

TOWN OF EXETER, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended December 31, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Exeter, 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 Exeter, New Hampshire, as of and for the year ended December 31, 2009, which collectively comprise the Town's basic financial statements as required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 2 in the financial statements, management has not recorded a liability for its net OPEB obligation in its governmental activities, and accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require the liability be presented in the government-wide financial statements. The amount that would be reported in government-wide financial statements for the Town's governmental activities are not reasonably determinable. The Town estimates that the amount to be reported in the enterprise funds and business-type activities is immaterial.

Additional Offices:

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

In our opinion, because of the effects of the matter discussed in the preceding paragraphs, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Town of Exeter, New Hampshire as of December 31, 2009, or the changes in its financial position for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Exeter, New Hampshire, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Town has not presented a Schedule of Funding Progress of its Other-Post Employment Benefits Liability that, under accounting principles generally accepted in the United States, is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2010, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
November 18, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Exeter, we offer readers this narrative overview and analysis of the financial activities of the Town of Exeter for the year ended December 31, 2009.

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, sanitation, economic development, and culture and recreation. The business-type activities include water and sewer activities.

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 and sewer 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 and sewer operations, both 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 infor-

mation 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 \$ 18,883,747 (i.e., net assets), a change of \$ 172,126 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 724,850, a change of \$ 247,695 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ (650,555).
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 8,985,766, a change of \$ 4,921,006 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 fiscal year. Comparable data will be presented when available. (Presented in thousands):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2009</u>	<u>2009</u>	<u>2009</u>
Current and other assets	\$ 14,196	\$ 2,996	\$ 17,192
Capital assets	12,698	11,495	24,193
Total assets	<u>26,894</u>	<u>14,491</u>	<u>41,385</u>
Long-term liabilities outstanding	3,230	6,565	9,795
Other liabilities	11,772	934	12,706
Total liabilities	<u>15,002</u>	<u>7,499</u>	<u>22,501</u>
Net assets:			
Invested in capital assets, net	9,892	4,607	14,499
Restricted	587	-	587
Unrestricted	1,413	2,385	3,798
Total net assets	<u>\$ 11,892</u>	<u>\$ 6,992</u>	<u>\$ 18,884</u>

CHANGES IN NET ASSETS

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
	<u>2009</u>	<u>2009</u>	<u>2009</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,789	\$ 3,666	\$ 5,455
Operating grants and contributions	389	-	389
Capital grants and contributions	-	356	356
General revenues:			-
Property taxes	10,361	-	10,361
Excises	2,015	-	2,015
Penalties and interest on taxes	182	-	182
Grants and contributions not restricted to specific programs	946	-	946
Investment income	44	-	44
Other	<u>283</u>	<u>-</u>	<u>283</u>
Total revenues	16,009	4,022	20,031
Expenses:			
General government	3,002	-	3,002
Public safety	6,721	-	6,721
Public works	2,623	-	2,623
Human services	376	-	376
Culture and recreation	1,732	-	1,732
Sanitation	826	-	826
Conservation	15	-	15
Interest on long-term debt	177	-	177
Miscellaneous	90	-	90
Water	-	2,550	2,550
Sewer	<u>-</u>	<u>1,747</u>	<u>1,747</u>
Total expenses	15,562	4,297	19,859
Change in net assets	447	(275)	172
Net assets - beginning of year (as restated)	<u>11,445</u>	<u>7,267</u>	<u>18,712</u>
Net assets - end of year	<u>\$ 11,892</u>	<u>\$ 6,992</u>	<u>\$ 18,884</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 \$ 18,883,747, a change of \$ 172,126 from the prior year.

The largest portion of net assets \$ 14,498,664 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 586,976 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 3,798,107 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 \$ 446,863. Key elements of this change are as follows:

General fund revenues and transfers in excess of expenditures and transfers out	\$ 476,121
Nonmajor expenditures and transfers out in excess of revenues and transfers in	(228,426)
Capital asset additions from current revenues	153,882
Other	<u>45,286</u>
Total	<u>\$ 446,863</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ (274,737). Key elements of this change are as follows:

Water operations	\$ (347,413)
Sewer operations	<u>72,676</u>
Total	<u>\$ (274,737)</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 724,850, a change of \$ 247,695 in comparison with the prior year. Key elements of this change are as follows:

General fund revenues and transfers in excess of expenditures and transfers out	\$ 476,121
Special revenue fund expenditures over revenues	(183,397)
Other	<u>(45,029)</u>
Total	<u>\$ 247,695</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was a deficit of \$ (650,555), while total fund balance was a deficit of \$ (189,228). As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents a negative of (4.3) percent of total general fund expenditures, while total fund balance represents a negative of (1.3) percent of that same amount.

The fund balance of the general fund changed by \$ 476,121 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 49,069
Expenditures less than budget	811,624
Use of fund balance as a funding source	(500,000)
Current year encumbrances in excess of prior year encumbrances	<u>115,428</u>
Total	<u>\$ 476,121</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 \$ 2,385,361.

