

**TOWN OF RYE,  
NEW HAMPSHIRE**

**ANNUAL FINANCIAL REPORT**

**AS OF AND FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2010**

**TOWN OF RYE, NEW HAMPSHIRE**  
**ANNUAL FINANCIAL REPORT**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

**TABLE OF CONTENTS**

		<u>PAGES</u>
	<b>INDEPENDENT AUDITOR'S REPORT</b> .....	1
	<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	2 - 7
	<b>BASIC FINANCIAL STATEMENTS</b>	
	Government-wide Financial Statements:	
A	Statement of Net Assets .....	8
B	Statement of Activities .....	9
	Fund Financial Statements:	
	Governmental Funds	
C-1	Balance Sheet .....	10
C-2	Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets .....	11
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balances .....	12
C-4	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	13
	Fiduciary Funds	
D-1	Statement of Fiduciary Net Assets .....	14
D-2	Statement of Changes in Fiduciary Net Assets .....	15
	<b>NOTES TO THE BASIC FINANCIAL STATEMENTS</b> .....	16 - 31
	<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
	Budgetary Comparison Information:	
E-1	Schedule of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund .....	32
E-2	Schedule of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – Sewer Fund .....	33
F	Schedule of Funding Progress for Other Postemployment Benefit Plan .....	34
	<b>NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION</b> .....	35 - 36
	<b>COMBINING AND INDIVIDUAL FUND SCHEDULES</b>	
	<b>GOVERNMENTAL FUNDS</b>	
	Major General Fund	
1	Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis) .....	37
2	Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis) .....	38 - 39
3	Schedule of Changes in Unreserved - Undesignated Fund Balance (Non-GAAP Budgetary Basis) .....	40
	Nonmajor Governmental Funds	
4	Combining Balance Sheet .....	41
5	Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances .....	42



## PLODZIK & SANDERSON

*Professional Association/Accountants & Auditors*

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX 603-224-1380

### *INDEPENDENT AUDITOR'S REPORT*

To the Members of the Board of Selectmen  
Town of Rye  
Rye, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Rye as of and for the year ended December 31, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Rye's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Rye as of December 31, 2010 and the respective changes in financial position thereof 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 the management's discussion and analysis, and budgetary comparison information, on pages 2 through 7, and 32 and 33, 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 sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Rye's financial statements as a whole. The combining and individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the financial statements. They are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Plodzik & Sanderson  
Professional Association*

August 29, 2011

*Town of Rye, NH*  
*Management Discussion and Analysis*  
2010

1. Brief discussion of the Basic Financial Statements
2. Condensed Government – Wide Financial Information
3. Financial Results
4. Fund Balances
5. Budgets
6. Capital Assets and Long Term Debt

As management of the Town of Rye, NH, we offer readers of the Town of Rye, NH financial statements this narrative overview and analysis of the financial activities of the Town of Rye, NH for the fiscal year ended December 31, 2010.

### ***Overview of Financial Statements***

This discussion and analysis are intended to serve as an introduction to the Town of Rye's basic financial statements. The Town of Rye's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the 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 the Town of Rye's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Town of Rye's 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 of the Town of Rye, NH 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).

The governmental activities of the Town of Rye, NH include general government, public safety, roadways, cemetery, library, trust and capital reserve funds, grants, conservation, sanitation, culture and recreation.

**Fund financial statements-** A *fund* is a set of reports that is used to segregate specific activities. For example, Sewer department activity, which is paid from sewer user fees, is reported separately from Cemetery activity, which is paid from perpetual care trust funds. The Town of Rye, NH, like other state and local governments, uses fund accounting to ensure

and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Rye, NH can be divided into two categories: governmental or fiduciary funds.

***Governmental Funds.*** *Governmental funds* are used to report on the general operations of the town. They 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, fund financial statements focus only on current expenditures and revenue (*inflows and outflows of spendable resources this year*), 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 current 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*.

The Town of Rye, NH adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

***Fiduciary Funds.*** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the Rye town government, such as developer's performance bonds, capital reserve and expendable trust funds belonging to other governments, and trust funds for which the income is used for purposes that are not normally funded by the Town. Fiduciary funds are *not* reflected in the government-wide financial statement because these funds are not available to support the Town of Rye's own programs. The accounting used for the fiduciary funds is much like that used for businesses.

**Notes to the 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* consisting of a comparison of budget to actual revenues and expenditures for the general fund.

## ***Government-wide Financial Analysis***

As noted earlier, net assets may, over time serve as a useful indicator of a government's financial position. In the case of the Town of Rye, NH, assets exceeded liabilities by \$36,963,550 at the close of the most recent fiscal year.

By far the largest portion of the Town of Rye's net assets \$30,496,550 reflects its investment in capital assets (e.g., land, buildings, vehicles, etc.). The Town of Rye, NH uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Rye's investment in its 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.

### ***Town of Rye, NH's Net Assets***

	<b>Governmental Activities</b>	
	<b>2009</b>	<b>2010</b>
Current & other assets	<b>12,080,098</b>	<b>11,769,843</b>
Capital assets	<b>34,086,017</b>	<b>35,964,774</b>
Total assets	<b>46,166,115</b>	<b>47,734,617</b>
Long-term liabilities outstanding	<b>5,946,127</b>	<b>5,976,962</b>
Other liabilities	<b>5,340,039</b>	<b>4,794,105</b>
Total liabilities	<b>11,286,166</b>	<b>10,771,067</b>
Net assets:		
Investment in capital assets net of related debt	<b>28,648,239</b>	<b>30,496,550</b>
Restricted assets	<b>2,066,936</b>	<b>1,547,108</b>
Unrestricted assets	<b>4,164,774</b>	<b>4,919,892</b>
Total net assets	<b>34,879,949</b>	<b>36,963,550</b>

At the end of the current fiscal year, the Town of Rye, NH is able to report positive balances in net assets, for the government as a whole. The same situation held true for the prior fiscal year.

**Town of Rye, NH Changes in Fund Balances**  
Governmental Activities

	2009 AMOUNT	2010 AMOUNT	DIFFERENCE
<b>Revenues:</b>			
Program revenues:			
Charges for services	848,311	984,424	136,113
Operating grants	413,405	706,094	292,689
Restricted Investment Income	227,368		(227,368)
Capital Contributions		1,593,407	1,593,407
General revenues:			
Taxes	5,085,791	4,781,241	(304,550)
Licenses and permits	1,182,928	1,239,562	56,634
Unrestricted grants	251,681	228,840	(22,841)
Unrestricted Investment Income	47,593		(47,593)
Miscellaneous	174,484	159,260	(15,224)
Total revenues	8,231,561	9,692,828	1,461,267
<b>Expenses:</b>			
General Government	1,393,503	1,433,726	40,223
Public Safety	2,375,863	2,595,226	219,363
Highways and Streets	1,552,363	1,525,379	(26,984)
Sanitation	508,647	553,623	44,976
Health	103,006	102,839	(167)
Welfare	33,878	56,004	22,126
Culture & Recreation	977,934	967,853	(10,081)
Conservation	182,041	84,776	(97,265)
Interest on long-term debt	217,995	200,336	(17,659)
Capital Outlay	112,731	89,465	(23,266)
Total governmental activities	7,457,961	7,609,227	151,266
Change in net assets	773,600	2,083,601	1,310,001
Beginning net assets	34,106,349	34,879,949	773,600
Ending net assets	34,879,949	36,963,550	2,083,601

**General fund budgetary highlights**

As shown in the above chart, revenues received during 2010 increased by \$1,461,267 from 2009. The actual budgetary revenues were more than the budget for estimated revenues by \$324,479. Motor Vehicle Registrations were \$57,243 over the amount projected. Building Permits were \$37,666 over the amount projected. General income from department services was \$90,040 over projected. Interest income on deposits and investments decreased by \$26,883 over the prior year; however, it was \$3,038 over the 2010 projection.

The overall, total governmental expenditures increased by \$151,266 (.02%) over the prior year. The Town experienced two catastrophic events which impacted total expenditures.

- During the February 23<sup>rd</sup> Wind Storm the Town experienced damages of approximately \$16,037.99.
- Note FEMA Disaster reimbursement of (75%) \$12,028.49 was received by the Town in July 2010.
- During the March 14<sup>th</sup> Flooding the Town experienced damages of approximately \$23,724.94.
- Note FEMA Disaster reimbursement of (75%) \$17,793.71 was received by the Town in October 2010.
- The State's share of these two events totaling \$8,610.62 was received by the Town in October 2010.

