>	<u>784,551</u>	<u>8,156,695</u>
Expenditures:			
Current:			
General government	2,655,789	6,107	2,661,896
Public safety	1,746,172	28,756	1,774,928
Highway and streets	888,184	-	888,184
Welfare	88,399	-	88,399
Library and recreation	58,959	1,017,536	1,076,495
Conservation	676	12,696	13,372
Economic development	2,000	-	2,000
Debt service	149,418	115,725	265,143
Capital outlay	107,946	121,919	229,865
Total Expenditures	<u>5,697,543</u>	<u>1,302,739</u>	<u>7,000,282</u>
Excess (deficiency) of revenues over expenditures	1,674,601	(518,188)	1,156,413
Other Financing Sources (Uses):			
Transfers in	1,804,302	1,202,658	3,006,960
Transfers out	(729,978)	(2,101,835)	(2,831,813)
Total Other Financing Sources (Uses)	<u>1,074,324</u>	<u>(899,177)</u>	<u>175,147</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	2,748,925	(1,417,365)	1,331,560
Fund Equity, at Beginning of Year, as restated	<u>3,334,131</u>	<u>1,449,133</u>	<u>4,783,264</u>
Fund Equity, at End of Year	<u>\$ 6,083,056</u>	<u>\$ 31,768</u>	<u>\$ 6,114,824</u>

See notes to financial statements.

TOWN OF NEWMARKET, 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 JUNE 30, 2012

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 1,331,560												
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Capital outlay purchases, net of disposals</td> <td style="text-align: right;">198,827</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="text-align: right;">(1,645,446)</td> </tr> </table> • 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, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">104,862</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Repayments of debt</td> <td style="text-align: right;">175,000</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">5,647</td> </tr> </table> • 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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">87,310</td> </tr> </table> 		Capital outlay purchases, net of disposals	198,827	Depreciation	(1,645,446)		104,862	Repayments of debt	175,000		5,647		87,310
Capital outlay purchases, net of disposals	198,827												
Depreciation	(1,645,446)												
	104,862												
Repayments of debt	175,000												
	5,647												
	87,310												
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>257,760</u>												

See notes to financial statements.

TOWN OF NEWMARKET, NEW HAMPSHIRE

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 4,781,540	\$ 4,781,540	\$ 4,781,540	\$ -
Licenses, permits, and fees	1,274,800	1,274,800	1,350,970	76,170
Intergovernmental	606,071	606,071	683,814	77,743
Charges for services	477,000	477,000	194,504	(282,496)
Investment income	10,000	10,000	5,375	(4,625)
Penalties, interest, and other taxes	93,306	93,306	154,273	60,967
Miscellaneous	36,319	36,319	57,007	20,688
Transfers in	30,200	30,200	20,322	(9,878)
Total Revenues and Other Sources	7,309,236	7,309,236	7,247,805	(61,431)
Expenditures and Other Uses:				
General government	2,866,799	2,866,799	2,652,672	214,127
Public safety	1,734,210	1,734,210	1,745,867	(11,657)
Highway and streets	1,088,104	1,088,104	888,184	199,920
Welfare	175,450	175,450	88,399	87,051
Library and recreation	66,695	66,695	58,959	7,736
Conservation	1,070	1,070	676	394
Economic development	4,000	4,000	2,000	2,000
Debt service	154,300	154,300	149,418	4,882
Transfers out	1,218,608	1,218,608	1,218,608	-
Total Expenditures and Other Uses	7,309,236	7,309,236	6,804,783	504,453
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 443,022	\$ 443,022

See notes to financial statements.