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 differences between the original budget and the final amended budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 24,192,923 (net of accumulated depreciation), a change of \$ 48,980 from the prior year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

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

- Epping Road Water Tank

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 8,985,766, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Exeter'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 Manager
Town of Exeter, New Hampshire
10 Front Street
Exeter, New Hampshire 03833

TOWN OF EXETER, NEW HAMPSHIRE
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 11,315,953	\$ 2,133,074	\$ 13,449,027
Investments	333,286	-	333,286
Receivables, net of allowance for uncollectibles:			
Property taxes	1,840,873	-	1,840,873
User fees	-	863,384	863,384
Departmental and other	143,177	-	143,177
Intergovernmental	55,012	-	55,012
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	506,989	-	506,989
Capital Assets:			
Land and construction in progress	8,256,165	265,288	8,521,453
Other assets, net of accumulated depreciation	4,441,992	11,229,478	15,671,470
TOTAL ASSETS	26,893,447	14,491,224	41,384,671
LIABILITIES			
Current:			
Warrants payable	461,438	444,155	905,593
Retainage payable	24,932	55,449	80,381
Accrued liabilities	55,536	58,984	114,520
Due to other governments	11,230,115	-	11,230,115
Notes payable	-	375,398	375,398
Current portion of long-term liabilities:			
Bonds payable	492,008	377,212	869,220
Other liabilities	131,741	2,625	134,366
Noncurrent:			
Bonds payable, net of current portion	1,981,010	6,135,536	8,116,546
Other liabilities, net of current portion	624,901	49,884	674,785
TOTAL LIABILITIES	15,001,681	7,499,243	22,500,924
NET ASSETS			
Invested in capital assets, net of related debt	9,892,044	4,606,620	14,498,664
Restricted for:			
Grants and other statutory restrictions	105,845	-	105,845
Permanent funds:			
Nonexpendable	53,708	-	53,708
Expendable	427,423	-	427,423
Unrestricted	1,412,746	2,385,361	3,798,107
TOTAL NET ASSETS	\$ 11,891,766	\$ 6,991,981	18,883,747

See notes to financial statements.

TOWN OF EXETER, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2009

	Expenses	Program Revenues			Net(Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 3,002,354	\$ 124,919	\$ 117,041	\$ -	\$ (2,760,394)	\$ -	\$ (2,760,394)
Public safety	6,720,743	848,371	256,935	-	(5,615,437)	-	(5,615,437)
Public works	2,623,031	442,986	-	-	(2,180,045)	-	(2,180,045)
Health and human services	376,103	4,580	10,624	-	(360,899)	-	(360,899)
Culture and recreation	1,731,609	329,991	3,991	-	(1,397,627)	-	(1,397,627)
Sanitation	825,991	38,423	-	-	(787,568)	-	(787,568)
Conservation	15,189	-	-	-	(15,189)	-	(15,189)
Interest	177,321	-	-	-	(177,321)	-	(177,321)
Miscellaneous	90,334	-	-	-	(90,334)	-	(90,334)
Total Governmental Activities	\$ <u>15,562,675</u>	\$ <u>1,789,270</u>	\$ <u>388,591</u>	\$ <u>-</u>	(13,384,814)	-	(13,384,814)
Business-Type Activities:							
Water services	2,549,370	1,966,123	-	235,712	-	(347,535)	(347,535)
Sewer services	<u>1,747,280</u>	<u>1,699,646</u>	<u>-</u>	<u>120,201</u>	<u>-</u>	<u>72,567</u>	<u>72,567</u>
Total Business-Type Activities	<u>4,296,650</u>	<u>3,665,769</u>	<u>-</u>	<u>355,913</u>	<u>-</u>	<u>(274,968)</u>	<u>(274,968)</u>
Total	\$ <u>19,859,325</u>	\$ <u>5,455,039</u>	\$ <u>388,591</u>	\$ <u>355,913</u>			
General Revenues:							
Property taxes					10,361,167	-	10,361,167
Excises					2,015,460	-	2,015,460
Penalties, interest and other taxes					181,877	-	181,877
Grants and contributions not restricted to specific programs					-	-	-
					946,244	-	946,244
Investment income					43,566	231	43,797
Miscellaneous					283,363	-	283,363
Total general revenues					<u>13,831,677</u>	<u>231</u>	<u>13,831,908</u>
Change in Net Assets					446,863	(274,737)	172,126
Net Assets:							
Beginning of year					<u>11,444,903</u>	<u>7,266,718</u>	<u>18,711,621</u>
End of year					\$ <u>11,891,766</u>	\$ <u>6,991,981</u>	\$ <u>18,883,747</u>