The Town realized a savings of \$188,392 in actual expenditures over the 2010 budgeted appropriation.

The total Town's property valuation decreased by \$44,557,010 the total property tax commitment increased by \$62,150 over the prior year. At the 2010 Tax Rate setting the Board of Selectmen chose to use \$865,000 of the Town's beginning general fund balance to bring the tax rate to \$9.99.

## **Capital Asset and Debt Administration**

**Capital Assets** - The Town of Rye's investment in capital assets includes land and improvements, buildings, rolling stock, sewer mains, equipment, and roadways with a value in excess of \$10,000 and a useful life of over 5 years.

Assets are depreciated on a straight-line basis, with the original cost divided evenly by the useful life of the asset.

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

- Acquisitions:
  - 2010 Police cruiser
  - 2011 F450 Pick Up Truck
  - Conservation Land – Goss Farm
- Deletions:
  - 2003 Police Cruiser



## Town of Rye, NH Capital Assets

Governmental Activities  
(at original cost)

	2009	additions	deletions	2010
Land	9,370,566	2,455,900		11,826,466
Land Imp-Recreation Department	509,602			509,602
Construction in Progress	25,000		25,000	
Buildings	6,353,937			6,353,937
Rolling Stock	1,993,795	92,189	43,420	2,042,564
Equipment	84,503	191,349		275,852
Sewer Mains - Infrastructure	4,400,000			4,400,000
Roadways - Infrastructure	29,595,682	68,228		29,663,910
Total	52,333,085	2,807,666	68,420	55,072,331

Additional information on the Town of Rye's net capital assets, depreciation, and debt may be found in the notes to the financial statements.

**Long-term Debt.** At the end of the current fiscal year, the Town of Rye, NH had total bonded debt outstanding of \$5,222,500 which is a 0.01% decrease from the \$5,273,055 owed at the end of 2009. These bonds are a general obligation of the taxpayers of Rye, N.H., of which \$660,000 is repaid from sewer user fees (60% of the sewer bond) and Water Supply & Pollution Control grants.

NH RSA 33:4-A establishes a debt limit. Towns may not incur outstanding indebtedness exceeding 3% (\$53,468,379) of the town valuation (\$1,782,279,290). Rye's debt is less than 1% of the valuation, so it is well within the debt limit. Rye has an allowed debt margin of \$48,245,879.

The Town of Rye issues bonds through the NH Municipal Bond Bank, and uses the bond bank credit rating of Aa2 with Moody's Investment Service.

### Requests for information

This financial report is designed to provide a general overview of the Town of Rye, NH's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Administrator, 10 Central Road, Town of Rye, NH, 03870.

## ***BASIC FINANCIAL STATEMENTS***

**EXHIBIT A**  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Statement of Net Assets*  
*December 31, 2010*

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 6,856,136
Investments	3,655,980
Intergovernmental receivable	87,159
Other receivables, net of allowances for uncollectible	1,145,721
Inventory	7,747
Prepaid items	17,100
Capital assets, not being depreciated:	
Land	11,826,466
Capital assets, net of accumulated depreciation:	
Land improvements	366,660
Buildings and building improvements	5,874,114
Vehicles	1,155,810
Equipment	236,795
Infrastructure	16,504,929
Total assets	<u>47,734,617</u>
<b>LIABILITIES</b>	
Accounts payable	113,051
Intergovernmental payable	4,505,966
Accrued interest payable	100,598
Unearned revenue	74,490
Noncurrent obligations:	
Due within one year:	
Bonds	1,087,500
Unamortized bond premiums	45,784
Accrued landfill postclosure care costs	6,000
Due in more than one year:	
Bonds	4,135,000
Unamortized bond premiums	199,940
Compensated absences	427,500
Accrued landfill postclosure care costs	30,000
Other postemployment benefits payable	45,238
Total liabilities	<u>10,771,067</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	30,496,550
Restricted for perpetual care	1,547,108
Unrestricted	4,919,892
Total net assets	<u>\$ 36,963,550</u>

The notes to the basic financial statements are an integral part of this statement.

**EXHIBIT B**  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Statement of Activities*  
For the Fiscal Year Ended December 31, 2010

		Program Revenues			Net (Expense)
		Charges	Operating	Capital	Revenue and
	Expenses	for	Grants and	Grants and	Change in
		Services	Contributions	Contributions	Net Assets
Governmental activities:					
General government	\$ 1,433,726	\$ 76,418	\$ 312,375	\$ -	\$ (1,044,933)
Public safety	2,595,226	295,111	145,000	-	(2,155,115)
Highways and streets	1,525,379	1,468	122,784	-	(1,401,127)
Sanitation	553,623	393,230	110,572	-	(49,821)
Health	102,839	-	15,363	-	(87,476)
Welfare	56,004	-	-	-	(56,004)
Culture and recreation	967,853	218,197	-	-	(749,656)
Conservation	84,776	-	-	-	(84,776)
Interest on long-term debt	200,336	-	-	-	(200,336)
Capital outlay	89,465	-	-	1,593,407	1,503,942
Total governmental activities	<u>\$ 7,609,227</u>	<u>\$ 984,424</u>	<u>\$ 706,094</u>	<u>\$ 1,593,407</u>	<u>(4,325,302)</u>
General revenues:					
Taxes:					
Property					4,685,118
Other					96,123
Motor vehicle permit fees					1,079,893
Licenses and other fees					159,669
Grants and contributions not restricted to specific programs					228,840
Miscellaneous					159,260
Total general revenues					<u>6,408,903</u>
Change in net assets					2,083,601
Net assets, beginning					34,879,949
Net assets, ending					<u>\$ 36,963,550</u>

The notes to the basic financial statements are an integral part of this statement.

**EXHIBIT C-1**  
**TOWN OF RYE, NEW HAMPSHIRE**  
**Governmental Funds**  
**Balance Sheet**  
**December 31, 2010**

	General	Sewer	Permanent	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 5,485,677	\$ 392,529	\$ 181,435	\$ 796,495	\$ 6,856,136
Investments	60,777	-	2,161,555	1,433,648	3,655,980
Receivables, net of allowances for uncollectible:					
Taxes	956,288	-	-	-	956,288
Accounts	58,441	108,133	-	22,859	189,433
Intergovernmental	87,159	-	-	-	87,159
Interfund receivable	63,558	31,913	-	4,596	100,067
Voluntary tax liens	88,232	-	-	-	88,232
Voluntary tax liens reserved until collected	(88,232)	-	-	-	(88,232)
Inventory	7,747	-	-	-	7,747
Prepaid items	11,110	-	-	5,990	17,100
Total assets	<u>\$ 6,730,757</u>	<u>\$ 532,575</u>	<u>\$ 2,342,990</u>	<u>\$ 2,263,588</u>	<u>\$ 11,869,910</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 108,616	\$ 4,435	\$ -	\$ -	\$ 113,051
Intergovernmental payable	4,505,966	-	-	-	4,505,966
Interfund payable	31,913	-	24,538	43,616	100,067
Deferred revenue	-	63,812	-	10,678	74,490
Total liabilities	<u>4,646,495</u>	<u>68,247</u>	<u>24,538</u>	<u>54,294</u>	<u>4,793,574</u>
Fund balances:					
Reserved for encumbrances	83,877	53,693	-	-	137,570
Reserved for endowments	-	-	1,547,108	-	1,547,108
Reserved for inventory	7,748	-	-	-	7,748
Reserved for special purposes	44,703	-	771,344	1,494,786	2,310,833
Unreserved, designated for contingency	200,000	-	-	-	200,000
Unreserved, undesignated, reported in:					
General fund	1,747,934	-	-	-	1,747,934
Special revenue funds	-	410,635	-	714,508	1,125,143
Total fund balances	<u>2,084,262</u>	<u>464,328</u>	<u>2,318,452</u>	<u>2,209,294</u>	<u>7,076,336</u>
Total liabilities and fund balances	<u>\$ 6,730,757</u>	<u>\$ 532,575</u>	<u>\$ 2,342,990</u>	<u>\$ 2,263,588</u>	<u>\$ 11,869,910</u>

The notes to the basic financial statements are an integral part of this statement.