TOWN OF NEWMARKET, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water Fund	Wastewater Fund	Solid Waste Fund	Parking Fund		
<u>ASSETS</u>						
Current:						
Cash and short-term investments	\$ 76,707	\$ 12,110	\$ 236,938	\$ 55,423	\$ 381,178	\$ 1,041
Restricted cash	399,333	461,038	-	-	860,371	-
Receivables, net of allowance for uncollectibles:						
User fees, net of allowance for uncollectibles	667,365	451,812	28,409	-	1,147,586	-
Due from other governments	-	15,513	-	-	15,513	-
Due from other funds	<u>1,674,422</u>	<u>315,782</u>	<u>47,412</u>	<u>123,682</u>	<u>2,161,298</u>	<u>-</u>
Total current assets	2,817,827	1,256,255	312,759	179,105	4,565,946	1,041
Noncurrent:						
Due from other governments	-	139,617	-	-	139,617	-
Capital assets, net of accumulated depreciation	<u>3,806,388</u>	<u>3,582,399</u>	<u>-</u>	<u>-</u>	<u>7,388,787</u>	<u>-</u>
Total noncurrent assets	<u>3,806,388</u>	<u>3,722,016</u>	<u>-</u>	<u>-</u>	<u>7,528,404</u>	<u>-</u>
TOTAL ASSETS	6,624,215	4,978,271	312,759	179,105	12,094,350	1,041
<u>LIABILITIES</u>						
Current:						
Accounts payable	477,514	245,741	33,612	-	756,867	-
Due to other funds	564,043	113,271	-	-	677,314	1,041
Current portion of long-term liabilities:						
Bonds payable	53,256	79,040	-	-	132,296	-
Other liabilities	<u>489</u>	<u>983</u>	<u>-</u>	<u>-</u>	<u>1,472</u>	<u>-</u>
Total current liabilities	1,095,302	439,035	33,612	-	1,567,949	1,041
Noncurrent:						
Bonds payable, net of current portion	162,644	711,360	-	-	874,004	-
Other liabilities, net of current portion	<u>8,360</u>	<u>26,640</u>	<u>-</u>	<u>-</u>	<u>35,000</u>	<u>-</u>
Total noncurrent liabilities	<u>171,004</u>	<u>738,000</u>	<u>-</u>	<u>-</u>	<u>909,004</u>	<u>-</u>
TOTAL LIABILITIES	1,266,306	1,177,035	33,612	-	2,476,953	1,041
<u>NET ASSETS</u>						
Invested in capital assets, net of related debt	3,590,488	2,791,999	-	-	6,382,487	-
Unrestricted	<u>1,767,421</u>	<u>1,009,237</u>	<u>279,147</u>	<u>179,105</u>	<u>3,234,910</u>	<u>-</u>
TOTAL NET ASSETS	<u>\$ 5,357,909</u>	<u>\$ 3,801,236</u>	<u>\$ 279,147</u>	<u>\$ 179,105</u>	<u>\$ 9,617,397</u>	<u>\$ -</u>

See notes to financial statements.

TOWN OF NEWMARKET, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds				Total
	Water Fund	Wastewater Fund	Solid Waste Fund	Parking Fund	
Operating Revenues:					
Charges for services	\$ <u>1,012,713</u>	\$ <u>1,193,099</u>	\$ <u>221,261</u>	\$ <u>5,045</u>	\$ <u>2,432,118</u>
Total Operating Revenues	1,012,713	1,193,099	221,261	5,045	2,432,118
Operating Expenses:					
Operating expenses	439,870	718,246	412,194	-	1,570,310
Depreciation	<u>135,947</u>	<u>135,527</u>	<u>-</u>	<u>-</u>	<u>271,474</u>
Total Operating Expenses	<u>575,817</u>	<u>853,773</u>	<u>412,194</u>	<u>-</u>	<u>1,841,784</u>
Operating Income (Loss)	436,896	339,326	(190,933)	5,045	590,334
Nonoperating Revenues (Expenses):					
Intergovernmental	-	6,321	-	-	6,321
Investment income	6,173	218	178	41	6,610
Miscellaneous	-	-	277	-	277
Interest expense	<u>(4,938)</u>	<u>(45,708)</u>	<u>-</u>	<u>-</u>	<u>(50,646)</u>
Total Nonoperating Revenues (Expenses), Net	<u>1,235</u>	<u>(39,169)</u>	<u>455</u>	<u>41</u>	<u>(37,438)</u>
Income (Loss) Before Transfers	438,131	300,157	(190,478)	5,086	552,896
Other financing sources and uses:					
Transfers in	1,117,007	423,147	263,987	-	1,804,141
Transfers out	<u>(1,520,446)</u>	<u>(458,842)</u>	<u>-</u>	<u>-</u>	<u>(1,979,288)</u>
Total Other Financing Sources (Uses)	<u>(403,439)</u>	<u>(35,695)</u>	<u>263,987</u>	<u>-</u>	<u>(175,147)</u>
Change in Net Assets	34,692	264,462	73,509	5,086	377,749
Net Assets at Beginning of Year, as restated	<u>5,323,217</u>	<u>3,536,774</u>	<u>205,638</u>	<u>174,019</u>	<u>9,239,648</u>
Net Assets at End of Year	\$ <u>5,357,909</u>	\$ <u>3,801,236</u>	\$ <u>279,147</u>	\$ <u>179,105</u>	\$ <u>9,617,397</u>

See notes to financial statements.

