

**TOWN OF PEMBROKE,  
NEW HAMPSHIRE**

**ANNUAL FINANCIAL REPORT**

**AS OF AND FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2008**

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
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**TABLE OF CONTENTS**

	<u>PAGES</u>
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>1</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-wide Financial Statements:	
A Statement of Net Assets .....	2
B Statement of Activities .....	3
Fund Financial Statements:	
Governmental Funds	
C-1 Balance Sheet .....	4
C-2 Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets .....	5
C-3 Statement of Revenues, Expenditures and Changes in Fund Balances .....	6
C-4 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	7
Proprietary Fund – Water Works	
D-1 Statement of Net Assets .....	8
D-2 Statement of Revenues, Expenses and Changes in Fund Net Assets .....	9
D-3 Statement of Cash Flows .....	10
Fiduciary Funds	
E Statement of Fiduciary Net Assets .....	11
<b>NOTES TO THE BASIC FINANCIAL STATEMENTS .....</b>	<b>12-24</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
F-1 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund .....	25
F-2 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – Sewer Department Fund .....	26
<b>NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION .....</b>	<b>27-28</b>
<b>COMBINING AND INDIVIDUAL FUND SCHEDULES</b>	
<b>GOVERNMENTAL FUNDS</b>	
<b>Major General Fund</b>	
1 Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis) .....	29
2 Schedule of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis) .....	30-31
3 Schedule of Changes in Unreserved - Undesignated Fund Balance (Non-GAAP Budgetary Basis) .....	32
<b>Nonmajor Governmental Funds</b>	
4 Combining Balance Sheet .....	33
5 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances .....	34
<b>INDEPENDENT AUDITOR'S COMMUNICATION OF</b>	
<b>CONTROL DEFICIENCIES AND OTHER MATTERS .....</b>	<b>35-36</b>



## PLODZIK & SANDERSON

*Professional Association/Accountants & Auditors*

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### **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Pembroke as of and for the fiscal year ended December 31, 2008, 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 Pembroke'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.

As discussed in Note 1-B to the financial statements, management has not recorded the capital assets and related accumulated depreciation of the governmental activities, nor the depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those assets be capitalized and depreciated, which would increase the assets, net assets and expenses of the governmental activities. The amount by which this departure affects the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Town of Pembroke as of December 31, 2008, and the changes in financial position thereof for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the Town of Pembroke as of December 31, 2008, and the respective changes in financial position thereof and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Town of Pembroke has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Pembroke's basic financial statements. The combining and individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. They have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 5, 2010

*Plodzik & Sanderson  
Professional Association*

## ***BASIC FINANCIAL STATEMENTS***

**EXHIBIT A**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Statement of Net Assets**  
**December 31, 2008**

	Governmental Activities	Business-type Activity	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 7,983,466	\$ 39,487	\$ 8,022,953
Investments	71,726	360,303	432,029
Intergovernmental receivable	150,113	-	150,113
Other receivables, net of allowance for uncollectible	1,610,685	86,639	1,697,324
Inventory		25,679	25,679
Prepaid items	11,401	12,682	24,083
Capital assets, not being depreciated:			
Land	-	31,935	31,935
Capital assets, net of accumulated depreciation:			
Structures	-	1,275,943	1,275,943
Machinery and equipment	-	711,080	711,080
Total assets	<u>9,827,391</u>	<u>2,543,748</u>	<u>12,371,139</u>
<b>LIABILITIES</b>			
Accounts payable	107,502	11,478	118,980
Intergovernmental payable	3,825,488	-	3,825,488
Accrued interest payable	37,021	451	37,472
Unearned revenue	1,579	-	1,579
Escrow accounts		1,000	1,000
Noncurrent obligations:			
Due within one year:			
Bonds and notes	360,397	20,000	380,397
Due in more than one year:			
Bonds and notes	1,820,792	-	1,820,792
Compensated absences	94,508	-	94,508
Accrued landfill postclosure care costs	130,375	-	130,375
Total liabilities	<u>6,377,662</u>	<u>32,929</u>	<u>6,410,591</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	-	1,998,958	1,998,958
Restricted for trust purposes	72,209	-	72,209
Unrestricted	<u>3,377,520</u>	<u>511,861</u>	<u>3,889,381</u>
Total net assets	<u>\$ 3,449,729</u>	<u>\$ 2,510,819</u>	<u>\$ 5,960,548</u>

