

**TOWN OF RYE,  
NEW HAMPSHIRE**

**ANNUAL FINANCIAL REPORT**

**AS OF AND FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2011**

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## PLODZIK & SANDERSON

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### *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, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of 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, 2011 and the respective changes in financial position for the year then ended and the respective budgetary comparison for the general fund, 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 (pages 2 through 7) and the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 38) 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 basic financial statements. The combining and individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial schedules 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 basic financial statements as a whole.

*Plodzik & Sanderson  
Professional Association*

June 25, 2012

*Town of Rye, NH*  
***Management Discussion and Analysis***  
*2011*

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, 2011.

### ***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 as well as several nonmajor funds. 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 Schedule of Funding Progress for Other Postemployment Benefit Plan.

## ***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 \$37,778,813 at the close of the most recent fiscal year.

By far the largest portion of the Town of Rye's net assets \$30,975,363 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>2010</b>	<b>2011</b>
Current & other assets	<b>11,769,843</b>	<b>12,857,847</b>
Capital assets	<b>35,964,774</b>	<b>35,377,257</b>
Total assets	<b>47,734,617</b>	<b>48,235,104</b>
Long-term liabilities outstanding	<b>5,976,962</b>	<b>4,916,859</b>
Other liabilities	<b>4,794,105</b>	<b>5,539,432</b>
Total liabilities	<b>10,771,067</b>	<b>10,456,291</b>
Net assets:		
Investment in capital assets net of related debt	<b>30,496,550</b>	<b>30,975,363</b>
Restricted assets	<b>1,547,108</b>	<b>2,700,960</b>
Unrestricted assets	<b>4,919,892</b>	<b>4,102,490</b>
Total net assets	<b>36,963,550</b>	<b>37,778,813</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

	<b>2010 AMOUNT</b>	<b>2011 AMOUNT</b>	<b>DIFFERENCE</b>
<b>Revenues:</b>			
Program revenues:			
Charges for services	984,424	967,362	(17,062)
Operating grants	706,094	277,592	(428,502)
Restricted Investment Income			
Capital Contributions	1,593,407	245,912	(1,347,495)
General revenues:			
Taxes	4,781,241	5,597,287	816,046
Licenses and permits	1,239,562	1,257,623	18,061
Unrestricted grants	228,840	236,656	7,816
Unrestricted Investment Income		73,144	73,144
Miscellaneous	159,260	259,640	100,380
Total revenues	9,692,828	8,915,216	(777,612)
<b>Expenses:</b>			
General Government	1,433,726	1,376,465	(57,261)
Public Safety	2,595,226	2,643,938	48,712
Highways and Streets	1,525,379	1,737,836	212,457
Sanitation	553,623	582,534	28,911
Health	102,839	93,743	(9,096)
Welfare	56,004	55,158	(846)
Culture & Recreation	967,853	1,011,668	43,815
Conservation	84,776	90,030	5,254
Interest on long-term debt	200,336	164,212	(36,124)
Capital Outlay	89,465	344,369	254,904
Total governmental activities	7,609,227	8,099,953	490,726
Change in net assets	2,083,601	815,263	(1,268,338)
Beginning net assets	34,879,949	36,963,550	2,083,601
Ending net assets	36,963,550	37,778,813	815,263

### **General fund budgetary highlights**

As shown in the above chart, revenues received during 2011 decreased by \$777,612 from 2010. The actual budgetary revenues were more than the budget for estimated revenues by \$363,634. Motor Vehicle Registrations were \$94,744 over the amount projected. Building Permits were \$34,738 over the amount projected. General income from department services was \$125,025 over projected. Interest income on deposits and investments decreased by \$6,785 over the prior year; however it was \$753 over the 2011 projection.

The overall, total governmental expenditures increased by \$490,726 (.06%) over the prior year. The Town experienced no catastrophic events and a mild winter during 2011.

The Town realized a savings of \$187,563 in actual expenditures over the 2011 budgeted appropriation.

The total Town's property valuation decreased by \$18,964,355 the total property tax commitment increased by \$833,171 over the prior year. At the 2011 Tax Rate setting the Board of Selectmen chose to use \$673,549 of the Town's beginning general fund balance to bring the tax rate to \$10.60.

## 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:
  - 2 - 2011 Police Cruisers
- Deletions:
  - 1988 International Garbage-Packer
  - 1999 K-3500 1 Ton Pick Truck
  - 2000 John Deere Backhoe

### Town of Rye, NH Capital Assets

Governmental Activities  
(at original cost)

	2010	additions	deletions	2011
Land	11,826,466			11,826,466
Land Imp-Recreation Department	509,602			509,602
Construction in Progress				
Buildings	6,353,937	80,920		6,434,857
Rolling Stock	2,042,564	59,903	133,000	1,969,467
Equipment	275,852	129,830		405,682
Sewer Mains - Infrastructure	4,400,000			4,400,000
Roadways - Infrastructure	29,663,910	124,745		29,788,655
Total	55,072,331	395,398	133,000	55,334,729



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 \$4,135,000 which is a .021% decrease from the \$5,222,500 owed at the end of 2010. These bonds are a general obligation of the taxpayers of Rye, N.H., of which \$132,000 will be paid 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% (\$52,899,448) of the town valuation (\$1,763,314,935). 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 \$48,697,492.