TOWN OF NEWMARKET, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds				Total
	Water Fund	Waste Water Fund	Solid Waste Fund	Parking Fund	
<u>Cash Flows From Operating Activities:</u>					
Receipts from customers and users	\$ 528,719	\$ 979,672	\$ 219,758	\$ 5,045	\$ 1,733,194
Payments to vendors and employees	9,999	(513,734)	(419,021)	-	(922,756)
Net Cash Provided By (Used For) Operating Activities	538,718	465,938	(199,263)	5,045	810,438
<u>Cash Flows From Noncapital Financing Activities:</u>					
Interfund borrowing	(511,913)	(105,234)	(65,201)	-	(682,348)
Operating transfers in (out)	(403,439)	(35,695)	263,987	-	(175,147)
Other non-operating income	-	-	277	-	277
Net Cash (Used For) Noncapital Financing Activities	(915,352)	(140,929)	199,063	-	(857,218)
<u>Cash Flows From Capital and Related Financing Activities:</u>					
Acquisition and construction of capital assets, net of disposals	(45,329)	(171,860)	-	-	(217,189)
Payments from State	-	15,513	-	-	15,513
Principal payments on bonds and notes	(29,445)	(79,040)	-	(5,045)	(113,530)
Change in restricted cash	245,434	(50,444)	-	-	194,990
Interest expense	(4,938)	(39,387)	-	-	(44,325)
Net Cash (Used For) Capital and Related Financing Activities	165,722	(325,218)	-	(5,045)	(164,541)
<u>Cash Flows From Investing Activities:</u>					
Investment income	6,173	218	178	41	6,610
Net Cash (Used For) Investing Activities	6,173	218	178	41	6,610
Net Change in Cash and Short-Term Investments	(204,739)	9	(22)	41	(204,711)
Cash and Short-Term Investments, Beginning of Year	281,446	12,101	236,960	55,382	585,889
Cash and Short-Term Investments, End of Year	\$ 76,707	\$ 12,110	\$ 236,938	\$ 55,423	\$ 381,178
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>					
Operating income (loss)	\$ 436,896	\$ 339,326	\$ (190,933)	\$ 5,045	\$ 590,334
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	135,947	135,527	-	-	271,474
Changes in assets and liabilities:					
User fees	(483,994)	(213,427)	(1,503)	-	(698,924)
Accounts payable	447,034	216,545	(6,827)	-	656,752
Accrued liabilities	2,835	3,980	-	-	6,815
Other liabilities	-	(16,013)	-	-	(16,013)
Net Cash Provided By (Used For) Operating Activities	\$ 538,718	\$ 465,938	\$ (199,263)	\$ 5,045	\$ 810,438

See notes to financial statements.

TOWN OF NEWMARKET, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>		
Cash and short term investments	\$ -	\$ 1,067,363
Investments	582,094	559,468
Due from other funds	-	21,299
	<hr/>	<hr/>
Total Assets	582,094	1,648,130
 <u>LIABILITIES</u>		
Escrow deposits	-	1,648,130
	<hr/>	<hr/>
Total Liabilities	-	1,648,130
	<hr/>	<hr/>
 <u>NET ASSETS</u>		
Total net assets held in trust	\$ <u>582,094</u>	\$ <u>-</u>

See notes to financial statements.

TOWN OF NEWMARKET, NEW HAMPSHIRE
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions	\$ 1,200
Investment income (loss)	<u>19,895</u>
Total additions	21,095
Deductions:	
Other	<u>18,871</u>
Total deductions	<u>18,871</u>
Net increase (decrease)	2,224
Net assets:	
Beginning of year	<u>579,870</u>
End of year	<u><u>\$ 582,094</u></u>

See notes to financial statements.

TOWN OF NEWMARKET, NEW HAMPSHIRE

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Town Council. 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 fiscal year 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 Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual govern-

mental funds and major individual enterprise 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 proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

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

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Water Services
- Waste Water Services
- Solid Waste Services
- Parking Services

The self-insured employee health program is reported as an internal service fund in the accompanying financial statements. The Town discontinued the self-insurance program in fiscal year 2008.

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

D. Cash and Short-Term Investments

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of

this pool is reflected on the combined financial statements under the caption “cash and short-term investments”. The interest earnings attributable to each fund type are included under investment income.