TOWN OF EXETER, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2009

ASSETS	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash and short-term investments	\$ 10,559,232	\$ 756,721	\$ 11,315,953
Investments	7,346	325,940	333,286
Receivables:			
Property taxes	2,601,624	-	2,601,624
Departmental	143,177	-	143,177
Intergovernmental	-	55,012	55,012
Due from other funds	<u>365,408</u>	<u>171,000</u>	<u>536,408</u>
TOTAL ASSETS	\$ <u>13,676,787</u>	\$ <u>1,308,673</u>	\$ <u>14,985,460</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 457,183	\$ 4,255	\$ 461,438
Deferred revenue	2,007,717		2,007,717
Due to other funds	171,000	365,408	536,408
Due to other governments	11,230,115	-	11,230,115
Other liabilities	<u>-</u>	<u>24,932</u>	<u>24,932</u>
TOTAL LIABILITIES	13,866,015	394,595	14,260,610
Fund Balances:			
Reserved for:			
Encumbrances and continuing appropriations	118,193	-	118,193
Perpetual (unexpendable) permanent funds	-	53,708	53,708
Other purposes	343,134	-	343,134
Unreserved:			
Undesignated, reported in:			
General fund	(650,555)	-	(650,555)
Special revenue funds	-	719,932	719,932
Capital project funds	-	(286,985)	(286,985)
Permanent funds	<u>-</u>	<u>427,423</u>	<u>427,423</u>
TOTAL FUND BALANCES	<u>(189,228)</u>	<u>914,078</u>	<u>724,850</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>13,676,787</u>	\$ <u>1,308,673</u>	\$ <u>14,985,460</u>

TOWN OF EXETER, NEW HAMPSHIRE

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

DECEMBER 31, 2009

Total governmental fund balances	\$ 724,850
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	12,698,157
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,753,955
<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.	(55,536)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences, and landfill liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(3,229,660)</u>
Net assets of governmental activities	<u>\$ 11,891,766</u>

See notes to financial statements.

TOWN OF EXETER, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 10,454,365	\$ -	\$ 10,454,365
Excises	2,015,460	-	2,015,460
Penalties, interest, and other taxes	181,877	-	181,877
Charges for services	1,140,996	501,671	1,642,667
Intergovernmental	1,246,715	43,165	1,289,880
Licenses and permits	146,603	-	146,603
Investment income	16,877	26,689	43,566
Contributions	-	44,955	44,955
Miscellaneous	<u>241,708</u>	<u>41,656</u>	<u>283,364</u>
 Total Revenues	 15,444,601	 658,136	 16,102,737
Expenditures:			
Current:			
General government	2,882,038	44,273	2,926,311
Public safety	6,414,805	188,637	6,603,442
Public works	2,431,666	11,691	2,443,357
Health and human services	314,606	61,427	376,033
Culture and recreation	1,188,313	499,343	1,687,656
Sanitation	825,991	-	825,991
Conservation	9,317	-	9,317
Debt service	763,858	-	763,858
Capital outlay	<u>216,742</u>	<u>2,335</u>	<u>219,077</u>
 Total Expenditures	 <u>15,047,336</u>	 <u>807,706</u>	 <u>15,855,042</u>
 Excess (deficiency) of revenues over expenditures	 397,265	 (149,570)	 247,695
Other Financing Sources (Uses):			
Transfers in	296,738	217,882	514,620
Transfers out	<u>(217,882)</u>	<u>(296,738)</u>	<u>(514,620)</u>
 Total Other Financing Sources (Uses)	 <u>78,856</u>	 <u>(78,856)</u>	 <u>-</u>
 Change in fund balance	 476,121	 (228,426)	 247,695
Fund Equity, at Beginning of Year, restated	<u>(665,349)</u>	<u>1,142,504</u>	<u>477,155</u>
Fund Equity, at End of Year	\$ <u><u>(189,228)</u></u>	\$ <u><u>914,078</u></u>	\$ <u><u>724,850</u></u>

See notes to financial statements.

TOWN OF EXETER, 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, 2009

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 247,695

- 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	153,882
Depreciation	(577,181)

- Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (e.g., property taxes) differ between the two statements. This amount represents the net change in deferred revenue. (93,198)

- The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:

Repayments of debt	576,008
--------------------	---------

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 10,529

- Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(12,704)
Capital leases	<u>141,832</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 446,863

See notes to financial statements.