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, 2011*

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 7,624,223
Investments	3,828,589
Intergovernmental receivable	244,369
Other receivables, net of allowances for uncollectible	1,133,634
Inventory	11,342
Prepaid items	15,690
Capital assets, not being depreciated:	
Land	11,826,466
Capital assets, net of accumulated depreciation:	
Land improvements	346,240
Buildings and building improvements	5,891,030
Vehicles	1,030,374
Equipment	339,396
Infrastructure	15,943,751
Total assets	<u>48,235,104</u>
<b>LIABILITIES</b>	
Accounts payable	232,426
Intergovernmental payable	5,156,091
Accrued interest payable	76,129
Unearned revenue	74,786
Noncurrent obligations:	
Due within one year:	
Bonds	1,085,000
Unamortized bond premiums	45,784
Capital lease	21,312
Accrued landfill postclosure care costs	8,000
Due in more than one year:	
Bonds	3,050,000
Unamortized bond premiums	154,156
Capital lease	45,642
Compensated absences	427,753
Other postemployment benefits payable	47,212
Accrued landfill postclosure care costs	32,000
Total liabilities	<u>10,456,291</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	30,975,363
Restricted	2,700,960
Unrestricted	4,102,490
Total net assets	<u>\$ 37,778,813</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, 2011*

		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Net Expense and Change in Net Assets
	Expenses			
Governmental activities:				
General government	\$ 1,376,465	\$ 17,329	\$ 385	\$ (1,358,751)
Public safety	2,643,938	255,806	46,144	(2,341,988)
Highways and streets	1,737,836	735	133,183	(1,603,918)
Sanitation	582,534	418,441	65,829	(98,264)
Health	93,743	-	-	(93,743)
Welfare	55,158	-	-	(55,158)
Culture and recreation	1,011,668	275,051	-	(736,617)
Conservation	90,030	-	32,051	(57,979)
Interest on long-term debt	164,212	-	-	(164,212)
Capital outlay	344,369	-	245,912	(98,457)
Total governmental activities	<u>\$ 8,099,953</u>	<u>\$ 967,362</u>	<u>\$ 523,504</u>	<u>(6,609,087)</u>
General revenues:				
Taxes:				
Property				5,480,860
Other				116,427
Motor vehicle permit fees				1,085,544
Licenses and other fees				172,079
Grants and contributions not restricted to specific programs				236,656
Investment earnings				73,144
Miscellaneous				259,640
Total general revenues				<u>7,424,350</u>
Change in net assets				815,263
Net assets, beginning				36,963,550
Net assets, ending				<u>\$ 37,778,813</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, 2011**

	General	Permanent	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 6,003,870	\$ 224,628	\$ 1,241,131	\$ 7,469,629
Investments	60,821	2,222,049	666,418	2,949,288
Receivables, net of allowances for uncollectible:				
Taxes	981,793	-	-	981,793
Accounts	52,196	-	99,645	151,841
Intergovernmental	25,525	-	218,844	244,369
Interfund receivable	218,012	-	-	218,012
Voluntary tax liens	105,691	-	-	105,691
Voluntary tax liens reserved until collected	(105,691)	-	-	(105,691)
Inventory	11,342	-	-	11,342
Prepaid items	8,019	-	7,671	15,690
Restricted - Cash and cash equivalents	154,594	-	-	154,594
Restricted - Investments	830,023	-	49,278	879,301
Total assets	<u>\$ 8,346,195</u>	<u>\$ 2,446,677</u>	<u>\$ 2,282,987</u>	<u>\$ 13,075,859</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 224,958	\$ -	\$ 7,468	\$ 232,426
Intergovernmental payable	5,156,091	-	-	5,156,091
Interfund payable	-	26,386	191,626	218,012
Deferred revenue	-	-	74,786	74,786
Total liabilities	<u>5,381,049</u>	<u>26,386</u>	<u>273,880</u>	<u>5,681,315</u>
Fund balances:				
Nonspendable	19,361	1,183,281	7,671	1,210,313
Restricted	253,637	1,237,010	-	1,490,647
Committed	780,122	-	2,001,436	2,781,558
Assigned	155,939	-	-	155,939
Unassigned	1,756,087	-	-	1,756,087
Total fund balances	<u>2,965,146</u>	<u>2,420,291</u>	<u>2,009,107</u>	<u>7,394,544</u>
Total liabilities and fund balances	<u>\$ 8,346,195</u>	<u>\$ 2,446,677</u>	<u>\$ 2,282,987</u>	<u>\$ 13,075,859</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, 2011*

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Total fund balances of governmental funds (Exhibit C-1)		\$ 7,394,544
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	\$ 55,334,729	
Less accumulated depreciation	<u>(19,957,472)</u>	
		35,377,257
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Assets.		
Receivables	\$ (218,012)	
Payables	<u>218,012</u>	
		-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(76,129)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bonds	\$ 4,135,000	
Unamortized bond premiums	199,940	
Capital lease	66,954	
Compensated absences	427,753	
Other postemployment benefits payable	47,212	
Accrued landfill postclosure care costs	<u>40,000</u>	
		(4,916,859)
Total net assets of governmental activities (Exhibit A)		<u><u>\$ 37,778,813</u></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, 2011**

	General	Permanent	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 5,597,286	\$ -	\$ -	\$ 5,597,286
Licenses and permits	1,257,623	-	-	1,257,623
Intergovernmental	464,089	-	293,900	757,989
Charges for services	315,025	-	661,900	976,925
Miscellaneous	66,120	209,466	49,807	325,393
Total revenues	<u>7,700,143</u>	<u>209,466</u>	<u>1,005,607</u>	<u>8,915,216</u>
Expenditures:				
Current:				
General government	1,281,613	89,843	384	1,371,840
Public safety	2,447,353	-	84,610	2,531,963
Highways and streets	1,030,963	-	-	1,030,963
Sanitation	433,090	-	154,080	587,170
Health	93,743	-	-	93,743
Welfare	55,158	-	-	55,158
Culture and recreation	878,292	-	168,019	1,046,311
Conservation	90,020	-	10	90,030
Debt service:				
Principal	979,375	-	132,000	1,111,375
Interest	219,597	-	13,365	232,962
Capital outlay	288,907	-	245,912	534,819
Total expenditures	<u>7,798,111</u>	<u>89,843</u>	<u>798,380</u>	<u>8,686,334</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(97,968)</u>	<u>119,623</u>	<u>207,227</u>	<u>228,882</u>
Other financing sources (uses):				
Transfers in	55,891	975	-	56,866
Transfers out	(975)	(18,759)	(37,132)	(56,866)
Inception of capital lease	89,326	-	-	89,326
Total other financing sources and uses	<u>144,242</u>	<u>(17,784)</u>	<u>(37,132)</u>	<u>89,326</u>
Net change in fund balances	46,274	101,839	170,095	318,208
Fund balances, beginning, as restated (see Note 18)	2,918,872	2,318,452	1,839,012	7,076,336
Fund balances, ending	<u>\$ 2,965,146</u>	<u>\$ 2,420,291</u>	<u>\$ 2,009,107</u>	<u>\$ 7,394,544</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, 2011*