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

E. Investments

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

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

F. Interfund Receivables and Payables

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

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate the portion not available for appropriation and not available as expendable financial resources.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	20 – 60
Vehicles	5
Office equipment	5
Computer equipment	5
Other equipment & furnishings	10

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

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

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

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

K. Use of Estimates

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

2. **Stewardship, Compliance and Accountability**

A. *Budgetary Information*

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds.

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

B. *Budgetary Basis*

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

C. *Budget/GAAP Reconciliation*

The budgetary data for the general and proprietary funds 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)	\$ 7,372,144	\$ 5,697,543
Other financing sources/uses (GAAP basis)	<u>1,804,302</u>	<u>729,978</u>
Subtotal (GAAP Basis)	9,176,446	6,427,521
Adjust tax revenue to accrual basis	(97,988)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(5,105)
Add end-of-year appropriation carryforwards from expenditures	-	1,683
To record timing difference	(831,215)	(107,946)
To eliminate capital reserve activity	<u>(999,438)</u>	<u>488,630</u>
Budgetary basis	<u>\$ 7,247,805</u>	<u>\$ 6,804,783</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2012:

Governmental Funds	
CDBG grant	\$ 37,934
Public Works and Fire Department Complex	1,360,000
Water ARRA projects	31,195
Private Purpose Funds:	
Robert Wilfred LaBonte	<u>512</u>
	<u>\$ 1,429,641</u>

The Town anticipates the deficits in these funds will be eliminated through future grants, departmental revenues and transfers from other funds.

3. Cash and Short-Term Investments

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

excess of the paid-up capital surplus of said bank.” The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2012, \$6,069,025 of the Town’s bank balance of \$18,915,116 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank’s trust department not in the Town’s name.

4. Investments

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>			
				<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Not Rated</u>
Corporate bonds	\$ 372,840		\$ -	\$ 165,617	\$ 76,372	\$ 129,923	\$ 928
Corporate equities	480,206	N/A	480,206	-	-	-	-
Mutual funds	<u>288,516</u>	N/A	<u>288,516</u>	-	-	-	-
Total investments	<u>\$ 1,141,562</u>		<u>\$ 768,722</u>	<u>\$ 165,617</u>	<u>\$ 76,372</u>	<u>\$ 129,923</u>	<u>\$ 928</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town and System do not have policies for custodial credit risk.

All of the investments of the government have a custodial credit risk exposure of \$1,141,562, because the related securities are uninsured, unregistered, and held by the Town’s brokerage firm, which is also the Counterparty to these securities.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer.

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. The Town does not have a formal investment policy that limits 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:				
Corporate bonds	\$ 372,840	\$ 102,060	\$ 245,468	\$ 25,312
Total	\$ 372,840	\$ 102,060	\$ 245,468	\$ 25,312

E. Foreign Currency Risk

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

5. Restricted Cash

Restricted cash represents capital reserve funds held by the trustees of trust funds as of June 30, 2012.

6. Taxes Receivable

The Town bills property taxes on a semi-annual basis, which are due in July and December. Property tax revenues are recognized in the fiscal year for which taxes have been levied (budgeted) to the extent that they become available, i.e., due or receivable within the current fiscal year and collected within the current period or within 60 days of year-end.

Property taxes collected before the due date and in advance of the year for which they are levied, are recorded as a prepaid tax liability, as they are intended to finance the subsequent year's operations.

Delinquent taxes are typically liened at the Registrar of Deeds on February 28 of the next year. If the property taxes (redemptions) are not paid within two years of the tax lien date, the property is conveyed to the Town by deed and could subsequently be sold at public sale.

The Town annually budgets an amount (overlay for abatements) for resident and property tax abatements and refunds. All abatements and refunds are charged to overlay and are classified as a contra-tax revenue in the General Fund.