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

**EXHIBIT B**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Statement of Activities**  
**For the Fiscal Year Ended December 31, 2008**

	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- type Activities	
Governmental activities:						
General government	\$ 1,112,058	\$ 29,747	\$ -	\$ (1,082,311)	\$ -	\$ (1,082,311)
Public safety	1,497,372	55,859	37,047	(1,404,466)	-	(1,404,466)
Highways and streets	784,216	-	155,305	(628,911)	-	(628,911)
Sanitation	828,690	798,292	6,508	(23,890)	-	(23,890)
Health	13,614	-	-	(13,614)	-	(13,614)
Welfare	77,745	-	-	(77,745)	-	(77,745)
Culture and recreation	237,730	1,215	-	(236,515)	-	(236,515)
Conservation	1,641	-	-	(1,641)	-	(1,641)
Economic development	2,205	-	-	(2,205)	-	(2,205)
Interest on long-term debt	95,531	-	-	(95,531)	-	(95,531)
Capital outlay	802,007	-	-	(802,007)	-	(802,007)
Total governmental activities	5,452,809	885,113	198,860	(4,368,836)	-	(4,368,836)
Business-type activities:						
Water works	640,901	670,039	-	-	29,138	29,138
Total business-type activities	\$ 6,093,710	\$ 1,555,152	\$ 198,860	(4,368,836)	29,138	(4,339,698)
General revenues:						
Taxes:						
Property				3,258,030	-	3,258,030
Other				163,146	-	163,146
Motor vehicle permit fees				1,125,811	-	1,125,811
Licenses and other fees				88,985	-	88,985
Grants and contributions not restricted to specific programs				410,969	-	410,969
Unrestricted investment earnings				77,245	-	77,245
Miscellaneous				104,044	58,359	162,403
Total general revenues				5,228,230	58,359	5,286,589
Change in net assets				859,394	87,497	946,891
Net assets, beginning				2,590,335	2,423,322	5,013,657
Net assets, ending				\$ 3,449,729	\$ 2,510,819	\$ 5,960,548

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

**EXHIBIT C-1**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Governmental Funds**  
**Balance Sheet**  
**December 31, 2008**

	General	Sewer Department	Expendable Trust	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 5,110,256	\$ 101,190	\$ 1,625,214	\$ 1,146,806	\$ 7,983,466
Investments	-	71,726	-	-	71,726
Receivables, net of allowance for uncollectible:					
Taxes	1,380,176	-	-	-	1,380,176
Accounts	6,848	222,045	-	1,616	230,509
Intergovernmental	2,339	-	-	22,854	25,193
Interfund receivable	49,147	-	-	155,082	204,229
Prepaid items	11,401	-	-	-	11,401
Total assets	<u>\$ 6,560,167</u>	<u>\$ 394,961</u>	<u>\$ 1,625,214</u>	<u>\$ 1,326,358</u>	<u>\$ 9,906,700</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 55,967	\$ 51,532	\$ -	\$ 3	\$ 107,502
Intergovernmental payable	3,825,488	-	-	1	3,825,489
Interfund payable	155,082	26,293	-	22,854	204,229
Deferred revenue	775	21,755	-	-	22,530
Total liabilities	<u>4,037,312</u>	<u>99,580</u>	<u>-</u>	<u>22,858</u>	<u>4,159,750</u>
Fund balances:					
Reserved for encumbrances	53,076	-	-	43,840	96,916
Reserved for special purposes	-	-	-	174,053	174,053
Unreserved, undesignated, reported in:					
General fund	2,469,779	-	-	-	2,469,779
Debt service fund	-	-	-	158,204	158,204
Special revenue funds	-	295,381	1,625,214	927,404	2,847,999
Total fund balances	<u>2,522,855</u>	<u>295,381</u>	<u>1,625,214</u>	<u>1,303,502</u>	<u>5,746,952</u>
Total liabilities and fund balances	<u>\$ 6,560,167</u>	<u>\$ 394,961</u>	<u>\$ 1,625,214</u>	<u>\$ 1,326,360</u>	<u>\$ 9,906,702</u>