TOWN OF EXETER, NEW HAMPSHIRE

GENERAL FUND

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

FOR THE YEAR ENDED DECEMBER 31, 2009

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues and other sources:				
Property taxes	\$ 10,393,870	\$ 10,393,870	\$ 10,454,365	\$ 60,495
Excise taxes	2,093,059	2,093,059	2,015,460	(77,599)
Interest, penalties, and other taxes	186,173	186,173	181,877	(4,296)
Charges for services	1,040,236	1,040,236	1,140,996	100,760
Intergovernmental	1,010,526	1,010,526	1,010,511	(15)
Licenses and permits	57,890	57,890	146,603	88,713
Investment income	25,000	25,000	16,877	(8,123)
Miscellaneous	420,312	420,312	309,446	(110,866)
Other financing sources:				
Transfers in	229,000	229,000	229,000	-
Use of fund balance	500,000	500,000	500,000	-
Total Revenues	15,956,066	15,956,066	16,005,135	49,069
Expenditures and other uses:				
Current:				
General government	2,901,334	2,901,334	2,904,531	(3,197)
Public safety	6,655,162	6,655,162	6,183,719	471,443
Public works	2,460,753	2,460,753	2,435,606	25,147
Sanitation	845,021	845,021	825,991	19,030
Health and human services	342,317	342,317	314,606	27,711
Culture and recreation	1,432,936	1,432,936	1,406,195	26,741
Conservation	13,275	13,275	14,747	(1,472)
Capital outlay	297,400	297,400	295,189	2,211
Debt service:				
Principal	576,008	576,008	576,008	-
Interest	431,860	431,860	187,850	244,010
Total Expenditures	15,956,066	15,956,066	15,144,442	811,624
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 860,693	\$ 860,693

See notes to financial statements.

TOWN OF EXETER, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

DECEMBER 31, 2009

	Business-Type Activities Enterprise Funds		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ 1,021,705	\$ 1,111,369	\$ 2,133,074
User fees, net of allowance for uncollectibles	435,395	427,989	863,384
Due from other funds	<u>13,380</u>	<u>-</u>	<u>13,380</u>
Total current assets	1,470,480	1,539,358	3,009,838
Noncurrent:			
Capital assets, net of accumulated depreciation	7,658,447	3,571,031	11,229,478
Land and construction in progress	<u>265,288</u>	<u>-</u>	<u>265,288</u>
Total noncurrent assets	<u>7,923,735</u>	<u>3,571,031</u>	<u>11,494,766</u>
TOTAL ASSETS	9,394,215	5,110,389	14,504,604
<u>LIABILITIES</u>			
Current:			
Warrants payable	318,691	125,464	444,155
Retainage payable	55,449	-	55,449
Accrued liabilities	48,988	9,996	58,984
Due to other funds	-	13,380	13,380
Notes payable	-	375,398	375,398
Current portion of long-term liabilities:			
Bonds payable	253,548	123,664	377,212
Other liabilities	<u>1,879</u>	<u>746</u>	<u>2,625</u>
Total current liabilities	678,555	648,648	1,327,203
Noncurrent:			
Bonds payable, net of current portion	5,637,998	497,538	6,135,536
Other liabilities, net of current portion	<u>35,709</u>	<u>14,175</u>	<u>49,884</u>
Total noncurrent liabilities	<u>5,673,707</u>	<u>511,713</u>	<u>6,185,420</u>
TOTAL LIABILITIES	6,352,262	1,160,361	7,512,623
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	2,032,189	2,574,431	4,606,620
Unrestricted	<u>1,009,764</u>	<u>1,375,597</u>	<u>2,385,361</u>
TOTAL NET ASSETS	\$ <u>3,041,953</u>	\$ <u>3,950,028</u>	\$ <u>6,991,981</u>

See notes to financial statements.

TOWN OF EXETER, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-Type Activities Enterprise Funds		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating Revenues:			
Charges for services	\$ 1,929,425	\$ 1,697,888	\$ 3,627,313
Other	<u>36,698</u>	<u>1,758</u>	<u>38,456</u>
Total Operating Revenues	1,966,123	1,699,646	3,665,769
Operating Expenses:			
Operating expenses	1,981,221	1,462,554	3,443,775
Depreciation	<u>394,843</u>	<u>259,723</u>	<u>654,566</u>
Total Operating Expenses	<u>2,376,064</u>	<u>1,722,277</u>	<u>4,098,341</u>
Operating Income (Loss)	(409,941)	(22,631)	(432,572)
Nonoperating Revenues (Expenses):			
Intergovernmental revenue	235,712	120,201	355,913
Investment income	122	109	231
Interest expense	<u>(173,306)</u>	<u>(25,003)</u>	<u>(198,309)</u>
Total Nonoperating Revenues (Expenses), Net	<u>62,528</u>	<u>95,307</u>	<u>157,835</u>
Change in Net Assets	(347,413)	72,676	(274,737)
Net Assets at Beginning of Year, as restated	<u>3,389,366</u>	<u>3,877,352</u>	<u>7,266,718</u>
Net Assets at End of Year	<u>\$ 3,041,953</u>	<u>\$ 3,950,028</u>	<u>\$ 6,991,981</u>

See notes to financial statements.