Taxes receivable at June 30, 2012 consist of the following:

Unredeemed Taxes		
2011	\$	274,956
2010		128,682
2009		3,158
2008		<u>1,714</u>
		408,510
Yield Tax		1,008
Elderly Lien		<u>33,434</u>
Total	\$	<u><u>442,952</u></u>

7. **Allowance for Doubtful Accounts**

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

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 58,584	\$ -
Ambulance and departmental	\$ 44,861	\$ -
Water services	\$ -	\$ 8,529
Waste water services	\$ -	\$ 30,317

8. **Intergovernmental Receivables**

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

9. **Interfund Fund Receivables/Payables**

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2012 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Advance To Other Funds</u>	<u>Advance From Other Funds</u>
Major Funds:				
General Fund	\$ 743,967	\$ 2,243,821	\$ 1,360,000	\$ -
Nonmajor Funds:				
Special Revenue Funds	96,750	19,751	-	-
Capital Project Funds	645,035	726,422	-	1,360,000
Enterprise Funds:				
Water Enterprise Fund	1,674,422	564,043	-	-
Waste Water Enterprise Fund	315,782	113,271	-	-
Solid Waste Enterprise Fund	47,412	-	-	-
Parking Enterprise Fund	123,682	-	-	-
Internal Service Funds	-	1,041	-	-
Agency Funds	21,299	-	-	-
Grand Total	<u>\$ 3,668,349</u>	<u>\$ 3,668,349</u>	<u>\$ 1,360,000</u>	<u>\$ 1,360,000</u>

10. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 4,159,837	\$ 22,854	\$ -	\$ 4,182,691
Machinery, equipment, and furnishings	4,984,626	83,138	(658,220)	4,409,544
Infrastructure	<u>51,271,179</u>	<u>831,775</u>	<u>-</u>	<u>52,102,954</u>
Total capital assets, being depreciated	60,415,642	937,767	(658,220)	60,695,189
Less accumulated depreciation for:				
Buildings and improvements	(1,063,914)	(103,140)	-	(1,167,054)
Machinery, equipment, and furnishings	(3,482,594)	(260,470)	499,677	(3,243,387)
Infrastructure	<u>(20,650,423)</u>	<u>(1,281,836)</u>	<u>-</u>	<u>(21,932,259)</u>
Total accumulated depreciation	<u>(25,196,931)</u>	<u>(1,645,446)</u>	<u>499,677</u>	<u>(26,342,700)</u>
Total capital assets, being depreciated, net	35,218,711	(707,679)	(158,543)	34,352,489
Capital assets, not being depreciated:				
Land	5,781,316	9,825,492	-	15,606,808
Construction in progress	<u>11,194,184</u>	<u>12,823</u>	<u>(10,418,712)</u>	<u>788,295</u>
Total capital assets, not being depreciated	<u>16,975,500</u>	<u>9,838,315</u>	<u>(10,418,712)</u>	<u>16,395,103</u>
Governmental activities capital assets, net	<u>\$ 52,194,211</u>	<u>\$ 9,130,636</u>	<u>\$ (10,577,255)</u>	<u>\$ 50,747,592</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 6,050,000	\$ -	\$ -	\$ 6,050,000
Machinery, equipment, and furnishings	97,808	11,450	(18,000)	91,258
Infrastructure	<u>8,048,044</u>	<u>1,976,025</u>	<u>-</u>	<u>10,024,069</u>
Total capital assets, being depreciated	14,195,852	1,987,475	(18,000)	16,165,327
Less accumulated depreciation for:				
Buildings and improvements	(4,985,414)	(96,487)	-	(5,081,901)
Machinery, equipment, and furnishings	(56,348)	(12,303)	19,219	(49,432)
Infrastructure	<u>(4,507,324)</u>	<u>(162,684)</u>	<u>-</u>	<u>(4,670,008)</u>
Total accumulated depreciation	<u>(9,549,086)</u>	<u>(271,474)</u>	<u>19,219</u>	<u>(9,801,341)</u>
Total capital assets, being depreciated, net	4,646,766	1,716,001	1,219	6,363,986
Capital assets, not being depreciated:				
Land	340,400	-	-	340,400
Construction in progress	<u>2,455,906</u>	<u>259,014</u>	<u>(2,030,519)</u>	<u>684,401</u>
Total capital assets, not being depreciated	<u>2,796,306</u>	<u>259,014</u>	<u>(2,030,519)</u>	<u>1,024,801</u>
Business-type activities capital assets, net	<u>\$ 7,443,072</u>	<u>\$ 1,975,015</u>	<u>\$ (2,029,300)</u>	<u>\$ 7,388,787</u>

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

Governmental Activities:	
General government	\$ 49,674
Public safety	233,679
Public works	1,343,230
Culture and recreation	<u>18,863</u>
Total depreciation expense - governmental activities	<u>\$ 1,645,446</u>
Business-Type Activities:	
Water	\$ 135,947
Waste water	<u>135,527</u>
Total depreciation expense - business-type activities	<u>\$ 271,474</u>

11. Accounts Payable

Accounts payable represent 2012 expenditures paid after June 30, 2012.