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 318,208
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 depreciation expense exceeded capitalized capital outlay in the current period.		
Capitalized capital outlay	\$ 337,038	
Depreciation expense	<u>(924,555)</u>	
		(587,517)
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$ (56,866)	
Transfers out	<u>56,866</u>	
		-
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.		
Capital lease inception	\$ (89,326)	
Repayment of capital lease	22,372	
Repayment of bond principal	1,087,500	
Amortization of bond premiums	<u>45,784</u>	
		1,066,330
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	\$ 24,469	
Increase in compensated absences payable	(253)	
Increase in postemployment benefits payable	(1,974)	
Increase in accrued landfill postclosure care costs	<u>(4,000)</u>	
		18,242
Changes in net assets of governmental activities (Exhibit B)		<u><u>\$ 815,263</u></u>

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



**EXHIBIT D**  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Statement of Revenues, Expenditures, and Change in Fund Balance*  
*Budget and Actual (Non-GAAP Budgetary Basis)*  
**General Fund**  
**For the Fiscal Year Ended December 31, 2011**

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes	\$ 5,443,590	\$ 5,597,286	\$ 153,696
Licenses and permits	1,141,500	1,257,623	116,123
Intergovernmental	473,446	427,457	(45,989)
Charges for services	190,000	315,025	125,025
Miscellaneous	32,780	45,465	12,685
Total revenues	<u>7,281,316</u>	<u>7,642,856</u>	<u>361,540</u>
Expenditures:			
Current:			
General government	1,388,909	1,277,443	111,466
Public safety	2,413,377	2,406,093	7,284
Highways and streets	960,100	922,776	37,324
Sanitation	448,866	432,081	16,785
Health	108,055	93,743	14,312
Welfare	45,000	55,158	(10,158)
Culture and recreation	284,758	246,910	37,848
Conservation	47,000	55,020	(8,020)
Debt service:			
Principal	955,500	955,500	-
Interest	249,598	243,472	6,126
Capital outlay	356,639	382,043	(25,404)
Total expenditures	<u>7,257,802</u>	<u>7,070,239</u>	<u>187,563</u>
Excess of revenues over expenditures	<u>23,514</u>	<u>572,617</u>	<u>549,103</u>
Other financing sources (uses):			
Transfers in	51,443	53,537	2,094
Transfers out	(748,506)	(748,506)	-
Total other financing sources and uses	<u>(697,063)</u>	<u>(694,969)</u>	<u>2,094</u>
Net change in fund balance	<u>\$ (673,549)</u>	(122,352)	<u>\$ 551,197</u>
Increase in nonspendable fund balance		(11,613)	
Increase in restricted fund balance		(7,882)	
Decrease in committed fund balance		150,000	
Unassigned fund balance, beginning		1,747,934	
Unassigned fund balance, ending		<u>\$ 1,756,087</u>	

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

*EXHIBIT E-1*  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Fiduciary Funds*  
*Statement of Fiduciary Net Assets*  
*December 31, 2011*

	Private Purpose Trust	Agency
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 155,459
Investments	1,809	669,495
Total assets	1,809	824,954
<b>LIABILITIES</b>		
Due to other governmental units	-	669,495
Due to others	-	155,459
Total liabilities	-	824,954
<b>NET ASSETS</b>		
Held in trust for special purposes	\$ 1,809	\$ -

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

***EXHIBIT E-2***  
**TOWN OF RYE, NEW HAMPSHIRE**  
***Fiduciary Funds***  
**Statement of Changes in Fiduciary Net Assets**  
**For the Fiscal Year Ended December 31, 2011**

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	Private Purpose Trust
<b>ADDITIONS</b>	
Investment earnings:	
Interest and dividends	\$ 1
Net assets, beginning	<u>1,808</u>
Net assets, ending	<u><u>\$ 1,809</u></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, 2011**

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**TOWN OF RYE, NEW HAMPSHIRE**  
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**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**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 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 statements, with an emphasis placed on the 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**  
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**Governmental Activities** – Governmental funds are identified as general, special revenue, capital projects, 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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purpose other than capital projects.

**Capital Projects Funds** – are used to account for and report financial that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

**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.

**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 (except property taxes mentioned below) 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.

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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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.

**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 property taxes, certain fees, 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 before it can be recognized (Interpretation No. 1, as modified, 60-day rule), with the exception of property taxes which are committed and recognized as revenue in order to offset the liability due the school district to be paid in monthly installments over the next six months. This practice is consistent with the previous years.

***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 New Hampshire 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 Restricted Assets***

Certain cash and investments are classified as restricted assets on the balance sheet because their use is legally restricted for specified purposes through laws and/or enabling legislation.

***1-F 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.



**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
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***1-G Receivables***

Receivables in the government-wide and governmental fund 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.

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

***1-H 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-I 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 expended when consumed rather than when purchased.

***1-J 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-K 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.

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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***1-L Allowances for Uncollectible Accounts***

Allowances for uncollectible accounts have been recorded for the following purposes:

***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 for by management where collectability is in doubt.

***1-M 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-N Compensated Absences***

The Town’s policy allows certain employees to earn varying amounts of vacation and sick pay based on the employee’s length of employment. Upon retirement or termination of employment, employees are paid in full for any accrued leave earned as set forth by personnel policy.

All compensated absence liabilities include salary-related payments, where applicable. The total compensated absence liability is reported on the government-wide fund financial statements. Governmental funds report the compensated absence liability at the fund reporting level only “when due.”

***1-O 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-P 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-Q Equity/Fund Balance 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 and capital leases that are attributable to the acquisition, construction, or improvement of those assets.
- 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**  
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**Governmental Fund Balances Classification** – The Town of Rye has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for this fiscal year ending December 31, 2011. GASB Statement No. 54 establishes fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

**Nonspendable** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) are legally or contractually required to be maintained intact. The Town has classified inventories, prepaid items, and the principal portion of permanent funds as being nonspendable, as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year. These items were previously reported as reserved for endowments and unreserved-undesignated.

**Restricted** – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. The Town has classified its library and the income portion of permanent funds as being restricted, because their use is restricted by Federal/State statutes for expenditures. The Town has also classified certain donations received from third parties as being restricted at year end. These items were previously reported as reserved for special purposes or unreserved-undesignated.