TOWN OF EXETER, NEW HAMPSHIRE
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 1,965,367	\$ 1,652,081	\$ 3,617,448
Receipts from interfund service provided	105,424	(105,424)	-
Payments to vendors and employees	<u>(1,926,290)</u>	<u>(1,452,924)</u>	<u>(3,379,214)</u>
Net Cash Provided By (Used For) Operating Activities	144,501	93,733	238,234
<u>Cash Flows From Noncapital Financing Activities:</u>			
Intergovernmental subsidy	<u>235,712</u>	<u>120,201</u>	<u>355,913</u>
Net Cash (Used For) Noncapital Financing Activities	235,712	120,201	355,913
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Proceeds from issuance of bonds and notes	2,908,896	105,424	3,014,320
Acquisition and construction of capital assets	(1,126,845)	-	(1,126,845)
Principal payments on bonds and notes	(2,447,922)	(123,664)	(2,571,586)
Interest expense	<u>(126,815)</u>	<u>(26,728)</u>	<u>(153,543)</u>
Net Cash (Used For) Capital and Related Financing Activities	(792,686)	(44,968)	(837,654)
<u>Cash Flows From Investing Activities:</u>			
Investment income	<u>122</u>	<u>109</u>	<u>231</u>
Net Cash (Used For) Investing Activities	<u>122</u>	<u>109</u>	<u>231</u>
Net Change in Cash and Short-Term Investments	(412,351)	169,075	(243,276)
Cash and Short-Term Investments, Beginning of Year	<u>1,434,056</u>	<u>942,294</u>	<u>2,376,350</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,021,705</u>	<u>\$ 1,111,369</u>	<u>\$ 2,133,074</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income (loss)	\$ (409,941)	\$ (22,631)	\$ (432,572)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	394,843	259,723	654,566
Changes in assets and liabilities:			
User fees	(756)	(81,227)	(81,983)
Interfund receivables/payables	105,424	(105,424)	-
Other assets	-	33,662	33,662
Warrants and retainage payable	53,803	9,182	62,985
Other liabilities	<u>1,128</u>	<u>448</u>	<u>1,576</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 144,501</u>	<u>\$ 93,733</u>	<u>\$ 238,234</u>

See notes to financial statements.

TOWN OF EXETER, NEW HAMPSHIRE
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 DECEMBER 31, 2009

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ <u>17,619</u>	\$ <u>3,843,201</u>
Total Assets	17,619	3,843,201
 <u>LIABILITIES AND NET ASSETS</u>		
Due to other governments	-	3,318,597
Deposits held in custody	-	443,923
Due to others	-	<u>80,681</u>
Total Liabilities	<u>-</u>	<u>3,843,201</u>
 <u>NET ASSETS</u>		
Net assets	\$ <u><u>17,619</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF EXETER, NEW HAMPSHIRE
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Private Purpose Trust Funds</u>
Additions:	
Interest	\$ <u>294</u>
Total additions	294
Deductions:	
Scholarships	<u>2,082</u>
Total deductions	<u>2,082</u>
Net increase	(1,788)
Net assets:	
Beginning of year	<u>19,407</u>
End of year	<u><u>\$ 17,619</u></u>

See notes to financial statements.

TOWN OF EXETER, NEW HAMPSHIRE

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Exeter (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units, except as indicated in Note 2. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2009, 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 is 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

for the government-wide financial statements. Major individual governmental 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 is 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 nonoperating 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:

- The *Water fund* accounts for the operating activities and capital projects of the Town's water services.
- The *Sewer fund* accounts for the operating activities of the Town's sewer services.

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.

The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

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

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

under the caption “cash and short-term investments”. The interest earnings attributable to each fund type are included under investment income.

E. Investments

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

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

F. Interfund Receivables and Payables

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

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	30
Building improvements	20
Infrastructure	25
Vehicles	5-15
Office equipment	5
Computer equipment	5

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

K. Use of Estimates

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

2. Departures from Generally Accepted Accounting Principles

The significant departures of the financial statements from generally accepted accounting principles are as follows:

- Management has elected not to report Other Post-Employee Benefits as required by GASB 45.

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Town's budget is originally prepared by the Town Manager under the supervision of the Board of Selectmen. It is then reviewed by the Budget Recommendations Committee. The Board of Selectmen then finalizes the operating budget, which is subject to deliberative session under RSA 40:13.

The final version of the budget is then voted on by the general population at the ballot the second Tuesday in March of each year. Should the operating budget of the Town fail to pass, the Town operates under a default budget as described in RSA 40:13.

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.

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 fund 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 with 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)	\$ 15,444,601	\$ 15,047,336
Other financing sources/uses (GAAP basis)	<u>296,738</u>	<u>217,882</u>
Subtotal (GAAP Basis)	15,741,339	15,265,218
Add end of year appropriation carryforwards to expenditures	-	115,428
To reverse NHRS on behalf contributions	(236,204)	(236,204)
Recognize use of fund balance as funding source	<u>500,000</u>	<u>-</u>
Budgetary basis	<u>\$ 16,005,135</u>	<u>\$ 15,144,442</u>

D. Deficit Fund Equity

The following funds had deficits as of December 31, 2009 (also see Note 19):

Nonmajor Governmental:

Great Bridge	\$ (173,774)	(B)
Water Treatment Design	\$ (63,566)	(B)
Stewart Park Seawall	\$ (105,794)	(B)
Police Grant Fund	\$ (3,857)	(A)
Planning Board Fund	\$ (56,238)	(A)
Pandemic Flu	\$ (19,803)	(A)

(A) The deficits in these funds will be eliminated through future departmental revenues and bond proceeds.