12. Deferred Revenue

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2012 receivable balances, except property taxes that are accrued for subsequent 60 day collections.

13. Taxes Collected In Advance

This balance consists of tax collections for the 2013 levy year.

14. 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 have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial Maturities <u>Through</u>	Interest Rate(s) % <u>Rate(s) %</u>	Amount Outstanding as of <u>6/30/12</u>
<u>Governmental Activities:</u>			
Open Space Land Acquisition	01/15/23	4.25-4.9%	\$ 1,100,000
Downtown TIF Improvements	01/15/23	4.25-4.9%	<u>825,000</u>
Total Governmental Activities:			<u>\$ 1,925,000</u>

	Serial Maturities <u>Through</u>	Interest Rate(s) % <u>Rate(s) %</u>	Amount Outstanding as of <u>6/30/12</u>
<u>Business-Type Activities:</u>			
Creighton Street Pump/Outfall	01/01/22	3.70%	\$ 790,400
Drinking Water SRF Loan	10/01/15	0.00%	<u>215,900</u>
Total Business-Type Activities:			<u>\$ 1,006,300</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 175,000	\$ 82,706	\$ 257,706
2014	175,000	75,268	250,268
2015	175,000	67,289	242,289
2016	175,000	59,764	234,764
2017	175,000	52,064	227,064
2018 - 2022	875,000	123,965	998,965
2023 - 2027	<u>175,000</u>	<u>7,375</u>	<u>182,375</u>
Total	<u>\$ 1,925,000</u>	<u>\$ 468,431</u>	<u>\$ 2,393,431</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 132,296	\$ 31,208	\$ 163,504
2014	132,772	27,805	160,577
2015	133,253	24,396	157,649
2016	133,739	20,984	154,723
2017	79,040	17,566	96,606
2018 - 2022	<u>395,200</u>	<u>43,915</u>	<u>439,115</u>
Total	<u>\$ 1,006,300</u>	<u>\$ 165,874</u>	<u>\$ 1,172,174</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities:

	Total Balance 7/1/11	Additions	Reductions	Total Balance 6/30/12	Less Current Portion	Equals Long-Term Portion 6/30/12
<u>Governmental Activities</u>						
Bonds payable	\$ 2,100,000	\$ -	\$ (175,000)	\$ 1,925,000	\$ (175,000)	\$ 1,750,000
Other:						
Landfill closure	456,586	-	(32,613)	423,973	(32,613)	391,360
Compensated absences	250,821	-	(142,699)	108,122	(10,812)	97,310
Net OPEB obligation	<u>151,192</u>	<u>88,002</u>	<u>-</u>	<u>239,194</u>	<u>-</u>	<u>239,194</u>
Totals	<u>\$ 2,958,599</u>	<u>\$ 88,002</u>	<u>\$ (350,312)</u>	<u>\$ 2,696,289</u>	<u>\$ (218,425)</u>	<u>\$ 2,477,864</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 869,440	\$ 265,495	\$ (128,635)	\$ 1,006,300	\$ (132,296)	\$ 874,004
Other:						
Compensated absences	16,177	-	(1,494)	14,683	(1,472)	13,211
Net OPEB obligation	<u>13,480</u>	<u>8,309</u>	<u>-</u>	<u>21,789</u>	<u>-</u>	<u>21,789</u>
Totals	<u>\$ 899,097</u>	<u>\$ 273,804</u>	<u>\$ (130,129)</u>	<u>\$ 1,042,772</u>	<u>\$ (133,768)</u>	<u>\$ 909,004</u>

15. Landfill Closure and Postclosure Care Costs

This liability reported is based on what it would cost to perform postclosure care in 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

16. Restricted Net Assets

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

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original

restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

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 June 30, 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 general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing special article appropriations approved at Town Meeting, capital reserve funds set aside by Town Meeting vote (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 June 30, 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	\$ -	\$ -	\$ -	\$ 1,683	\$ -	\$ 1,683
Advance	1,360,000	-	-	-	-	1,360,000
Capital Reserve	-	-	3,417,054	-	-	3,417,054
Undesignated	-	-	-	-	1,304,319	1,304,319
sub total	<u>1,360,000</u>	<u>-</u>	<u>3,417,054</u>	<u>1,683</u>	<u>1,304,319</u>	<u>6,083,056</u>
Non Major						
Special Revenue	-	619,875	-	114,705	-	734,580
Capital Projects	-	-	138,646	-	(1,429,129)	(1,290,483)
Permanent Funds	494,155	93,516	-	-	-	587,671
sub total	<u>494,155</u>	<u>713,391</u>	<u>138,646</u>	<u>114,705</u>	<u>(1,429,129)</u>	<u>31,768</u>
Grand Total	<u>\$ 1,854,155</u>	<u>\$ 713,391</u>	<u>\$ 3,555,700</u>	<u>\$ 116,388</u>	<u>\$ (124,810)</u>	<u>\$ 6,114,824</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 unassigned 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	\$ 1,304,319
Reclassifications and timing differences	<u>58,309</u>
Tax rate setting balance	<u>\$ 1,362,628</u>