*EXHIBIT C-2*  
*TOWN OF RYE, NEW HAMPSHIRE*  
*Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets*  
*December 31, 2010*

Total fund balances of governmental funds (Exhibit C-1)		\$ 7,076,336
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.		
Cost	\$ 55,072,331	
Less accumulated depreciation	<u>(19,107,557)</u>	
		35,964,774
Interfund receivables and payables between governmental funds are eliminated on the statement of net assets.		
Receivables	\$ (100,067)	
Payables	<u>100,067</u>	
		-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(100,598)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bonds	\$ 5,222,500	
Unamortized bond premiums	245,724	
Compensated absences payable	427,500	
Accrued landfill postclosure care costs	36,000	
Other postemployment benefits payable	<u>45,238</u>	
		<u>(5,976,962)</u>
Total net assets of governmental activities (Exhibit A)		<u>\$ 36,963,550</u>

The notes to the basic financial statements are an integral part of this statement.

**EXHIBIT C-3**  
**TOWN OF RYE, NEW HAMPSHIRE**  
**Governmental Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**For the Fiscal Year Ended December 31, 2010**

	General	Sewer	Permanent	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 4,781,241	\$ -	\$ -	\$ -	\$ 4,781,241
Licenses and permits	1,239,562	-	-	-	1,239,562
Intergovernmental	554,114	42,726	-	11,165	608,005
Charges for services	321,665	322,449	-	340,334	984,448
Miscellaneous	64,902	1,100	342,521	77,642	486,165
Total revenues	<u>6,961,484</u>	<u>366,275</u>	<u>342,521</u>	<u>429,141</u>	<u>8,099,421</u>
Expenditures:					
Current:					
General government	1,280,364	-	90,016	17,529	1,387,909
Public safety	2,346,298	-	-	109,059	2,455,357
Highways and streets	877,681	-	-	-	877,681
Sanitation	416,353	136,949	-	3,980	557,282
Health	102,839	-	-	-	102,839
Welfare	56,004	-	-	-	56,004
Culture and recreation	242,864	-	-	754,408	997,272
Conservation	84,776	-	-	-	84,776
Debt service:					
Principal	861,055	132,000	-	-	993,055
Interest	226,124	22,275	-	-	248,399
Capital outlay	206,643	-	-	904,553	1,111,196
Total expenditures	<u>6,701,001</u>	<u>291,224</u>	<u>90,016</u>	<u>1,789,529</u>	<u>8,871,770</u>
Excess (deficiency) of revenues over (under) expenditures	<u>260,483</u>	<u>75,051</u>	<u>252,505</u>	<u>(1,360,388)</u>	<u>(772,349)</u>
Other financing sources (uses):					
Transfers in	72,636	-	11,700	698,695	783,031
Transfers out	(686,006)	-	(12,689)	(84,336)	(783,031)
Debt proceeds	-	-	-	942,500	942,500
Premium on debt issued	-	-	-	57,500	57,500
Total other financing sources and uses	<u>(613,370)</u>	<u>-</u>	<u>(989)</u>	<u>1,614,359</u>	<u>1,000,000</u>
Net change in fund balances	<u>(352,887)</u>	<u>75,051</u>	<u>251,516</u>	<u>253,971</u>	<u>227,651</u>
Fund balances, beginning	<u>2,437,149</u>	<u>389,277</u>	<u>2,066,936</u>	<u>1,955,323</u>	<u>6,848,685</u>
Fund balances, ending	<u>\$ 2,084,262</u>	<u>\$ 464,328</u>	<u>\$ 2,318,452</u>	<u>\$ 2,209,294</u>	<u>\$ 7,076,336</u>

The notes to the basic financial statements are an integral part of this statement.

*EXHIBIT C-4*  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Reconciliation of the Statement of Revenues, Expenditures, and*  
*Changes in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended December 31, 2010*

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 227,651
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.		
Capitalized capital outlay	\$ 2,759,786	
Depreciation expense	(881,029)	
		1,878,757
Transfers in and out between governmental funds are eliminated on the operating statement.		
Transfers in	\$ (783,031)	
Transfers out	783,031	
		-
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Proceeds of bond	\$ (942,500)	
Proceeds of bond premium	(57,500)	
Repayment of bond principal	993,055	
Amortization of bond premium	40,034	
		33,089
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense	\$ 8,029	
Increase in compensated absences payable	(24,687)	
Decrease in accrued landfill postclosure care costs	6,000	
Increase in other postemployment benefits payable	(45,238)	
		(55,896)
Changes in net assets of governmental activities (Exhibit B)		<u>\$ 2,083,601</u>

The notes to the basic financial statements are an integral part of this statement.



*EXHIBIT D-1*  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Fiduciary Funds*  
*Statement of Fiduciary Net Assets*  
*December 31, 2010*

	Private Purpose Trust	Agency
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 267,049
Investments	1,808	543,214
Total assets	<u>1,808</u>	<u>810,263</u>
<b>LIABILITIES</b>		
Due to other governmental units	-	543,214
Due to others	-	267,049
Total liabilities	<u>-</u>	<u>810,263</u>
<b>NET ASSETS</b>		
Held in trust for special purposes	<u>\$ 1,808</u>	<u>\$ -</u>

The notes to the basic financial statements are an integral part of this statement.

*EXHIBIT D-2*  
*TOWN OF RYE, NEW HAMPSHIRE*  
*Fiduciary Funds*  
*Statement of Changes in Fiduciary Net Assets*  
*For the Fiscal Year Ended December 31, 2010*

	Private Purpose Trust
<b>ADDITIONS</b>	
Investment earnings:	
Interest and dividends	\$ 4
Net assets, beginning	1,804
Net assets, ending	<u>\$ 1,808</u>

The notes to the basic financial statements are an integral part of this statement.

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

<b>Summary of Significant Accounting Policies .....</b>	<b>1</b>
Reporting Entity.....	1-A
Basis of Presentation.....	1-B
Measurement Focus .....	1-C
Cash and Cash Equivalents.....	1-D
Investments.....	1-E
Receivables.....	1-F
Interfund Balances .....	1-G
Inventory.....	1-H
Prepaid Items .....	1-I
Capital Assets .....	1-J
Allowances for Uncollectible Accounts.....	1-K
Deferred/Unearned Revenue.....	1-L
Compensated Absences .....	1-M
Long-Term Obligations .....	1-N
Claims and Judgments .....	1-O
Equity Classifications .....	1-P
Interfund Activities.....	1-Q
Use of Estimates .....	1-R
<b>Custodial Credit Risk.....</b>	<b>2</b>
<b>Investments .....</b>	<b>3</b>
<b>Taxes Receivable.....</b>	<b>4</b>
<b>Other Receivables.....</b>	<b>5</b>
<b>Prepaid Items.....</b>	<b>6</b>
<b>Capital Assets.....</b>	<b>7</b>
<b>Interfund Balances and Transfers .....</b>	<b>8</b>
<b>Intergovernmental Payables.....</b>	<b>9</b>
<b>Deferred/Unearned Revenue .....</b>	<b>10</b>
<b>Long-Term Liabilities .....</b>	<b>11</b>
<b>State Aid to Water Pollution Projects .....</b>	<b>12</b>
<b>Governmental Activities Net Assets .....</b>	<b>13</b>
<b>Governmental Fund Balances .....</b>	<b>14</b>
<b>Employee Retirement Plan .....</b>	<b>15</b>
<b>Other Postemployment Benefits (OPEB) .....</b>	<b>16</b>
<b>Risk Management.....</b>	<b>17</b>
<b>Contingent Liabilities.....</b>	<b>18</b>
<b>Subsequent Events.....</b>	<b>19</b>
<b>Implementation of New GASB Pronouncement .....</b>	<b>20</b>

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Town of Rye, New Hampshire (the Town), are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

The more significant of the Town's accounting policies are described below.

**1-A Reporting Entity**

The Town of Rye is a municipal corporation governed by an elected 3-member Board of Selectmen. The reporting entity is comprised of the primary government and any other organizations (*component units*) that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the Town is financially accountable. The Town is financially accountable for an organization if the Town appoints a voting majority of the organization's governing board, and (1) the Town is able to significantly influence the programs or services performed or provided by the organizations; or (2) the Town is legally entitled to or can otherwise access the organization's resources; (3) the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Town is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the Town's financial reporting entity.

**1-B Basis of Presentation**

**Government-wide financial statements** – The government-wide financial statements display information about the Town as a whole. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. The effect of interfund activity has been eliminated from these statements.