**Committed** – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the legislative body (Town Meeting). These amounts cannot be used for any other purpose unless the legislative body (Town Meeting) removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. The expendable trust, sewer, recreation revolving, conservation commission, police outside detail, beach parking permits, beach cleaning, and ambulance funds are included in this classification. These items were previously reported as reserved for special purposes or unreserved-undesignated for special purposes.

**Assigned** – This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Selectmen through the budgetary process. The Town has assigned funds consisting of encumbrances and reserve for contingency in the general fund at year-end. These amounts were previously reported as reserved for encumbrances and reserved for special purposes or designated for contingency.

**Unassigned** – This classification includes the residual fund balance for the general fund. This amount was previously reported as unreserved-undesignated.

The details of the fund balances are included in Note 17 to the basic financial statements. As discussed in Note 1-C, restricted funds are used first as appropriate, followed by committed resources, and then assigned resources, as appropriate opportunities arise. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

***1-R 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.” 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.

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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***1-S 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 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY***

***2-A Budgetary Information***

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 fund, as well as several nonmajor funds. Except as reconciled below, the budget was adopted on a basis consistent with US 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 assigned 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 unassigned fund balance to achieve that end. In the fiscal year 2011, \$673,549 of the beginning general fund unassigned fund balance was applied for this purpose.

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**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2011**

**2-B Budgetary Reconciliation to GAAP Basis**

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

Revenues and other financing sources:	
Per Exhibit D (budgetary basis)	\$ 7,696,393
Adjustments:	
Basis differences:	
Inception of capital lease	89,326
GASB Statement No. 54:	
To record interest income earned on eliminated expendable trust funds	468
To record income earned in the library fund during the year	20,187
To eliminate transfers between general and expendable trust funds	(16,405)
To recognize transfer between the library and permanent funds	18,759
On-behalf retirement contributions made by the State of New Hampshire recognized as revenue on the GAAP basis, but not on the budgetary basis	36,632
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 7,845,360</u></u>
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 7,818,745
Adjustments:	
Basis differences:	
Encumbrances, beginning	83,877
Encumbrances, ending	(105,939)
Inception of capital lease	89,326
GASB Statement No. 54:	
To record expenditures incurred in the library fund during the year	616,377
To record expenditures incurred in the expendable trust funds during the year	7,599
To eliminate transfer between the general and library funds	(588,506)
To recognize transfer between the expendable trust and permanent funds	975
To eliminate transfer between the general and expendable trust funds	(160,000)
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	36,632
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 7,799,086</u></u>

**DETAILED NOTES ON ALL FUNDS**

**NOTE 3 – 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, 2011, \$2,343,414 of the Town's bank balances of \$8,327,930 was exposed to custodial credit risk as uninsured and uncollateralized.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Assets (Exhibit A)	\$ 7,624,223
Cash per Statement of Fiduciary Net Assets (Exhibit E-1)	155,459
Total cash and cash equivalents	<u><u>\$ 7,779,682</u></u>

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**NOTE 4 – INVESTMENTS**

The Town maintains a portfolio of short-term maturity investments, including money market investments, 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, 2011, the Town had the following investments:

New Hampshire Public Deposit Investment Pool	\$ 2,327,498
Common stocks	2,010,744
Mutual funds	30,483
Other	131,168
	<u>\$ 4,499,893</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.

**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.

**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 cover 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 \$4,399,875 in investments at December 31, 2011, \$2,172,395 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 for deposits.

Investment reconciliation:

Investment per Statement of Net Assets (Exhibit A)	\$ 3,828,589
Investment per Statement of Fiduciary Net Assets (Exhibit E-1)	671,304
Total investments	<u>\$ 4,499,893</u>

**NOTE 5 – RESTRICTED ASSETS**

Certain Town cash and investments in the general fund for fund belonging to the Rye Public Library and the expendable trust funds in accordance with the requirements of GASB Statement No. 54, as follows:

Cash and cash equivalents:	
Public library	\$ 138,611
Expendable trusts	15,983
Total cash and cash equivalents	<u>154,594</u>
Investments:	
Public library	65,885
Expendable trusts	813,416
Total investments	<u>879,301</u>
Total restricted assets	<u>\$ 1,033,895</u>

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**NOTE 6 – 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, 2011, upon which the 2011 property tax levy was based is:

For the New Hampshire education tax	\$ 1,755,968,035
For all other taxes	\$ 1,763,314,935

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Taxes were levied on May 19 and October 27, with payments due on July 1 and December 1. 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.

The tax rates and amounts assessed for the year ended December 31, 2011 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$3.24	\$ 5,714,471
School portion:		
State of New Hampshire	\$2.42	4,256,276
Local	\$3.90	6,874,815
County portion	\$1.04	1,827,797
Precinct portions:		
Jenness Beach	\$0.21	78,576
Rye Water District	\$0.50	553,041
Rye Beach Village	\$0.21	44,268
Total		<u>\$ 19,349,244</u>

During the current fiscal year, the tax collector executed a lien on April 19 for all uncollected 2010 property taxes.

Taxes receivable at December 31, 2011, are as follows:

Property:	
Levy of 2011	\$ 811,837
Unredeemed (under tax lien):	
Levy of 2010	124,032
Levy of 2009	45,924
Net taxes receivable	<u>\$ 981,793</u>

**NOTE 7 – OTHER RECEIVABLES**

Receivables at December 31, 2011, 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.