(B) The Town will develop a plan to address these deficits.

4. Cash and Short-Term Investments

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

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

As of December 31, 2009, the Town’s bank balance of \$ 17,389,725 was not exposed to custodial credit risk. The Town’s bank balances are fully insured and collateralized through additional collateral agreements with the financial institutions.

5. Investments

A. Credit Risk

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

Presented below (in thousands) is the actual rating as of year end for each investment of the Town:

<u>Investment Type</u>	Fair <u>Value</u>	Rating as of <u>Year End</u>
Certificates of deposits	\$ 25	N/A
Corporate equities	149	N/A
Corporate bonds	15	Aa3
Mutual funds	137	N/A
State investment pool	<u>7</u>	N/A
Total investments	\$ <u><u>333</u></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 does not have policies for custodial credit risk.

Of the Town’s investment of \$ 333,286, the government has a custodial credit risk exposure of \$ 307,963 because the related securities are uninsured, unregistered and held by the Town’s brokerage firm, which is also the Counterparty to these securities. The Town manages this

custodial credit risk with SIPC and excess SIPC. However, of the Town's total exposure, \$ 7,346 is invested in the New Hampshire State Investment Pool.

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:

Carolina First Bank (CD)	\$ 25,323
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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>6-10</u>
Corporate bonds	\$ <u>14,677</u>	\$ <u>14,677</u>
Total	\$ <u><u>14,677</u></u>	\$ <u><u>14,677</u></u>

E. Foreign Currency Risk

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

6. Taxes Receivable

The Town bills property taxes semi-annually, in May and November. Property tax revenues are recognized in the fiscal year for which taxes have been levied. Property taxes are due on July 1 and December 1. Delinquent accounts are charged 12% interest. In March of the next year, a lien is recorded on delinquent property at the Registry of Deeds. The Town purchases all the delinquent accounts by paying the delinquent balance, recording costs and accrued interest. The accounts that are 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, 2009 consist of the following (in thousands):

Property Taxes			
2009	\$	1,925	
2008		14	
2007		2	
		<u> </u>	1,941
Unredeemed			
2008		365	
2007 & prior		198	
		<u> </u>	563
Land Use			95
Yield Taxes			3
			<u> </u>
Total	\$		<u><u>2,602</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 (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 254	\$ -
Utilities	-	54

8. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2009.

9. Interfund Fund Receivables/Payables

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

analysis of the December 31, 2009 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental Funds:		
General fund	\$ 365,408	\$ 171,000
Special Revenue Funds:		
Recreation	-	94,000
Trust and Agency Funds:		
Expendable Trusts	171,000	271,408
Enterprise Funds:		
Water	13,380	-
Sewer	-	13,380
Total	<u>\$ 549,788</u>	<u>\$ 549,788</u>

10. Capital Assets

Capital asset activity for the year ended December 31, 2009 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 4,056	\$ -	\$ -	\$ 4,056
Machinery, equipment, and furnishings	5,086	27	-	5,113
Infrastructure	<u>6,063</u>	<u>-</u>	<u>-</u>	<u>6,063</u>
Total capital assets, being depreciated	15,205	27	-	15,232
Less accumulated depreciation for:				
Buildings and improvements	(2,815)	(134)	-	(2,949)
Machinery, equipment, and furnishings	(3,386)	(322)	-	(3,708)
Infrastructure	<u>(4,012)</u>	<u>(121)</u>	<u>-</u>	<u>(4,133)</u>
Total accumulated depreciation	<u>(10,213)</u>	<u>(577)</u>	<u>-</u>	<u>(10,790)</u>
Total capital assets, being depreciated, net	4,992	(550)	-	4,442
Capital assets, not being depreciated:				
Land	7,483	-	-	7,483
Works of art	647	-	-	647
Construction in progress	-	126	-	126
Total capital assets, not being depreciated	<u>8,130</u>	<u>126</u>	<u>-</u>	<u>8,256</u>
Governmental activities capital assets, net	<u>\$ 13,122</u>	<u>\$ (424)</u>	<u>\$ -</u>	<u>\$ 12,698</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 66	\$ -	\$ -	\$ 66
Machinery, equipment, and furnishings	602	-	-	602
Infrastructure	<u>23,900</u>	<u>6,723</u>	<u>-</u>	<u>30,623</u>
Total capital assets, being depreciated	24,568	6,723	-	31,291
Less accumulated depreciation for:				
Buildings and improvements	(47)	(2)	-	(49)
Machinery, equipment, and furnishings	(312)	(40)	-	(352)
Infrastructure	<u>(19,047)</u>	<u>(613)</u>	<u>-</u>	<u>(19,660)</u>
Total accumulated depreciation	<u>(19,406)</u>	<u>(655)</u>	<u>-</u>	<u>(20,061)</u>
Total capital assets, being depreciated, net	5,162	6,068	-	11,230
Capital assets, not being depreciated:				
Land	197	-	-	197
Construction in progress	<u>5,664</u>	<u>1,127</u>	<u>(6,723)</u>	<u>68</u>
Total capital assets, not being depreciated	<u>5,861</u>	<u>1,127</u>	<u>(6,723)</u>	<u>265</u>
Business-type activities capital assets, net	<u>\$ 11,023</u>	<u>\$ 7,195</u>	<u>\$ (6,723)</u>	<u>\$ 11,495</u>