19. Subsequent Events

Debt

Subsequent to June 30, 2012, the Town has incurred the following debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
State revolving loan	\$ 470,000	3.10%	10/01/12	10/01/31

The Town signed a loan agreement with the State of New Hampshire Clean Water Revolving Fund Program in order to finance the New Village Water, Sewer and Drainage Project. The agreement states that a total of \$470,000 of principal will be forgiven at the time of the initial payment, leaving the Town to repay \$470,000.

20. Commitments and Contingencies

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

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

Waste Water Treatment Plant Upgrade - After reviewing the permit issued by the EPA, the Town has decided to accept the permit and enter into an Administrative Order on Consent (AOC). We do not agree that EPA and DES have addressed all of the uncertainties about the health of Great Bay. However, we feel that it is in the best interest of the Town to work with the EPA to protect Great Bay instead of entering into a lengthy and costly legal process.

The Town needs to design, build, and operate a new treatment plant, irrespective of the nitrogen discharge limit included in the final permit. The Town presently has an antiquated facility that needs to be upgraded in order to satisfy more than just nitrogen removal. Meeting the water quality standard for dissolved oxygen in the Lamprey River is one such additional challenge.

While the AOC cannot change the final permit discharge limit for nitrogen of 3.0 mg/l, EPA will allow a compliance schedule of up to 15 years to achieve that lowest discharge level. An interim limit of 8.0 mg/l -- the level advocated by the Great Bay Municipal Coalition -- will be in place until then. Furthermore, the final permit was changed to include a seven-month seasonal average limit for nitrogen, instead of a monthly average. This modification is a better gauge of compliance than a more limited monthly average, and is more acceptable for the Town.

The Administrative Order on Consent also provides a degree of rate certainty and stability for ratepayers and taxpayers. The final permit and the compliance schedule that will be issued by EPA along with the final permit effectively provides potentially for up to 15 years before the Town would have to

build and operate additional treatment facilities to bring the discharge levels down to 3.0 mg/l.

Moreover, the AOC incorporates the adaptive management approach that the Great Bay Coalition communities have long advocated. After the new treatment facility is built and operating, EPA will allow a period of up to 5 years of additional study and analysis of the nitrogen issues in Great Bay and the tidal rivers, monitoring the health of the Great Bay over that period of time as the new treatment facilities around the estuary are making substantial reductions in the nitrogen loadings into the Bay. That additional period of monitoring and analysis may lead to a conclusion that the 3.0 mg/l limit is more stringent than it needs to be. If so, the EPA will not require the Town to meet that limit.

The Town fully expects that its new treatment facility will accomplish nitrogen removal to a degree that will bring the discharge well below the 8.0 mg/l interim limit, and will very likely approach the range of 5.0 mg/l. In addition, as required by the Administrative Order on Consent, the Town will continue to address nitrogen loadings from stormwater and “non-point” sources. If the Town’s new treatment plant is as efficient in nitrogen removal as we expect and if the continuing constructive efforts of Newmarket and its sister communities in the Great Bay Estuary to deal with nitrogen loadings are successful, there will be added reason for EPA to conclude that the additional expenditure that would be necessary to ensure a treatment level of 3.0 mg/l will not, in fact, be necessary in the future.

In support of the need to reduce nutrients being discharged into the Great Bay Estuary, the Town will put a warrant article before the Voters at Town Meeting to fund a new treatment plant. If passed, expected costs of the new treatment facility are \$14,100,000 that will be offset by a Rural Development grant funding 20% of the project.