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Receivables as of December 31, 2011 for the Town's major fund and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor Funds	Total
Receivables:			
Accounts	\$ 89,011	\$ 101,370	\$ 190,381
Intergovernmental	25,525	218,844	244,369
Liens	105,691	-	105,691
Gross receivables	<u>220,227</u>	<u>320,214</u>	<u>540,441</u>
Less: allowances for uncollectible	<u>(142,506)</u>	<u>(1,725)</u>	<u>(144,231)</u>
Net total receivables	<u>\$ 77,721</u>	<u>\$ 318,489</u>	<u>\$ 396,210</u>

**NOTE 8 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011 consisted of the following:

	Balance, beginning	Additions	Disposals	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 11,826,466	\$ -	\$ -	\$ 11,826,466
Being depreciated:				
Land improvements	509,602	-	-	509,602
Buildings and building improvements	6,353,937	80,920	-	6,434,857
Vehicles	2,042,564	59,903	(133,000)	1,969,467
Equipment	275,852	129,830	-	405,682
Infrastructure	34,063,910	124,745	-	34,188,655
Total capital assets being depreciated	<u>43,245,865</u>	<u>395,398</u>	<u>(133,000)</u>	<u>43,508,263</u>
Total all capital assets	<u>55,072,331</u>	<u>395,398</u>	<u>(133,000)</u>	<u>55,334,729</u>
Less accumulated depreciation:				
Land improvements	(142,942)	(20,420)	-	(163,362)
Buildings and building improvements	(479,823)	(64,004)	-	(543,827)
Vehicles	(886,754)	(126,979)	74,640	(939,093)
Equipment	(39,057)	(27,229)	-	(66,286)
Infrastructure	(17,558,981)	(685,923)	-	(18,244,904)
Total accumulated depreciation	<u>(19,107,557)</u>	<u>(924,555)</u>	<u>74,640</u>	<u>(19,957,472)</u>
Net book value, capital assets being depreciated	<u>24,138,308</u>	<u>(529,157)</u>	<u>(58,360)</u>	<u>23,550,791</u>
Net book value, all capital assets	<u>\$ 35,964,774</u>	<u>\$ (529,157)</u>	<u>\$ (58,360)</u>	<u>\$ 35,377,257</u>

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	\$ 9,051
Public safety	105,695
Highways and streets	775,360
Sanitation	1,604
Culture and recreation	32,845
Total depreciation expense	<u>\$ 924,555</u>



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**NOTE 9 – INTERFUND BALANCES AND TRANSFERS**

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at December 31, 2011, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Permanent	\$ 26,386
	Nonmajor	191,626
		<u>\$ 218,012</u>

Interfund transfers during the year ended December 31, 2011 are as follows:

	<u>Transfers In:</u>		
	<u>General</u>	<u>Permanent</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
Transfers out:			
General fund	\$ -	\$ 975	\$ 975
Permanent fund	18,759	-	18,759
Nonmajor funds	37,132	-	37,132
Total	<u>\$ 55,891</u>	<u>\$ 975</u>	<u>\$ 56,866</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 10 – INTERGOVERNMENTAL PAYABLES**

Amounts due of \$5,725,568 in the other governmental funds at December 31, 2011, consist of the following:

General fund:	
Balance of 2011-2012 district assessment due to the Rye School District	<u>\$ 5,156,091</u>
Agency fund:	
Balance of trust funds belonging to the Rye School District	440,125
Balance of trust funds belonging to the Rye Beach Precinct	3,982
Balance of trust funds belonging to the Rye Water District	<u>225,388</u>
Total intergovernmental payables due from the agency fund	<u>669,495</u>
Total intergovernmental payables due	<u>\$ 5,825,586</u>

**NOTE 11 – DEFERRED/UNEARNED REVENUE**

Deferred/unearned revenue of \$74,786 in the other governmental funds at December 31, 2011 consists of the following:

Sewer fund:	
State reimbursement of bond payments not made until the subsequent years	\$ 61,795
Grants fund:	
Federal grant revenue collected in advance of eligible expenditure being made	<u>12,991</u>
Total deferred/unearned revenue	<u>\$ 74,786</u>

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**NOTE 12 – LONG-TERM LIABILITIES**

Changes in the Town's long-term obligations consisted of the following for the year ended December 31, 2011:

	General Obligation Bonds Payable	Unamortized Bond Premiums Payable	Capital Lease Payable	Compensated Absences Payable	Accrued Landfill Postclosure Care Costs Payable	Total
Balance, beginning	\$ 5,222,500	\$ 245,724	\$ -	\$ 427,500	\$ 36,000	\$ 5,931,724
Additions	-	-	89,326	253	4,000	93,579
Reductions	(1,087,500)	(45,784)	(22,372)	-	-	(1,155,656)
Balance, ending	<u>\$ 4,135,000</u>	<u>\$ 199,940</u>	<u>\$ 66,954</u>	<u>\$ 427,753</u>	<u>\$ 40,000</u>	<u>\$ 4,869,647</u>

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2011	Current Portion
General obligation bonds payable:						
Sewer construction	\$ 4,400,000	1991	2012	5.6-6.75	\$ 220,000	\$ 220,000
Library addition	\$ 859,139	1999	2014	4.0-4.45	175,000	60,000
Conservation easements	\$ 5,185,600	2004	2015	5.625	1,545,000	515,000
Land acquisition	\$ 946,400	2006	2017	3.770	570,000	95,000
Land acquisition	\$ 973,055	2009	2019	2.990	775,000	100,000
Land acquisition	\$ 942,500	2010	2020	2.788	850,000	95,000
					<u>4,135,000</u>	<u>1,085,000</u>
Unamortized bond premiums					<u>199,940</u>	<u>45,784</u>
					<u>4,334,940</u>	<u>1,130,784</u>
Capital lease payable:						
Backhoe loader	\$ 89,326	2011	2014	4.55	<u>66,954</u>	<u>21,312</u>
Compensated absences payable:						
Vested sick leave					271,232	-
Accrued vacation leave					<u>156,521</u>	<u>-</u>
					<u>427,753</u>	<u>-</u>
Accrued landfill postclosure care costs					<u>40,000</u>	<u>8,000</u>
Total					<u>\$ 4,869,647</u>	<u>\$ 1,160,096</u>

The annual requirements to amortize all general obligation bonds outstanding as of December 31, 2011, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
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	285,000	41,389	326,389
2017-2020	755,000	67,989	822,989
Totals	<u>\$ 4,135,000</u>	<u>\$ 557,712</u>	<u>\$ 4,692,712</u>

The premiums are 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.

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***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 \$40,000 as of December 31, 2011, 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, 2011. 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.

***Bond Authorized and Unissued***

The bond authorized and unissued as of December 31, 2011 is as follows:

Per Town Meeting Vote of	Purpose	Unissued Amount
March 8, 2011	Backhoe loader purchase	\$ 110,000

***NOTE 13 – CAPITAL LEASE***

The Town has entered into a capital lease agreement under which the related equipment will become the property of the Town when all the terms of the lease agreement are met.