The statement of net assets presents the financial position of the governmental activities of the Town at year-end. This statement includes all of the Town's assets, liabilities, and net assets. Net assets are reported as one of three categories: invested in capital assets, net of related debt; restricted; or unrestricted.

The statement of activities presents a comparison between direct expenses and program revenues for the different functions of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function, and therefore, are clearly identifiable to a particular function. Program revenues include (1) charges to customers or applicants for goods received, services rendered or privileges provided, and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund financial statements** – The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Financial statements of the Town are organized into funds, each of which is considered to be a separate accounting entity. Each fund has a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized as major funds or nonmajor funds within the governmental and fiduciary statements. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- (a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10% of the corresponding total for all funds of that category or type;
- (b) Total assets, liabilities, revenues or expenditures of the individual governmental fund are at least 5% of the corresponding total for all governmental funds combined; and
- (c) In addition, any other governmental fund that the Town believes is particularly important to the financial statement users may be reported as a major fund.

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

**Governmental activities** – Governmental funds are identified as general, special revenue, and permanent funds, based upon the following guidelines:

**General Fund** – is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** – are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

**Permanent Funds** – are used to account for resources legally held in trust. All resources of the fund, including earnings on invested resources, may be used to support the Town.

**Fiduciary fund types** – These funds account for assets held by the Town as a trustee or agent for individuals, private organizations, and other units of governments. Fiduciary fund types are not part of the reporting entity in the government-wide financial statements, but are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds are as follows:

**Private Purpose Trust Funds** – are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

**Agency Funds** – are used to account for resources held by the Town in a purely custodial capacity, for individuals, private organizations, and/or governmental units.

**Major funds** – The Town reports the following major governmental funds:

**General Fund** – all general revenues and other receipts that are not allocated by law or contracted agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

**Sewer Fund** – accounts for the operation of the sewer treatment plant, pumping station and sewer lines in the Town.

**Permanent Funds** – are held in the custody of the trustees of trust funds and are used to account for resources held in trust for use by the Town.

**Nonmajor funds** – The Town also reports nine nonmajor governmental funds.

***1-C Measurement Focus***

**Government-wide and fiduciary fund financial statements** – The government-wide and fiduciary fund financial statements, except for agency funds which have no measurement focus, are reported using the economic resources measurement focus. Under this concept, revenues and expenses are matched using the accrual basis of accounting. 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.

**Governmental 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 susceptible to accrual, that is, when they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current period. Property taxes, grants and contracts, and interest associated with the current period are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Town. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

**Revenues – exchange transactions** – Revenue resulting from exchange transactions in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On the modified accrual basis revenue is recorded when the exchange takes place in the fiscal year in which the resources are measurable and become available.

**Revenues – nonexchange transactions** – Nonexchange transactions, in which the Town receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all grantor imposed eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Town must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions also must be available (i.e., collected within 60 days) before it can be recognized, with the exception of property taxes which are recognized if expected to be collected in time to be used to pay the liability to the school district which is due over the next six months.

***1-D Cash and Cash Equivalents***

The Town considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash 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 cash equivalents."

New Hampshire statutes require that the Town Treasurer have custody of all money belonging to the Town and pay out the same only upon orders of the Board of Selectmen. The treasurer shall deposit all such moneys in participation units in the public deposit investment pool established pursuant to NH RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

***1-E Investments***

State statutes place certain limitations on the nature of deposits and investments available as follows:

New Hampshire law authorizes the Town to invest in the following type of obligations:

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the state treasurer.

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the Town. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Investments are stated at fair value based on quoted market prices.

***1-F Receivables***

Receivables in the government-wide financial statements represent amounts due to the Town at December 31, recorded as revenue, which will be collected in the future and consist primarily of taxes, accounts, and intergovernmental receivables.

Tax revenue is recorded when a warrant for collection is committed to the tax collector. As prescribed by law, the tax collector executes a lien on properties for all uncollected property taxes in the following year after taxes are due. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed within the two year redemption period, the property is tax deeded to the Town.

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

Accounts receivable include various service charges which are recorded as revenue for the period when serviced was provided. These receivables are reported net of any allowances for uncollectible accounts.

***1-G Interfund Balances***

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds are eliminated in the statement of net assets.

***1-H Inventory***

The inventories of the Town are valued at cost (first-in, first out), which approximates market. The inventories of the Town's general fund consist of gas and diesel held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

***1-I Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

***1-J Capital Assets***

General capital assets are those assets of a capital nature which the Town owns. All capital assets are capitalized at cost (or estimated at historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$10,000 and more than one year of estimated useful life. Improvements to capital assets are capitalized; the costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset's life are expensed.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. All reported capital assets are depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Years</u>
Land improvements	25
Buildings and building improvements	100
Vehicles	10-25
Equipment	5-15
Infrastructure	30-50

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

***1-K Allowances for Uncollectible Accounts***

An allowance for uncollectible accounts has been recorded for the following purposes:

***Taxes*** – an allowance has been established by management where collectability is in doubt.

***Ambulance*** – an allowance has been established by management based on 50% of all outstanding balances over 120 days old.

***Police Details and Parking Fines*** – an allowance has been established by management where collectability is in doubt.

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

***1-L Deferred/Unearned Revenue***

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the “available” criterion for revenue recognition under the modified accrual basis of accounting. On the government-wide statements of net assets, deferred revenue is classified as unearned revenue.

***1-M Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the Town will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Town’s experience of making termination payments.

All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. Governmental funds report the compensated absence liability at the fund reporting level only “when due.”

***1-N Long-Term Obligations***

Long-term debt and other long-term obligations are reported as liabilities in the government-wide statements. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premiums.

In the governmental fund financial statements, bond premiums are recognized during the current period. The face amount of debt issued and any premiums received are reported as other financing sources.

***1-O Claims and Judgments***

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. Claims and judgments are recorded in the government-wide financial statements as expense when the related liabilities are incurred. There were no significant claims or judgments at year-end.

***1-P Equity Classifications***

***Government-wide statements*** – Equity is classified as net assets and displayed in three components:

- a) *Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested capital assets, net of related debt.
- b) *Restricted net assets* – Consists of net assets with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) *Unrestricted net assets* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”



**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

**Fund statements** – Governmental fund equity is classified as fund balance. Fund balance is classified as reserved and unreserved, with unreserved further split between designated and undesignated. Reserved fund balances represent amounts not available for appropriation, or are legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative management plans that are subject to change. Undesignated fund balance amounts represent amounts available for use in future periods.

**1-Q Interfund Activities**

Interfund activities are reported as follows:

**Interfund receivables and payables** – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e., the current portion of interfund loans). Interfund receivables and payables between funds are eliminated in the statement of net assets.

**Interfund transfers** – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In the government-wide financial statements, all interfund transfers between individual governmental funds have been eliminated.

**1-R Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates and the differences could be material.

**NOTE 2 – CUSTODIAL CREDIT RISK**

Custodial credit risk is the risk that in the event of a bank failure, a government’s deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2010, \$3,864,908 of the Town’s bank balances of \$7,467,062 was exposed to custodial credit risk as uninsured and uncollateralized.

Cash and cash equivalents reconciliation:

Cash and equivalents per statement of net assets (Exhibit A)	\$ 6,856,136
Cash and equivalents per statement of fiduciary net assets (Exhibit D-1)	267,049
Total cash and cash equivalents	<u>\$ 7,123,185</u>

**NOTE 3 – INVESTMENTS**

The Town maintains a portfolio of short-term maturity investments, including money market investments and repurchase agreements, which are reported at amortized cost. The Town also maintains a portfolio of intermediate maturity investments that are reported at fair value, based on quoted market prices. The Town’s fiscal agent or custodian provides the fair value of all intermediate maturity investments. As of December 31, 2010, the Town had the following investments:

New Hampshire Public Deposit Investment Pool	\$ 2,089,064
Common stocks	1,870,646
US Government obligations	92,115
Mutual funds	29,692
Other	119,485
	<u>\$ 4,201,002</u>

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that change could materially affect the amounts reported in the statement of net assets.

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

*Interest Rate Risk* – This 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. As of December 31, 2010 the Town's investments had the following maturities:

Type of investment:	Investment Maturities (in Years)	
	Fair Value	Less than 1
New Hampshire Public Deposit Investment Pool	\$ 2,089,064	\$ -
Common stocks	1,870,646	-
US Government obligations	-	92,115
Mutual funds	29,692	-
Other	119,485	-
	<u>\$ 4,108,887</u>	<u>\$ 92,115</u>

*Credit Risk* – As of December 31, 2010, the Town's investments in US government obligations were rated AAA by Standard & Poor's. No ratings were available for the other investments.