11. Accounts Payable and Accrued Expenses

Accounts payable represent additional 2009 expenditures paid after December 31, 2009.

Governmental Activities:

General government	\$ 81
Public safety	174
Public works	275
Culture and recreation	44
Conservation	<u>3</u>
Total depreciation expense - governmental activities	<u>\$ 577</u>

Business-Type Activities:

Water	\$ 395
Sewer	<u>260</u>
Total depreciation expense - business-type activities	<u>\$ 655</u>

12. Due to Other Governments

The school district assessments for the period July 1, 2009 through June 30, 2010 were \$ 10,784,264 for the Exeter School District and \$ 13,223,239 for the Exeter Regional Cooperative. The School District assessments are paid in monthly installments. As of December 31, 2009, \$ 5,779,156 and \$ 6,998,232 was paid, respectively, leaving a total balance of \$ 11,230,115 to be paid through June 30, 2010.

13. Deferred Revenue

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

The balance of the General Fund *deferred revenues* account is equal to the total of all December 31, 2009 receivable balances, except property taxes that are accrued for subsequent 60 day collections.

14. Anticipation Notes Payable

The Town had the following notes outstanding at December 31, 2009:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 12/31/09</u>
State revolving fund note payable	1.05%	07/16/03	upon construction completion	\$ <u>375,398</u>
Total				\$ <u><u>375,398</u></u>

The following summarizes activity in notes payable during fiscal year 2009:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 2,030,000	\$ -	\$ (2,030,000)	\$ -
State revolving fund	3,129,704	770,296	(3,900,000)	-
Tax anticipation note	1,500,000	-	(1,500,000)	-
State revolving fund	<u>269,974</u>	<u>105,424</u>	<u>-</u>	<u>375,398</u>
Total	<u>\$ 6,929,678</u>	<u>\$ 875,720</u>	<u>\$ (7,430,000)</u>	<u>\$ 375,398</u>

15. Capital Lease Obligations

The Town is the lessee of certain equipment under capital and operating leases expiring in various years through 2010. Future minimum lease payments under the capital and operating leases consisted of the following as of December 31, 2009:

	<u>Capital Leases</u>
2010	\$ 125,216
2011	50,395
2012	50,394
2013	50,395
2014	50,304
2015	<u>50,394</u>
Total minimum lease payments	377,098
Less amounts representing interest	<u>(44,094)</u>
Present Value of Minimum Lease Payments	<u>\$ 333,004</u>

16. 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 governmental activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>12/31/09</u>
General	09/01/16	4.0 - 4.5%	\$ 404,600
General	07/01/11	2.49%	268,418
Conservation Land	05/01/15	3.90%	<u>1,800,000</u>
Total Governmental Activities:			<u>\$ 2,473,018</u>

<u>Business-Type Activities:</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 12/31/09
Sewer	09/01/16	4.0 - 4.5%	\$ 190,400
Sewer	07/01/11	2.49%	149,678
Sewer	12/01/22	3.98%	281,124
Epping Road	09/01/28	3.97%	2,138,600
State Revolving Loan	08/15/29	1.35%	<u>3,752,946</u>
Total Business-Type Activities:			<u>\$ 6,512,748</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of December 31, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 492,008	\$ 93,921	\$ 585,929
2011	492,008	76,574	568,582
2012	357,800	59,227	417,027
2013	357,800	45,157	402,957
2014	357,800	31,040	388,840
2015-2019	<u>415,602</u>	<u>19,445</u>	<u>435,047</u>
Total	<u>\$ 2,473,018</u>	<u>\$ 325,364</u>	<u>\$ 2,798,382</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 377,212	\$ 241,565	\$ 618,777
2011	383,470	222,697	606,167
2012	313,653	210,546	524,199
2013	318,842	200,059	518,901
2014	324,206	189,371	513,577
2015-2019	1,616,396	777,833	2,394,229
2020-2024	1,667,529	475,014	2,142,543
2025-2029	<u>1,511,440</u>	<u>154,572</u>	<u>1,666,012</u>
Total	<u>\$ 6,512,748</u>	<u>\$ 2,471,657</u>	<u>\$ 8,984,405</u>