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

**EXHIBIT C-2**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
*Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets*  
**December 31, 2008**

Total fund balances of governmental funds (Exhibit C-1)			\$ 5,746,952
Amounts reported for governmental activities in the statement of net assets are different because:			
Receivables from the State of New Hampshire to offset future debt payments are not due in the current period, and therefore, are not reported in the funds.			
Long-term receivable			124,920
Interfund receivables and payables between governmental funds are eliminated on the statement of net assets.			
Receivables	\$ (204,229)		
Payables	204,229		
Interest on long-term debt is not accrued in governmental funds.			
Accrued interest payable			(37,021)
Special assessments to pay long-term debt are deferred in governmental funds.			
Deferred special assessments			20,951
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.			
Bonds and notes	\$ 2,181,189		
Compensated absences payable	94,508		
Accrued landfill postclosure care costs	130,375		
			(2,406,072)
Total net assets of governmental activities (Exhibit A)			<u>\$ 3,449,730</u>

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



**EXHIBIT C-3**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Fiscal Year Ended December 31, 2008**

	General	Sewer Department	Expendable Trust	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 3,353,205	\$ -	\$ -	\$ 67,969	\$ 3,421,174
Licenses and permits	1,214,796	-	-	-	1,214,796
Intergovernmental	642,681	-	-	42,047	684,728
Charges for services	205,892	675,603	-	16,944	898,439
Miscellaneous	87,542	8,352	37,781	36,154	169,829
Total revenues	5,504,116	683,955	37,781	163,114	6,388,966
<b>Expenditures:</b>					
Current:					
General government	1,111,078	-	-	-	1,111,078
Public safety	1,448,597	-	-	68,816	1,517,413
Highways and streets	781,678	-	-	-	781,678
Sanitation	480,330	625,193	-	-	1,105,523
Health	13,614	-	-	-	13,614
Welfare	77,745	-	-	-	77,745
Culture and recreation	28,899	-	-	207,760	236,659
Conservation	756	-	-	885	1,641
Economic development	2,205	-	-	-	2,205
Debt service:					
Principal	360,397	-	-	-	360,397
Interest	100,485	-	-	-	100,485
Capital outlay	615,657	-	-	186,350	802,007
Total expenditures	5,021,441	625,193	-	463,811	6,110,445
Excess (deficiency) of revenues over (under) expenditures	482,675	58,762	37,781	(300,697)	278,521
Other financing sources (uses):					
Transfers in	97,248	-	252,500	322,713	672,461
Transfers out	(551,213)	(75,898)	(42,613)	(2,737)	(672,461)
Total other financing sources and uses	(453,965)	(75,898)	209,887	319,976	-
Net change in fund balances	28,710	(17,136)	247,668	19,279	278,521
Fund balances, beginning	2,494,145	312,517	1,377,546	1,284,222	5,468,430
Fund balances, ending	\$ 2,522,855	\$ 295,381	\$ 1,625,214	\$ 1,303,501	\$ 5,746,951