*Concentration of Credit Risk* – The Town places no limit on the amount it may invest in any one issuer. No more than 5% of the Town's investments are invested in any one issuer.

*Custodial Credit Risk* – The custodial credit risk is the risk that the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. Of the Town's \$4,201,002 in investments at December 31, 2010, \$2,111,938 of the underlying securities are held by the investment counterparties trust department, not in the name of the Town. The Town does not have custodial credit risk policies for investments.

**Investment reconciliation:**

Investments per statement of net assets (Exhibit A)	\$ 3,655,980
Investments per statement of fiduciary net assets (Exhibit D-1)	545,022
Total investments	<u>\$ 4,201,002</u>

**NOTE 4 – TAXES RECEIVABLE**

The property tax year is from April 1 to March 31 and all property taxes are assessed on the inventory taken in April of that year. The net assessed valuation as of April 1, 2010, upon which the 2010 property tax levy was based is:

For the New Hampshire education tax	\$ 1,774,932,390
For all other taxes	\$ 1,782,279,290

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Taxes were levied on May 12 and October 18, 2010, with payment due on July 1 and December 1, 2010. Interest accrues at a rate of 12% on bills outstanding after the due dates. The first billing is considered an estimate only and is one half of the previous year's tax billing. The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated and approved the Town's tax rate for the fiscal year.

In connection with the setting of the tax rate, Town officials with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for abatements and refunds of property taxes, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any tax allowance at year-end. The property taxes collected by the Town include taxes levied for the State of New Hampshire, Rye School District, Jenness Beach Precinct, Rye Beach Precinct, Rye Water District, and Rockingham County, which are remitted as required by law. The ultimate responsibility for the collection of taxes rests with the Town.

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

The tax rates and amounts assessed for the year ended December 31, 2010 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$2.88	\$ 5,129,446
School portion:		
State of New Hampshire	\$2.33	4,134,468
Local	\$3.74	6,671,874
County portion	\$1.04	1,852,063
Precinct portions:		
Jenness Beach	\$0.20	76,662
Rye Water District	\$0.49	546,576
Rye Beach Village	\$0.49	103,484
Total		<u>\$ 18,514,573</u>

During the current fiscal year, the tax collector executed a lien on April 22 for all uncollected 2009 property taxes.

Taxes receivable at December 31, 2010, are as follows:

Property:	
Levy of 2010	\$ 754,536
Unredeemed (under tax lien):	
Levy of 2009	151,646
Levy of 2008	83,106
Less: allowance for estimated uncollectible taxes	(33,000)
Net taxes receivable	<u>\$ 956,288</u>

**NOTE 5 – OTHER RECEIVABLES**

Receivables at December 31, 2010, consisted of accounts (billings for police details, sewer, ambulance, parking fines, recreation programs, and other user charges) and intergovernmental amounts arising from grants.

Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Receivables as of December 31, 2010 for the Town's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General Fund	Sewer Fund	Nonmajor Funds	Total
Receivables:				
Accounts	\$ 92,025	\$ 108,133	\$ 24,584	\$ 224,742
Intergovernmental	87,159	-	-	87,159
Liens	88,232	-	-	88,232
Gross receivables	267,416	108,133	24,584	400,133
Less: allowances for uncollectible	(121,816)	-	(1,725)	(123,541)
Net total receivables	<u>\$ 145,600</u>	<u>\$ 108,133</u>	<u>\$ 22,859</u>	<u>\$ 276,592</u>

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

**NOTE 6 – PREPAID ITEMS**

Prepaid items at December 31, 2010 consisted of the following:

General fund:	
Dues and subscriptions	\$ 1,890
Annual support fees	8,048
Lease payments	1,087
Miscellaneous fees	85
Total general fund	<u>11,110</u>
Recreation revolving fund:	
McIntyre Ski School	5,925
Dues and subscriptions	65
Total recreation revolving fund	<u>5,990</u>
Total prepaid items	<u>\$ 17,100</u>

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2010 consisted of the following:

	Balance, beginning	Additions	Disposals	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 9,370,566	\$ 2,455,900	\$ -	\$ 11,826,466
Construction in progress	25,000	-	(25,000)	-
Total capital assets not being depreciated	<u>9,395,566</u>	<u>2,455,900</u>	<u>(25,000)</u>	<u>11,826,466</u>
Being depreciated:				
Land improvements	509,602	-	-	509,602
Building and building improvements	6,353,937	-	-	6,353,937
Vehicles	1,993,795	92,189	(43,420)	2,042,564
Equipment	84,503	191,349	-	275,852
Infrastructure	33,995,682	68,228	-	34,063,910
Total capital assets being depreciated	<u>42,937,519</u>	<u>351,766</u>	<u>(43,420)</u>	<u>43,245,865</u>
Total all capital assets	<u>52,333,085</u>	<u>2,807,666</u>	<u>(68,420)</u>	<u>55,072,331</u>
Less accumulated depreciation:				
Land improvements	(122,522)	(20,420)	-	(142,942)
Buildings and building improvements	(416,283)	(63,540)	-	(479,823)
Vehicles	(807,376)	(99,918)	20,540	(886,754)
Equipment	(24,191)	(14,866)	-	(39,057)
Infrastructure	(16,876,696)	(682,285)	-	(17,558,981)
Total accumulated depreciation	<u>(18,247,068)</u>	<u>(881,029)</u>	<u>20,540</u>	<u>(19,107,557)</u>
Net book value, capital assets being depreciated	<u>24,690,451</u>	<u>(529,263)</u>	<u>(22,880)</u>	<u>24,138,308</u>
Net book value, all capital assets	<u>\$ 34,086,017</u>	<u>\$ 1,926,637</u>	<u>\$ (47,880)</u>	<u>\$ 35,964,774</u>

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

Depreciation expense was charged to functions of the Town based on their usage of the related assets. The amounts allocated to each function are as follows:

General government	\$ 7,432
Public safety	101,632
Highways and streets	742,619
Sanitation	2,341
Culture and recreation	27,005
Total depreciation expense	<u>\$ 881,029</u>

**NOTE 8 – INTERFUND BALANCES AND TRANSFERS**

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at December 31, 2010, are as follows:

Receivable Fund	Payable Fund	Amount
General	Permanent	\$ 19,942
	Nonmajor	43,616
Sewer	General	31,913
Nonmajor	Permanent	4,596
		<u>\$ 100,067</u>

Interfund transfers during the year ended December 31, 2010 are as follows:

	Transfers In:			
	General Fund	Permanent Fund	Nonmajor Funds	Total
Transfers out:				
General fund	\$ -	\$ -	\$ 686,006	\$ 686,006
Permanent fund	-	-	12,689	12,689
Nonmajor funds	72,636	11,700	-	84,336
Total	<u>\$ 72,636</u>	<u>\$ 11,700</u>	<u>\$ 698,695</u>	<u>\$ 783,031</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 9 – INTERGOVERNMENTAL PAYABLES**

Amounts due of \$5,049,180 to other governments at December 31, 2010, consist of the following:

General fund:	
Balance of 2010-2011 district assessment due to the Rye School District	\$ 4,446,342
Fees due to the State of New Hampshire - Retirement System	58,229
Miscellaneous fees due to other governmental agencies	1,395
Total intergovernmental payables due from the general fund	<u>4,505,966</u>
Agency fund:	
Balance of trust funds belonging to the Rye School District	339,861
Balance of trust funds belonging to the Rye Beach Precinct	3,979
Balance of trust funds belonging to the Rye Water District	199,374
Total intergovernmental payables due from the agency fund	<u>543,214</u>
Total intergovernmental payables	<u>\$ 5,049,180</u>

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

**NOTE 10 – DEFERRED/UNEARNED REVENUE**

Deferred/unearned revenue of \$74,490 at December 31, 2010 consists of the following:

Sewer fund:	
State reimbursement of bonds payments not made until the subsequent years	\$ 63,812
Nonmajor fund:	
Federal grant revenue collected in advance of eligible expenditure being made	10,678
Total deferred revenue	<u>\$ 74,490</u>

**NOTE 11 – LONG-TERM LIABILITIES**

Changes in the Town's long-term obligations consisted of the following for the year ended December 31, 2010:

	General Obligation Bonds Payable	Unamortized Bond Premiums Payable	Compensated Absences Payable	Accrued Landfill Postclosure Care Costs Payable	Total
Balance, beginning	\$ 5,273,055	\$ 228,258	\$ 402,814	\$ 42,000	\$ 5,946,127
Additions	942,500	57,500	24,686	-	1,024,686
Reductions	(993,055)	(40,034)	-	(6,000)	(1,039,089)
Balance, ending	<u>\$ 5,222,500</u>	<u>\$ 245,724</u>	<u>\$ 427,500</u>	<u>\$ 36,000</u>	<u>\$ 5,931,724</u>

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2010	Current Portion
General obligation bonds payable:						
Sewer construction	\$ 4,400,000	1991	2012	5.6-6.75	\$ 440,000	\$ 220,000
Library addition	\$ 859,139	1999	2014	4.0-4.5	235,000	60,000
Conservation easements	\$ 5,185,600	2004	2015	5.625	2,065,000	520,000
Land acquisition	\$ 946,400	2006	2017	3.770	665,000	95,000
Land acquisition	\$ 973,055	2009	2019	2.990	875,000	100,000
Land acquisition	\$ 942,500	2010	2020	2.788	942,500	92,500
					<u>5,222,500</u>	<u>1,087,500</u>
Unamortized bond premiums					<u>245,724</u>	<u>45,784</u>
					<u>5,468,224</u>	<u>1,133,284</u>
Compensated absences payable:						
Vested sick leave					266,925	-
Accrued vacation leave					160,575	-
					<u>427,500</u>	<u>-</u>
Accrued landfill postclosure care costs					<u>36,000</u>	<u>6,000</u>
Total					<u>\$ 5,931,724</u>	<u>\$ 1,139,284</u>

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

The annual requirements to amortize all general obligation bonds outstanding as of December 31, 2010, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2011	\$ 1,087,500	\$ 232,962	\$ 1,320,462
2012	1,085,000	176,007	1,261,007
2013	865,000	129,580	994,580
2014	860,000	90,652	950,652
2015	285,000	52,095	337,095
2016-2020	1,040,000	109,378	1,149,378
Totals	<u>\$ 5,222,500</u>	<u>\$ 790,674</u>	<u>\$ 6,013,174</u>

The premium is being amortized on a straight-line basis over the life of the bonds.

All debt is general obligation debt of the Town, which is backed by its full faith and credit, and will be repaid from general governmental revenues.

***Accrued Landfill Postclosure Care Costs***

The Breakfast Hill Road/Route 1 Landfill was closed in 1986 and requires postclosure care monitoring. Based on the time of operation for the Grove Road Landfill, and water quality test results to date, the New Hampshire Department of Environmental Services has indicated that the Town is not required to perform closure construction of the Landfill at this time. If groundwater quality at the site were to become further impacted by the landfill, the Town would be required to re-evaluate the closure or implement other measures. No liability is being recognized for closure construction as there is no indication at this time that it will be required. State laws and regulations require that the Town continue to perform monitoring functions at this site.

The estimated liability for landfill postclosure costs for both landfills is \$36,000 as of December 31, 2010, and is based on the amount that would be paid if all equipment, facilities and services required to monitor and maintain the landfills were acquired as of December 31, 2010. However, the actual cost of postclosure care may be higher or lower due to inflation, changes in technology, or changes in the landfill laws and regulations. The Town expects to finance the postclosure care by State grants and general tax revenue, as well as a capital reserve fund established for this purpose.

**NOTE 12 – STATE AID TO WATER POLLUTION PROJECTS**

Under New Hampshire RSA Chapter 486, the Town receives from the State of New Hampshire a percentage of the annual amortization charges on the original costs resulting from the acquisition and construction of sewage disposal facilities. At December 31, 2010, the Town is due to receive the following amount to offset debt payments of the 1991 sewer construction bond:

Fiscal Year Ending December 31,	Amount
2011	<u>\$ 63,812</u>

**NOTE 13 – GOVERNMENTAL ACTIVITIES NET ASSETS**

Governmental activities net assets reported on the government-wide statement of net assets at December 31, 2010 include the following:

Invested in capital assets, net of related debt:	
Capital assets, net of accumulated depreciation	\$ 35,964,774
Less:	
General obligation bonds payable, net	<u>(5,468,224)</u>
Total invested in capital assets, net of related debt	30,496,550
Restricted for perpetual care	1,547,108
Unrestricted	<u>4,919,892</u>
Total net assets	<u>\$ 36,963,550</u>

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

**NOTE 14 – GOVERNMENTAL FUND BALANCES**

Governmental fund balances reported on the fund financial statements at December 31, 2010 include the following:

Reserved:	
Major funds:	
General	\$ 136,328
Sewer	53,693
Permanent	2,318,452
Nonmajor funds:	
Special revenue	1,494,786
Total reserved fund balance	<u>4,003,259</u>
Unreserved, designated:	
Major fund:	
General	<u>200,000</u>
Unreserved, undesignated:	
Major funds:	
General	1,747,934
Sewer	410,635
Nonmajor funds:	
Special revenue	714,508
Total unreserved, undesignated fund balance	<u>2,873,077</u>
Total governmental fund balances	<u><u>\$ 7,076,336</u></u>

**NOTE 15 – EMPLOYEE RETIREMENT PLAN**

The Town participates in the New Hampshire Retirement System (the System) which is the administrator of a cost-sharing 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. Provision for benefits and contributions are established and can be amended by the New Hampshire Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees except police officers and firefighters are required to contribute 5% of earnable compensation. Police officers and firefighters are required to contribute 9.3% of gross earnings. The Town contributed 13.66% for police, 17.28% for fire, and 9.16% for other employees. The contribution requirements for the Town of Rye for the fiscal years 2008, 2009, and 2010 were \$271,584, \$288,301, and \$329,018, respectively, which were paid in full in each year.

For the first six months of 2010, the State of New Hampshire funded 30% of the total employer normal contribution rate for police officers and firefighters employed by the Town. As of July 1, the funding rate decreased to 25% of the total employer normal contribution rate. This amount \$77,441, is reported as an “on-behalf payment” as an expenditure and revenue on the governmental fund operating statement, and as an expense and revenue on the government-wide statements of activities.

**NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

In addition to pension benefits described in Note 15, the Town provides postemployment benefit options for health care and dental insurance to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with the Town’s agreements, collective bargaining agreements, and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility include: years of service, employee age, and whether the employee has vested in the respective retirement plan. The Town funds the benefits on a pay-as-you-go basis. Eligible employees are required to pay set premiums for a portion of the cost with the Town subsidizing the remaining costs. There are 100 participants currently eligible. Expenses for the postretirement health care benefits are recognized as eligible employee claims are paid.



**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45, was implemented by the Town during fiscal year 2010, and requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans. GASB Statement No. 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

The Town has only partially funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate 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 normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty-years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2010:

Annual required contribution/OPEB cost	\$ 45,238
Contributions made (pay-as-you-go)	<u>-</u>
Increase in net OPEB obligation	45,238
Net OPEB obligation, beginning	<u>-</u>
Net OPEB obligation, ending	<u><u>\$ 45,238</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 was as follows:

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
December 31, 2010	\$ 45,238	\$ -	0.00%	\$ 45,238

As of December 31, 2010, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$293,776, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$293,776. The covered payroll (annual payroll of active employees covered by the plan) was \$2,619,407 during fiscal year 2010, and the ratio of the UAAL to the covered payroll was 11.2%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions 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, is designed to present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3.0% investment rate of return per annum. The projected annual healthcare cost trend is 10% initially, reduced by decrements to an ultimate rate of 5% after four years. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2010 was 30 years.

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

**NOTE 17 – RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2010, the Town was a member of the Local Government Center Property-Liability Trust, LLC, and the New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs, which are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from January 1, 2010 to December 31, 2010 by Primex<sup>3</sup>, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Town of Rye billed and paid for the year ended December 31, 2010 was \$64,110 for workers' compensation and \$67,163 for property/liability. The workers' compensation section of the self-insurance membership agreement permits Primex<sup>3</sup> to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex<sup>3</sup> foresees no likelihood of any additional assessment for this or any prior year.

**NOTE 18 – CONTINGENT LIABILITIES**

There are various legal claims and suits pending against the Town which arose in the normal course of the Town's activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the Town.