	Standard Interest Rate	Present Value of Remaining Payments as of December 31, 2011
Backhoe loader	4.55%	\$ 66,954

Leased equipment under the capital lease, included in capital assets, is as follows:

Backhoe loader	\$ 113,230
Less: accumulated depreciation	(4,718)
Total leased equipment	\$ 108,512

Amortization of leased equipment under capital assets is included with depreciation expense.

The annual requirements to amortize the capital lease payable as of December 31, 2011, including interest payments, are as follows:

Fiscal Year Ending December 31,	
2012	\$ 23,875
2013	23,875
2014	23,875
Total requirements	71,625
Less: interest	(4,671)
Present value of remaining payments	\$ 66,954

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**NOTE 14 – ENCUMBRANCES**

Encumbrances outstanding of \$105,939 at December 31, 2011, are as follows:

Description	
Financial administration	\$ 1,890
Highways and streets	2,490
Capital outlay	101,559
Total encumbrances	<u>\$ 105,939</u>

**NOTE 15 – 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, 2011, 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
2012	<u>\$ 61,795</u>

**NOTE 16 – GOVERNMENTAL ACTIVITIES NET ASSETS**

Governmental activities net assets reported on the government-wide Statement of Net Assets at December 31, 2011 include the following:

Invested in capital assets, net of related debt:	
Capital assets, net of accumulated depreciation	\$ 35,377,257
Less:	
General obligation bonds payable	(4,135,000)
Unamortized bond premiums payable	(199,940)
Capital lease payable	(66,954)
Total invested in capital assets, net of related debt	<u>30,975,363</u>
Restricted for:	
Perpetual care	2,420,291
Library purposes	201,052
Asset forfeiture	10,728
Recreation youth activities	41,857
Inventory	11,342
Prepaid items	15,690
Total restricted for special purposes	<u>2,700,960</u>
Unrestricted	<u>4,102,490</u>
Total net assets	<u>\$ 37,778,813</u>

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**NOTE 17 – GOVERNMENTAL FUND BALANCES**

Governmental fund balances reported on the fund financial statements at December 31, 2011 include the following:

Nonspendable:		
Major funds:		
General:		
Inventory	\$ 11,342	
Prepaid items	8,019	
Permanent:		
Principal portion	1,183,281	
	<u>1,202,642</u>	
Nonmajor funds:		
Special revenue:		
Sewer:		
Prepaid items	591	
Recreation revolving:		
Prepaid items	7,080	
	<u>7,671</u>	
Total nonspendable fund balance		\$ 1,210,313
Restricted:		
Major funds:		
General:		
Library purposes	\$ 201,052	
Asset forfeiture	10,728	
Recreation youth activities	41,857	
Permanent:		
Income portion	1,237,010	
Total restricted fund balance		1,490,647
Committed:		
Major fund:		
General:		
Expendable trust funds	\$ 780,122	
Nonmajor funds:		
Special revenue:		
Sewer	592,923	
Recreation revolving	269,795	
Conservation commission	878,382	
Police outside detail	50,004	
Beach parking permits	49,794	
Beach cleaning	23,292	
Ambulance	137,246	
	<u>2,001,436</u>	
Total committed fund balance		2,781,558

(Continued)

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*Governmental fund balances continued:*

Assigned:		
Major fund:		
General:		
Financial administration	\$ 1,890	
Highways and streets	2,490	
Capital outlay	101,559	
Contingency	50,000	
Total assigned fund balance		155,939
Unassigned:		
Major fund:		
General		1,756,087
Total governmental fund balances		<u>\$ 7,394,544</u>

**NOTE 18 – PRIOR PERIOD ADJUSTMENTS**

Fund equity at January 1, 2011 was restated to record funds previously recorded as special revenue funds that under GASB Statement No. 54 are now considered part of other funds, as follows:

	General Fund	Expendable Trust Fund	Library Operating Fund	Sewer Fund
Adjustments:				
Expendable trust funds	\$ 644,632	\$ (693,874)	\$ -	\$ 49,242
Library operating	189,978	-	(189,978)	-
Fund balance, as previously reported	2,084,262	693,874	189,978	464,328
Fund balance, as restated	<u>\$ 2,918,872</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 513,570</u>

**NOTE 19 – 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. Through June 30, 2011, all employees except police officers and firefighters were required to contribute 5% of earnable compensation. Police officers and firefighters were required to contribute 9.3% of gross earnings. Effective July 1, 2011, the contribution rates changed to 7% for employees other than police officers and firefighters, 11.55% for police officers, and 11.80% for firefighters. The Town's contribution rates for 2011 were as follows:

	Police	Firefighters	Other Employees
January 1 through June 30	14.63%	18.52%	9.16%
July 1 through July 31	16.62%	20.08%	11.09%
August 1 through December 31	19.95%	22.89%	8.80%

The contribution requirements for the Town of Rye for the fiscal years 2009, 2010, and 2011 were \$288,301, \$329,018, and \$382,188, respectively, which were paid in full in each year.

For the first six months of 2011, the State of New Hampshire funded 25% of the total employer normal contribution rate for police officers and firefighters employed by the Town. As of July 1, the funding rate increased to 35% of the total employer normal contribution rate. House Bill 2 (Chapter 0224, *Laws of 2011*) amended RSA 100-A:16 by eliminating the State's cost sharing, thereby requiring employers to fund 100% of the total employer contributions, effective August 1, 2011. HB 2 further authorized the State to

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pay \$3.5 million in the State's FY 2012 towards political subdivision employer contributions for their Group I Teacher and Group II Police and Fire members. The amount funded for the Town of Rye for police and fire from this authorization at December 31, 2011 is \$6,047. The total amount contributed by the State for 2011, \$36,632, 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 Statement of Activities.

**NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

In addition to pension benefits described in the preceding Note, 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 94 participants currently eligible. Expenses for the postretirement health care benefits are recognized as eligible employee claims are paid.