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2009, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>1/1/09</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>12/31/09</u>	Less Current Portion	Equals Long-Term Portion <u>12/31/09</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 3,049	\$ -	\$ (576)	\$ 2,473	\$ (492)	\$ 1,981
Other:						
Capital leases	475	-	(142)	333	(111)	222
Compensated Absences	411	13	-	424	(21)	403
Subtotal	<u>886</u>	<u>13</u>	<u>(142)</u>	<u>757</u>	<u>(132)</u>	<u>625</u>
Totals	<u>\$ 3,935</u>	<u>\$ 13</u>	<u>\$ (718)</u>	<u>\$ 3,230</u>	<u>\$ (624)</u>	<u>\$ 2,606</u>

	Total Balance <u>1/1/09</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>12/31/09</u>	Less Current Portion	Equals Long-Term Portion <u>12/31/09</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,016	\$ 6,039	\$ (542)	\$ 6,513	\$ (377)	\$ 6,136
Other:						
Compensated Absences	51	2	-	53	(3)	50
Totals	<u>\$ 1,067</u>	<u>\$ 6,041</u>	<u>\$ (542)</u>	<u>\$ 6,566</u>	<u>\$ (380)</u>	<u>\$ 6,186</u>

17. Restricted Net Assets

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

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

18. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at December 31, 2009:

Reserved for Encumbrances and Continuing Appropriations - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Reserved for Other Purposes - Represents amounts segregated to cover deficits reported in nonmajor governmental funds without a specific funding source.

19. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how undesignated fund balance is reported in accordance with the budgetary basis for reporting for the State of New Hampshire for tax rate setting purposes. The major difference is the State of New Hampshire considers revenues in connection with property tax receivables to be available to liquidate liabilities when billed rather than received.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ (650,555)
Deferred revenue	<u>2,007,717</u>
Tax Rate Setting Balance	<u>\$ 1,357,162</u>

20. Commitments and Contingencies

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

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

21. Retirement System

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

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 4 Chenell Drive, Concord, New Hampshire 03301-8509.

B. Funding Policy

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 5% for employees and teachers and 9.3% for police and fire. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and is 3.7% for teachers and 6.81% for all other covered employees. The Town's contributions to the System for the years ended December 31, 2009, 2008, and 2007 were \$ 797,365, \$ 762,084, and \$ 698,745, 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, 2009, was unavailable. Contribution requirements for the year ended December 31, 2009, were as follows:

State of New Hampshire	\$ 236,204
Town	797,365
Employees' contributions	<u>474,871</u>
Total	\$ <u><u>1,508,440</u></u>

22. Post-Employment Health Care and Life Insurance Benefits

In addition to the pension benefits described in a previous note, the Town provides post-employment health care and life insurance benefits, in accordance with state statute RSA 100-A:50, to participating retirees. Presently the Town finances these benefits on the pay-as-you-go basis and does not contribute to a qualified plan (trust) as defined by *GASB Statement No. 43 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*. The number of participants currently eligible to receive benefits and cost of benefits for retirees, their dependents, or their survivors for year-ended December 31, 2009 was not available.

GASB Statement No. 45, Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions was effective December 31, 2008; however, it has not been implemented.

23. Risk Management

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

24. Beginning Fund Balance/Net Asset Reclassification/Restatement

The following provides a summary of the Town's Governmental Fund restatement and reclassifications:

	<u>General Fund</u>	<u>Water Fund</u>	<u>Epping Road Construction</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Beginning Fund Balance as previously reported	\$ 1,181,804	\$ 923,360	\$ (4,415,902)	\$ 2,230,136	\$ (80,602)
Establish deferred revenue	(1,847,153)	-	-	-	(1,847,153)
Reclassify to Water Enterprise fund	-	(923,360)	4,415,902	-	3,492,542
Reclassify to Sewer Enterprise fund	-	-	-	(1,087,632)	(1,087,632)
Beginning fund balance as restated	<u>\$ (665,349)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,142,504</u>	<u>\$ 477,155</u>

The following provides a summary of the Town's Enterprise Funds restatements and reclassifications:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Beginning net assets as previously reported	\$ -	\$ -	\$ -
Reclassify from governmental fund	1,667,162	1,087,632	2,754,794
Record beginning of year capital assets	7,191,733	3,830,754	11,022,487
Record beginning of year bonds and notes payable	(5,430,572)	(1,014,840)	(6,445,412)
Record other beginning of year accruals	<u>(38,957)</u>	<u>(26,194)</u>	<u>(65,151)</u>
Beginning net assets, as restated	<u>\$ 3,389,366</u>	<u>\$ 3,877,352</u>	<u>\$ 7,266,718</u>