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement from the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the Town believes such disallowances, if any, will be immaterial.

**NOTE 19 – SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through August 29, 2011, the date the December 31, 2010 financial statements were issued, and no events occurred requiring recognition or disclosure.

**NOTE 20 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENT**

In March 2009 the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of Statement No. 54 are not mandatory for the Town until fiscal year ended December 31, 2011.

***REQUIRED SUPPLEMENTARY INFORMATION***

**EXHIBIT E-1**  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Schedule of Revenues, Expenditures, and Changes in Fund Balance*  
*Budget and Actual (Non-GAAP Budgetary Basis)*  
**General Fund**  
*For the Fiscal Year Ended December 31, 2010*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes	\$ 4,707,068	\$ 4,781,241	\$ 74,173
Licenses and permits	1,146,075	1,239,562	93,487
Intergovernmental	392,624	476,673	84,049
Charges for services	231,625	321,665	90,040
Miscellaneous	94,611	64,902	(29,709)
Total revenues	<u>6,572,003</u>	<u>6,884,043</u>	<u>312,040</u>
Expenditures:			
Current:			
General government	1,384,098	1,280,364	103,734
Public safety	2,304,408	2,272,273	32,135
Highways and streets	966,098	899,032	67,066
Sanitation	410,205	416,353	(6,148)
Health	109,812	102,839	6,973
Welfare	43,000	56,004	(13,004)
Culture and recreation	270,500	257,339	13,161
Conservation	58,650	69,776	(11,126)
Debt service:			
Principal	861,055	861,055	-
Interest	231,125	226,124	5,001
Capital outlay	172,243	181,643	(9,400)
Total expenditures	<u>6,811,194</u>	<u>6,622,802</u>	<u>188,392</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(239,191)</u>	<u>261,241</u>	<u>500,432</u>
Other financing sources (uses):			
Transfers in	60,197	72,636	12,439
Transfers out	(686,006)	(686,006)	-
Total other financing sources and uses	<u>(625,809)</u>	<u>(613,370)</u>	<u>12,439</u>
Net change in fund balances	<u>\$ (865,000)</u>	<u>(352,129)</u>	<u>\$ 512,871</u>
Increase in fund balance reserved for inventory		(373)	
Decrease in fund balance reserved for special purposes		24,702	
Unreserved fund balance, beginning		2,275,734	
Unreserved fund balance, ending		<u>\$ 1,947,934</u>	

The notes to the required supplementary information are an integral part of this schedule.

*EXHIBIT E-2*  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Schedule of Revenues, Expenditures, and Changes in Fund Balance*  
*Budget and Actual (Non-GAAP Budgetary Basis)*  
**Sewer Fund**  
*For the Fiscal Year Ended December 31, 2010*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Intergovernmental	\$ -	\$ 42,726	\$ 42,726
Charges for services	352,755	322,449	(30,306)
Miscellaneous	-	1,100	1,100
Total revenues	<u>352,755</u>	<u>366,275</u>	<u>13,520</u>
Expenditures:			
Current:			
Sanitation	198,480	171,142	27,338
Debt service:			
Principal	132,000	132,000	-
Interest	22,275	22,275	-
Total expenditures	<u>352,755</u>	<u>325,417</u>	<u>27,338</u>
Net change in fund balances	<u>\$ -</u>	<u>40,858</u>	<u>\$ 40,858</u>
Unreserved fund balance, beginning		369,777	
Unreserved fund balance, ending		<u>\$ 410,635</u>	

The notes to the required supplementary information are an integral part of this schedule.

***EXHIBIT F***  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Schedule of Funding Progress for Other Postemployment Benefit Plan*  
*Required Supplementary Information (Unaudited)*  
*For the Fiscal Year Ended December 31, 2010*

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio %	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2010	\$0	\$293,776	\$293,776	0.00	\$2,619,407	11.2%

The notes to the required supplementary information are an integral part of this schedule.

*TOWN OF RYE, NEW HAMPSHIRE*  
*NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION*  
*FOR THE FISCAL YEAR ENDED*  
*DECEMBER 31, 2010*

General Budget Policies .....	1
Budgetary Reconciliation .....	2
Schedule of Funding Progress for Other Postemployment Benefit Plan .....	3

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2010**

**1. General Budget Policies**

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town's operations. At its annual meeting, the Town adopts a budget for the current year for the general, sewer, and several nonmajor funds. Except as reconciled below, the budget was adopted on a basis consistent with U.S. generally accepted accounting principles.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures, and are therefore, reported as part of the fund balance at year-end, and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets, but provide for the use of beginning unreserved fund balance to achieve that end. In the fiscal year 2010, \$865,000 of the beginning general fund fund balance was applied for this purpose.

**2. Budgetary Reconciliation**

The following reconciles the general fund budgetary basis to the GAAP basis.

	General Fund	Sewer Fund
Revenues and other financing sources:		
Per Exhibits E-1 and E-2 (budgetary basis)	\$ 6,956,679	\$ 366,275
Adjustment:		
Basis difference:		
On-behalf retirement contributions made by the State of New Hampshire recognized as revenue on the GAAP basis, but not on the budgetary basis	77,441	-
Per Exhibit C-3 (GAAP basis)	<u>\$ 7,034,120</u>	<u>\$ 366,275</u>
Expenditures and other financing uses:		
Per Exhibits E-1 and E-2 (budgetary basis)	\$ 7,308,808	\$ 325,417
Adjustment:		
Basis differences:		
Encumbrances, beginning	84,635	19,500
Encumbrances, ending	(83,877)	(53,693)
On-behalf retirement contributions made by the State of New Hampshire recognized as an expenditure on the GAAP basis, but not on the budgetary basis	77,441	-
Per Exhibit C-3 (GAAP basis)	<u>\$ 7,387,007</u>	<u>\$ 291,224</u>

**3. Schedule of Funding Progress for Other Postemployment Benefit Plan**

As required by GASB Statement No. 45, Schedule F represents the actuarial determined costs associated with the Town's other postemployment benefits for fiscal year 2010.



***COMBINING AND INDIVIDUAL FUND SCHEDULES***

***SCHEDULE 1***  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Major General Fund*  
*Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)*  
*For the Fiscal Year Ended December 31, 2010*

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 4,612,663	\$ 4,685,118	\$ 72,455
Timber	1,090	1,631	541
Payment in lieu of taxes	6,315	10,944	4,629
Interest and penalties on taxes	87,000	83,548	(3,452)
Total from taxes	<u>4,707,068</u>	<u>4,781,241</u>	<u>74,173</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	1,000	1,035	35
Motor vehicle permit fees	1,022,650	1,079,893	57,243
Building permits	110,000	147,666	37,666
Other	12,425	10,968	(1,457)
Total from licenses, permits, and fees	<u>1,146,075</u>	<u>1,239,562</u>	<u>93,487</u>
Intergovernmental:			
State:			
Meals and rooms distribution	228,643	228,643	-
Highway block grant	122,784	122,784	-
Other	197	45,290	45,093
Federal:			
FEMA	2,852	38,433	35,581
Other	38,148	41,523	3,375
Total from intergovernmental	<u>392,624</u>	<u>476,673</u>	<u>84,049</u>
Charges for services:			
Income from departments	<u>231,625</u>	<u>321,665</u>	<u>90,040</u>
Miscellaneous:			
Sale of municipal property	1,111	5,295	4,184
Interest on investments	10,500	13,538	3,038
Fines and forfeits	3,483	4,386	903
Insurance dividends and reimbursements	30,000	36,796	6,796
Other	49,517	4,887	(44,630)
Total from miscellaneous	<u>94,611</u>	<u>64,902</u>	<u>(29,709)</u>
Other financing sources:			
Transfers in	<u>60,197</u>	<u>72,636</u>	<u>12,439</u>
Total revenues and other financing sources	<u>6,632,200</u>	<u>\$ 6,956,679</u>	<u>\$ 324,479</u>
Unreserved fund balance used to reduce tax rate	865,000		
Total revenues, other financing sources and use of fund balance	<u>\$ 7,497,200</u>		

**SCHEDULE 2**  
**TOWN OF RYE, NEW HAMPSHIRE**  
**Major General Fund**  
*Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)*  
**For the Fiscal Year Ended December 31, 2010**