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 2011:

Annual required contribution/OPEB cost	\$ 1,974
Contributions made (pay-as-you-go)	<u>-</u>
Increase in net OPEB obligation	1,974
Net OPEB obligation, beginning	<u>45,238</u>
Net OPEB obligation, ending	<u><u>\$ 47,212</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 2011 was as follows:

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
December 31, 2011	\$ 47,212	\$ -	0.00%	\$ 47,212

As of December 31, 2011, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$371,812, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$371,812. The covered payroll (annual payroll of active employees covered by the plan) was \$2,679,091 during fiscal year 2011, and the ratio of the UAAL to the covered payroll was 13.9%.

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 for Other Postemployment Benefits Plan, 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.

**TOWN OF RYE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2011**

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, 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 1.0% 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, 2011 was 30 years.

**NOTE 21 – 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 2011, the Town was a member of 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, 2011 to December 31, 2011 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, 2011 was \$61,692 for workers' compensation and \$70,956 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 22 – 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 23 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

In March 2009 the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of Statement No. 54 are mandatory for the Town for fiscal year ended December 31, 2011 and accordingly have been implemented. GASB Nos. 60 through No. 64 were issued during 2010 and 2011, are not effective for financial statements until the subsequent years.

**NOTE 24 – 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 June 25, 2012, the date the December 31, 2011 financial statements were issued, and no events occurred that require recognition or disclosure.



***REQUIRED SUPPLEMENTARY INFORMATION***

*EXHIBIT F*  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Schedule of Funding Progress for Other Postemployment Benefit Plan*  
*For the Fiscal Year Ended December 31, 2011*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
December 31, 2011	\$ -	\$ 371,812	\$ 371,812	0.00%	\$ 2,679,091	13.9%

The note to the required supplementary information is an integral part of this schedule.

***TOWN OF RYE, NEW HAMPSHIRE***  
***NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION***  
***FOR THE FISCAL YEAR ENDED***  
***DECEMBER 31, 2011***

***Schedule of Funding Progress for Other Postemployment Benefits (OPEB)***

As required by GASB Statement No. 45, Exhibit F represents the actuarial determined costs associated with the Town's other postemployment benefits for the fiscal year ended December 31, 2011.

***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, 2011*

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 5,326,146	\$ 5,480,860	\$ 154,714
Timber	500	480	(20)
Payment in lieu of taxes	10,944	9,208	(1,736)
Interest and penalties on taxes	106,000	106,738	738
Total from taxes	<u>5,443,590</u>	<u>5,597,286</u>	<u>153,696</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	700	825	125
Motor vehicle permit fees	990,800	1,085,544	94,744
Building permits	100,000	134,738	34,738
Other	50,000	36,516	(13,484)
Total from licenses, permits, and fees	<u>1,141,500</u>	<u>1,257,623</u>	<u>116,123</u>
Intergovernmental:			
State:			
Meals and rooms distribution	236,656	236,656	-
Highway block grant	136,851	133,183	(3,668)
Water pollution grants	67,846	25,525	(42,321)
Other	42	42	-
Federal:			
Other	32,051	32,051	-
Total from intergovernmental	<u>473,446</u>	<u>427,457</u>	<u>(45,989)</u>
Charges for services:			
Income from departments	<u>190,000</u>	<u>315,025</u>	<u>125,025</u>
Miscellaneous:			
Sale of municipal property	1,000	5,537	4,537
Interest on investments	6,000	6,753	753
Fines and forfeits	-	2,193	2,193
Insurance dividends and reimbursements	-	18,621	18,621
Other	25,780	12,361	(13,419)
Total from miscellaneous	<u>32,780</u>	<u>45,465</u>	<u>12,685</u>
Other financing sources:			
Transfers in	<u>51,443</u>	<u>53,537</u>	<u>2,094</u>
Total revenues and other financing sources	<u>7,332,759</u>	<u>\$ 7,696,393</u>	<u>\$ 363,634</u>
Unassigned fund balance used to reduce tax rate	<u>673,549</u>		
Total revenues, other financing sources, and use of fund balance	<u>\$ 8,006,308</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, 2011**

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 209,537	\$ 205,443	\$ -	\$ 4,094
Election and registration	-	21,200	16,491	-	4,709
Financial administration	-	356,125	354,438	1,890	(203)
Revaluation of property	-	163,192	125,829	-	37,363
Legal	-	92,000	45,365	-	46,635
Planning and zoning	-	120,813	123,349	-	(2,536)
General government buildings	-	114,298	112,863	-	1,435
Insurance, not otherwise allocated	-	197,384	184,765	-	12,619
Advertising and regional associations	-	54,485	51,485	-	3,000
Other	-	59,875	55,525	-	4,350
Total general government	-	1,388,909	1,275,553	1,890	111,466
Public safety:					
Police	-	1,098,235	1,084,837	-	13,398
Ambulance	-	109,009	100,077	-	8,932
Fire	4,628	1,068,928	1,082,046	-	(8,490)
Building inspection	-	130,205	141,061	-	(10,856)
Emergency management	-	7,000	2,700	-	4,300
Total public safety	4,628	2,413,377	2,410,721	-	7,284
Highways and streets:					
Highways and streets	21,351	956,300	935,345	2,490	39,816
Street lighting	-	3,800	6,292	-	(2,492)
Total highways and streets	21,351	960,100	941,637	2,490	37,324
Sanitation:					
Solid waste collection	-	256,866	247,369	-	9,497
Solid waste disposal	-	192,000	184,712	-	7,288
Total sanitation	-	448,866	432,081	-	16,785
Health:					
Administration	-	5,110	5,110	-	-
Pest control	-	102,945	88,633	-	14,312
Total health	-	108,055	93,743	-	14,312
Welfare:					
Direct assistance	-	45,000	55,158	-	(10,158)
Culture and recreation:					
Parks and recreation	14,475	277,257	255,566	-	36,166
Patriotic purposes	-	6,800	5,734	-	1,066
Other	-	701	85	-	616
Total culture and recreation	14,475	284,758	261,385	-	37,848
Conservation	35,000	47,000	90,020	-	(8,020)
Debt service:					
Principal of long-term debt	-	955,500	955,500	-	-
Interest on long-term debt	-	219,598	219,597	-	1
Interest on tax anticipation notes	-	5,000	-	-	5,000
Capital lease	-	25,000	23,875	-	1,125
Total debt service	-	1,205,098	1,198,972	-	6,126