**21. Post-Employment Healthcare and Life Insurance Benefits
Other Post-Employment Benefits**

The Town implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The Town has elected to use the alternative measurement method instead of obtaining an actuarial valuation. Statement 45 allows employers with less than one hundred total plan members to apply a simplified alternative measurement method instead of obtaining actuarial valuations. The alternative method includes the same broad measurement steps as an actuarial valuation; however, it permits simplification of certain assumptions to make the method usable by nonspecialists. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of a required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree

earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

The Town provides its eligible retirees, including in some cases their beneficiaries (as govern by RSA 100-A:50), the ability to purchase health, dental, and prescription insurance at the Town's group rates. Although the Town does not supplement the cost of these plans, GASB Statement 45 requires the Town to recognize the liability for the inclusion of any implicit rate subsidies afforded its retirees. This subsidy is generated as a result of the basic nature of insurance - one risk group subsidizes another to arrive at a blended premium, therefore current employees who are young and healthy subsidized the older retirees. As of June 30, 2012, there were 15 retiree subscribers, including eligible spouses and dependents, and 42 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

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

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2012 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount 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 liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2012, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an alternative measurement method valuation as of June 30, 2012.

Annual Required Contribution (ARC)	\$ 103,766
Interest on net OPEB obligation	<u>4,151</u>
Annual OPEB cost	107,917
Contributions made	<u>(11,606)</u>
Increase in net OPEB obligation	96,311
Net OPEB obligation - beginning of year	<u>164,672</u>
Net OPEB obligation - end of year	<u>\$ 260,983</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:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 107,917	11%	\$ 260,983
2011	\$ 79,760	23%	\$ 164,672
2010	\$ 79,760	23%	\$ 102,902

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012, the date of the most recent valuation was as follows:

Actuarial accrued liability (AAL)	\$ 1,432,724
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,432,724</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 2,736,797</u>
UAAL as a percentage of covered payroll	<u>52%</u>

Valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the 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 methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2012 actuarial valuation the projected unit credit cost method was used. The value of assets was not determined as the Town has not advance funded its obligation. The assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 10% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

22. Pension Plan

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

A. Plan Description

The Town contributes to the New Hampshire Retirement System (the System), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Revised Statutes Annotated 100-A:41 of New Hampshire Law assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the New Hampshire Retirement System at 54 Regional Drive, Concord, New Hampshire 03301-8507.

B. Funding Policy

Plan members are required to contribute 7% of their gross earnings to the pension plan. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and is 8.80% for employees, 19.95% for police and 22.89% for fire. The Town's contributions to the System for the years ended June 30, 2012, 2011, and 2010 were \$353,788, \$284,756 and \$315,446, 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 June 30, 2012, was \$2,736,797.

23. Risk Management

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

24. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2012, as defined by GASB Statement 34, have changed from the previous fiscal year and certain accounts were reclassified. Accordingly, the following reconciliation is provided:

Fund Basis Financial Statements:

	Governmental Funds			Proprietary Funds		
	General Fund	Major Funds	Non Major Funds	Water Fund	Sewer Fund	Solid Waste
As previously reported	\$ 3,579,032	\$ 1,532,356	\$ 521,700	\$ 4,622,492	\$ 3,152,311	\$ 218,539
Reclassifications:						
GASB 34 reclassification	-	(1,532,356)	996,931	535,425	-	-
Transfer of ambulance revenue	(90,000)	-	90,000	-	-	-
Transfer of funds from main street	146,615	-	(146,615)	-	-	-
Prior period adjustments:						
To restate impact fees	(261,606)	-	-	-	-	-
Capitalize fixed assets	-	-	-	410,645	410,645	-
Adjust SRF loan proceeds	-	-	-	(245,345)	-	-
Other adjustments	(39,910)	-	(12,883)	-	(26,182)	(12,901)
As restated	\$ <u>3,334,131</u>	\$ <u>-</u>	\$ <u>1,449,133</u>	\$ <u>5,323,217</u>	\$ <u>3,536,774</u>	\$ <u>205,638</u>

25. Beginning Net Assets Restatement

The beginning (July 1, 2011) governmental net assets of the Town have been restated resulting primarily from a restatement of prior year capital assets and various reclassifications.

26. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal 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 NEWMARKET, NEW HAMPSHIRE
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2012
(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/08	\$ -	\$ 342,248	\$ 342,248	0.0%	\$ 2,730,643	12.5%
07/01/09	\$ -	\$ 568,594	\$ 568,594	0.0%	\$ 2,935,728	19.4%
06/30/12	\$ -	\$ 1,432,724	\$ 1,432,724	0.0%	\$ 2,736,797	52.4%

See Independent Auditors' Report.