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 194,379	\$ 192,151	\$ -	\$ 2,228
Election and registration	-	25,425	18,157	-	7,268
Financial administration	-	338,163	326,271	-	11,892
Revaluation of property	-	167,079	164,176	-	2,903
Legal	-	127,000	39,768	-	87,232
Planning and zoning	-	118,219	120,780	-	(2,561)
General government buildings	-	102,900	112,613	-	(9,713)
Insurance, not otherwise allocated	-	192,273	187,271	-	5,002
Advertising and regional associations	-	54,150	54,150	-	-
Other	-	64,510	65,027	-	(517)
Total general government	-	1,384,098	1,280,364	-	103,734
Public safety:					
Police	-	1,035,538	1,020,338	-	15,200
Ambulance	-	108,525	94,190	-	14,335
Fire	1,212	1,024,114	1,022,871	4,628	(2,173)
Building inspection	-	128,731	127,849	-	882
Emergency management	-	7,500	3,609	-	3,891
Total public safety	1,212	2,304,408	2,268,857	4,628	32,135
Highways and streets:					
Public works garage	-	548,865	549,853	-	(988)
Highways and streets	-	411,533	322,880	21,351	67,302
Street lighting	-	5,700	4,948	-	752
Total highways and streets	-	966,098	877,681	21,351	67,066
Sanitation:					
Solid waste collection	-	232,211	246,642	-	(14,431)
Solid waste disposal	-	177,994	169,711	-	8,283
Total sanitation	-	410,205	416,353	-	(6,148)
Health:					
Administration	-	5,160	5,059	-	101
Pest control	-	104,652	97,780	-	6,872
Total health	-	109,812	102,839	-	6,973
Welfare:					
Direct assistance	-	43,000	56,004	-	(13,004)
Culture and recreation:					
Parks and recreation	-	263,000	236,325	14,475	12,200
Patriotic purposes	-	6,800	5,993	-	807
Other	-	700	546	-	154
Total culture and recreation	-	270,500	242,864	14,475	13,161
Conservation	50,000	58,650	84,776	35,000	(11,126)

(Continued)

*SCHEDULE 2 (Continued)*  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Major General Fund*

*Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)*  
*For the Fiscal Year Ended December 31, 2010*

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Debt service:					
Principal of long-term debt	-	861,055	861,055	-	-
Interest on long-term debt	-	226,125	226,124	-	1
Interest on tax anticipation notes	-	5,000	-	-	5,000
Total debt service	-	1,092,180	1,087,179	-	5,001
Capital outlay:					
Town hall	-	17,938	22,626	-	(4,688)
Police department	-	39,787	34,639	-	5,148
Ambulance	-	18,000	18,000	-	-
Town computers	-	6,000	7,346	-	(1,346)
Recreation playground	25,000	-	33,849	-	(8,849)
Infrastructure	8,423	20,900	20,737	8,423	163
Fire department	-	2,000	1,900	-	100
Highway department	-	67,618	67,546	-	72
Total capital outlay	33,423	172,243	206,643	8,423	(9,400)
Other financing uses:					
Transfers out	-	686,006	686,006	-	-
Total appropriations, expenditures, other financing uses and encumbrances	\$ 84,635	\$ 7,497,200	\$ 7,309,566	\$ 83,877	\$ 188,392

*SCHEDULE 3*  
*TOWN OF RYE, NEW HAMPSHIRE*  
*Major General Fund*  
*Schedule of Changes in Unreserved - Undesignated Fund Balance (Non-GAAP Budgetary Basis)*  
*For the Fiscal Year Ended December 31, 2010*

Unreserved, undesignated fund balance, beginning		\$ 2,075,734
Changes:		
Unreserved fund balance used to reduce 2010 tax rate		(865,000)
2010 Budget summary:		
Revenue surplus (Schedule 1)	\$ 324,479	
Unexpended balance of appropriations (Schedule 2)	<u>188,392</u>	
2010 Budget surplus		512,871
Increase in fund balance reserved for inventory		(373)
Decrease in fund balance reserved for special purposes		<u>24,702</u>
Unreserved, undesignated fund balance, ending		<u><u>\$ 1,747,934</u></u>

**SCHEDULE 4**  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Nonmajor Governmental Funds*  
**Combining Balance Sheet**  
**December 31, 2010**

	Special Revenue Funds									
	Library Operating	Recreation Revolving	Conservation Commission	Police Outside Detail	Grants	Beach Parking Permits	Beach Cleaning	Ambulance	Expendable Trust	Total
ASSETS										
Cash and cash equivalents	\$ 132,091	\$ 186,283	\$ 204,241	\$ 70,691	\$ 10,678	\$ 44,692	\$ 25,592	\$ 99,231	\$ 22,996	\$ 796,495
Investments	65,837	-	696,933	-	-	-	-	-	670,878	1,433,648
Accounts receivable, net of allowance	-	17,972	-	4,887	-	-	-	-	-	22,859
Interfund receivable	4,596	-	-	-	-	-	-	-	-	4,596
Prepaid items	-	5,990	-	-	-	-	-	-	-	5,990
Total assets	\$ 202,524	\$ 210,245	\$ 901,174	\$ 75,578	\$ 10,678	\$ 44,692	\$ 25,592	\$ 99,231	\$ 693,874	\$ 2,263,588
LIABILITIES AND FUND BALANCES										
Liabilities:										
Interfund payable	\$ 12,546	\$ -	\$ 31,070	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,616
Deferred revenue	-	-	-	-	10,678	-	-	-	-	10,678
Total liabilities	12,546	-	31,070	-	10,678	-	-	-	-	54,294
Fund balances:										
Reserved for special purposes	95,622	-	705,290	-	-	-	-	-	693,874	1,494,786
Unreserved, undesignated	94,356	210,245	164,814	75,578	-	44,692	25,592	99,231	-	714,508
Total fund balances	189,978	210,245	870,104	75,578	-	44,692	25,592	99,231	693,874	2,209,294
Total liabilities and fund balances	\$ 202,524	\$ 210,245	\$ 901,174	\$ 75,578	\$ 10,678	\$ 44,692	\$ 25,592	\$ 99,231	\$ 693,874	\$ 2,263,588

**SCHEDULE 5**  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Nonmajor Governmental Funds*  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the Fiscal Year Ended December 31, 2010**

	Special Revenue Funds									Total
	Library Operating	Recreation Revolving	Conservation Commission	Police Outside Detail	Grants	Beach Parking Permits	Beach Cleaning	Ambulance	Expandable Trust	
Revenues:										
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ 11,165	\$ -	\$ -	\$ -	\$ -	\$ 11,165
Charges for services	-	209,155	-	87,159	-	33,710	10,310	-	-	340,334
Miscellaneous	13,686	-	6,840	-	9,761	-	-	39,750	7,605	77,642
Total revenues	13,686	209,155	6,840	87,159	20,926	33,710	10,310	39,750	7,605	429,141
Expenditures:										
Current:										
General government	-	-	-	-	5,074	-	10,822	-	1,633	17,529
Public safety	-	-	-	69,965	15,852	23,242	-	-	-	109,059
Sanitation	-	-	-	-	-	-	-	-	3,980	3,980
Culture and recreation	579,738	158,807	-	-	-	-	-	-	15,863	754,408
Capital outlay	-	42,060	862,493	-	-	-	-	-	-	904,553
Total expenditures	579,738	200,867	862,493	69,965	20,926	23,242	10,822	-	21,476	1,789,529
Excess (deficiency) of revenues over (under) expenditures	(566,052)	8,288	(855,653)	17,194	-	10,468	(512)	39,750	(13,871)	(1,360,388)
Other financing sources (uses):										
Transfers in	601,195	-	-	-	-	-	-	-	97,500	698,695
Transfers out	-	-	-	(34,639)	-	-	-	-	(49,697)	(84,336)
Debt proceeds	-	-	942,500	-	-	-	-	-	-	942,500
Premium on debt issued	-	-	57,500	-	-	-	-	-	-	57,500
Total other financing sources and uses	601,195	-	1,000,000	(34,639)	-	-	-	-	47,803	1,614,359
Net change in fund balances	35,143	8,288	144,347	(17,445)	-	10,468	(512)	39,750	33,932	253,971
Fund balances, beginning	154,835	201,957	725,757	93,023	-	34,224	26,104	59,481	659,942	1,955,323
Fund balances, ending	\$ 189,978	\$ 210,245	\$ 870,104	\$ 75,578	\$ -	\$ 44,692	\$ 25,592	\$ 99,231	\$ 693,874	\$ 2,209,294