(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, 2011*

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Capital outlay:					
Town hall	-	50,000	6,895	48,000	(4,895)
Police department	-	2	21,978	-	(21,976)
Town computers	-	14,400	14,359	-	41
Fire department	-	10,000	9,000	-	1,000
Infrastructure	8,423	141,000	124,745	8,423	16,255
Energy grant	-	20,000	20,000	-	-
Highway	-	13,000	20,736	-	(7,736)
Recreation	-	15,000	199	11,449	3,352
Police cruiser	-	39,787	37,132	-	2,655
Town Hall study	-	40,000	33,862	6,137	1
Heritage fund	-	-	1	-	(1)
Safety building	-	13,450	-	23,570	(10,120)
Storm drainage mapping	-	-	-	3,980	(3,980)
Total capital outlay	<u>8,423</u>	<u>356,639</u>	<u>288,907</u>	<u>101,559</u>	<u>(25,404)</u>
Other financing uses:					
Transfers out	<u>-</u>	<u>748,506</u>	<u>748,506</u>	<u>-</u>	<u>-</u>
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 83,877</u>	<u>\$ 8,006,308</u>	<u>\$ 7,796,683</u>	<u>\$ 105,939</u>	<u>\$ 187,563</u>

**SCHEDULE 3**  
**TOWN OF RYE, NEW HAMPSHIRE**  
**Major General Fund**  
*Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)*  
*For the Fiscal Year Ended December 31, 2011*

Unassigned fund balance, beginning		\$ 1,747,934
Changes:		
Unassigned fund balance used to reduce 2011 tax rate		(673,549)
2011 Budget summary:		
Revenue surplus (Schedule 1)	\$ 363,634	
Unexpended balance of appropriations (Schedule 2)	<u>187,563</u>	
2011 Budget surplus		551,197
Increase in nonspendable fund balance		(11,613)
Increase in restricted fund balance		(7,882)
Decrease in committed fund balance		<u>150,000</u>
Unassigned fund balance, ending		<u><u>\$ 1,756,087</u></u>



**SCHEDULE 4**  
**TOWN OF RYE, NEW HAMPSHIRE**  
*Nonmajor Governmental Funds*  
**Combining Balance Sheet**  
**December 31, 2011**

	Special Revenue Funds							Capital Project Fund	
	Sewer	Recreation Revolving	Conservation Commission	Police		Beach Parking Permits	Beach Cleaning	Ambulance	Energy Grant
				Outside Detail	Grants				
<b>ASSETS</b>									
Cash and cash equivalents	\$ 512,858	\$ 248,227	\$ 211,964	\$ 44,759	\$ 12,991	\$ 49,794	\$ 23,292	\$ 137,246	\$ -
Investments	-	-	666,418	-	-	-	-	-	-
Receivables, net of allowance for uncollectible:									
Accounts	72,747	21,653	-	5,245	-	-	-	-	-
Intergovernmental	38,287	-	-	-	-	-	-	-	180,557
Prepaid items	591	7,080	-	-	-	-	-	-	-
Restricted - Investments	49,278	-	-	-	-	-	-	-	-
Total assets	\$ 673,761	\$ 276,960	\$ 878,382	\$ 50,004	\$ 12,991	\$ 49,794	\$ 23,292	\$ 137,246	\$ 180,557
									\$ 2,282,987
<b>LIABILITIES AND FUND BALANCES</b>									
Liabilities:									
Accounts payable	\$ 7,383	\$ 85	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interfund payable	11,069	-	-	-	-	-	-	-	180,557
Deferred revenue	61,795	-	-	-	12,991	-	-	-	-
Total liabilities	80,247	85	-	-	12,991	-	-	-	180,557
									\$ 273,880
Fund balances:									
Nonspendable	591	7,080	-	-	-	-	-	-	-
Committed	592,923	269,795	878,382	50,004	-	49,794	23,292	137,246	-
Total fund balances	593,514	276,875	878,382	50,004	-	49,794	23,292	137,246	-
Total liabilities and fund balances	\$ 673,761	\$ 276,960	\$ 878,382	\$ 50,004	\$ 12,991	\$ 49,794	\$ 23,292	\$ 137,246	\$ 180,557
									\$ 2,282,987

**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, 2011**

	Special Revenue Funds								Capital Project Fund
	Sewer	Recreation Revolving	Conservation Commission	Police		Beach		Ambulance	Energy Grant
				Outside Detail	Grants	Parking Permits	Beach Cleaning		
Revenues:									
Intergovernmental	\$ 40,304	\$ -	\$ -	\$ -	\$ 7,684	\$ -	\$ -	\$ -	\$ 245,912
Charges for services	338,211	221,216	-	59,135	-	32,622	10,716	-	-
Miscellaneous	874	417	8,288	-	2,213	-	-	38,015	-
Total revenues	379,389	221,633	8,288	59,135	9,897	32,622	10,716	38,015	245,912
Expenditures:									
Current:									
General government	-	-	-	-	384	-	-	-	-
Public safety	-	-	-	47,577	9,513	27,520	-	-	-
Sanitation	154,080	-	-	-	-	-	-	-	-
Culture and recreation	-	155,003	-	-	-	-	13,016	-	-
Conservation	-	-	10	-	-	-	-	-	-
Debt service:									
Principal	132,000	-	-	-	-	-	-	-	-
Interest	13,365	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	245,912
Total expenditures	299,445	155,003	10	47,577	9,897	27,520	13,016	-	245,912
Excess (deficiency) of revenues over (under) expenditures	79,944	66,630	8,278	11,558	-	5,102	(2,300)	38,015	-
Other financing uses:									
Transfers out	-	-	-	(37,132)	-	-	-	-	-
Net change in fund balances	79,944	66,630	8,278	(25,574)	-	5,102	(2,300)	38,015	-
Fund balances, beginning, as restated (see Note 18)	513,570	210,245	870,104	75,578	-	44,692	25,592	99,231	-
Fund balances, ending	\$ 593,514	\$ 276,875	\$ 878,382	\$ 50,004	\$ -	\$ 49,794	\$ 23,292	\$ 137,246	\$ -