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

**EXHIBIT C-4**  
**TOWN OF PEMBROKE, 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, 2008**

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Net change in fund balances of governmental funds (Exhibit C-3)		\$ 278,521
Amounts reported for governmental activities in the statement of activities are different because:		
Some revenue does not provide current financial resources, and therefore, is not reported as revenue in governmental funds.		
Decrease in long-term State aid receivable		(41,640)
Transfers in and out between governmental funds are eliminated on the operating statement.		
Transfers in	\$ (672,461)	
Transfers out	<u>672,461</u>	-
Special assessments not due until future periods are deferred in the governmental funds.		
Decrease in deferred assessments		(1,864)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.		
Repayment of bond and note principal		360,397
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	\$ 4,954	
Increase in compensated absences payable	(20,599)	
Decrease in accrued landfill postclosure care costs payable	<u>279,625</u>	263,980
Changes in net assets of governmental activities (Exhibit B)		<u>\$ 859,394</u>

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

**EXHIBIT D-1**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
*Proprietary Fund - Water Works*  
*Statement of Net Assets*  
*December 31, 2008*

<b>ASSETS</b>	
Cash and cash equivalents	\$ 372,144
Investments	27,646
Receivables	86,639
Inventory	25,679
Prepaid items	12,682
Capital assets, not being depreciated:	
Land	31,935
Capital assets, net of accumulated depreciation:	
Structures	1,275,943
Machinery and equipment	711,080
Total assets	<u>2,543,748</u>
<b>LIABILITIES</b>	
Accounts payable	11,478
Accrued interest payable	451
Escrow accounts	1,000
Noncurrent obligations:	
Due within one year:	
Bonds	20,000
Total liabilities	<u>32,929</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,998,958
Unrestricted	511,861
Total net assets	<u>\$ 2,510,819</u>

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

**EXHIBIT D-2**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Proprietary Fund - Water Works**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Fiscal Year Ended December 31, 2008**

Operating revenues:	
Charges for sales and services:	
User charges	\$ 670,039
Miscellaneous	54,517
Total operating revenues	<u>724,556</u>
Operating expenses:	
Cost of sales and services	518,411
Depreciation	121,346
Total operating expenses	<u>639,757</u>
Operating income	<u>84,799</u>
Nonoperating revenues (expenses):	
Interest revenue	3,842
Interest expense	<u>(1,144)</u>
Total nonoperating revenues and expenses	<u>2,698</u>
Net income	87,497
Total net assets, beginning	<u>2,423,322</u>
Total net assets, ending	<u>\$ 2,510,819</u>

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

**SCHEDULE D-3**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Proprietary Fund - Water Works**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended December 31, 2008**

Cash flows received from operating activities:	
Receipts from customers and users	\$ 720,550
Payments to suppliers and employees	(538,798)
Net cash provided by operating activities	<u>181,752</u>
Cash flows from capital and related financing activities:	
Principal paid on bonds	(20,000)
Acquisition and construction of capital assets	(135,523)
Interest paid on bonds	(1,595)
Net cash used by capital and related financing activities	<u>(157,118)</u>
Cash flows from investing activities:	
Purchase of investments	(993)
Interest received	3,842
Net cash provided by investing activities	<u>2,849</u>
Net increase in cash	27,483
Cash, beginning	344,661
Cash, ending	<u><u>\$ 372,144</u></u>

*Reconciliation of Operating Income to  
Net Cash Provided by Operating Activities*

Operating income	\$ 84,799
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	121,346
Increase in accounts receivable	(4,006)
Increase in inventory	(6,005)
Decrease in prepaid items	593
Increase in accounts payable	(14,975)
Total adjustments	<u>96,953</u>
Net cash used by operating activities	<u><u>\$ 181,752</u></u>

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

**EXHIBIT E**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Assets**  
**For the Fiscal Year Ended December 31, 2008**

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	<u>Agency</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 564,627
Investments	<u>514,888</u>
Total assets	<u>1,079,515</u>
<b>LIABILITIES</b>	
Due to other governmental units	1,057,902
Due to developers	<u>21,613</u>
Total liabilities	<u>1,079,515</u>
<b>NET ASSETS</b>	<u>\$ -</u>

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

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

<b>Summary of Significant Accounting Policies.....</b>	<b>1</b>
Reporting Entity.....	1-A
Basis of Presentation.....	1-B
Measurement Focus .....	1-C
Basis of Accounting .....	1-D
Assets, Liabilities and Net Assets or Fund Equity .....	1-E
Cash, Cash Equivalents and Investments.....	1-E-1
Receivables.....	1-E-2
Interfund Balances.....	1-E-3
Inventory and Prepaid Items.....	1-E-4
Capital Assets – Proprietary Fund .....	1-E-5
Compensated Absences .....	1-E-6
Accrued Liabilities and Long-Term Obligations .....	1-E-7
Interfund Activity .....	1-E-8
Equity .....	1-E-9
Estimates .....	1-E-10
<b>Detailed Notes on All Funds and Government-Wide Statements .....</b>	<b>2</b>
Repurchase Agreement .....	2-A
Investment Risks .....	2-B
Taxes Receivable .....	2-C
Other Receivables .....	2-D
Capital Assets – Proprietary Fund.....	2-E
Prepaid Items .....	2-F
Interfund Balances and Transfers.....	2-G
Intergovernmental Payable.....	2-H
Deferred/Unearned Revenue .....	2-I
Long-Term Liabilities .....	2-J
<b>Other Matters .....</b>	<b>3</b>
Pensions .....	3-A
Risk Management.....	3-B
Contingent Liabilities.....	3-C

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

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

The financial statements of the Town of Pembroke, New Hampshire (the Town) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

**1-A Reporting Entity**

The Town of Pembroke is a municipal corporation governed by an elected Board of Selectmen. The reporting entity is comprised of the primary government and any other organizations 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 organization; or (2) the Town is legally entitled to or can otherwise access the organization's resources; the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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**

The Town's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities; and fund financial statements, which provide a more detailed level of financial information.

**Government-wide Financial Statements** - The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Town as a whole. Fiduciary activities are not included at the government-wide reporting level. Individual funds are not displayed at this reporting level as all individual funds are consolidated as governmental or business-type activities.

The statement of net assets presents the financial position of the governmental and business-type activities of the Town at year-end. This statement includes all of the Town's assets, liabilities and net assets, with the exception of the capital assets and related accumulated depreciation of the governmental activities, which have been omitted because they have not been inventoried at historical cost.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental and business-type activities. Direct expenses are those that are specifically associated with the function, and therefore, clearly identifiable to that particular function.

The statement of activities reports the expenses of a given function offset by program revenues directly related to the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with the functional activity. Program revenues include: (1) charges for services, which include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to the program uses.

For identifying to which function program revenue pertains, the determining factor for *charges for services* is which functions generate the revenue. For *grants and contributions*, the determining factor is to which functions the revenues are *restricted*. Taxes, unrestricted state aid and other revenues not specifically related to particular functions are reported as general revenues of the Town.



**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

**Fund Financial Statements** - During the year, the Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund financial statements are designed to present financial information of the Town at this more detailed level. Fund financial statements are provided for governmental, proprietary and fiduciary funds.

**Fund Accounting** - The Town uses funds to maintain its financial records during the year. The Town uses three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds** - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The Town reports the difference between governmental fund assets and liabilities as fund balance. The following are the Town's major governmental funds:

**General Fund** - The general fund is the primary operating fund of the Town. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

**Sewer Department Fund** - The sewer department fund is used to account for activity related to the sewer department.

**Expendable Trust Fund** - The expendable trust fund is used to account for funds established by Town Meeting as capital reserve or other expendable trust funds.

The Town also reports thirteen nonmajor governmental funds.

**Proprietary Fund** - Proprietary funds are those which account for activities that are similar to those that may be performed by a commercial enterprise, and generally charge a fee in order to recover operational costs. The Town reports the difference between proprietary fund assets and liabilities as net assets. The following is the Town's major proprietary fund:

**Water Works Fund** - The water works fund is used to report water services activities for which a fee is charged to external users.

**Fiduciary Funds** - Fiduciary fund reporting focuses on net assets. The Town's fiduciary funds consist of one type of fund, agency funds. The agency funds are custodial in nature (assets equal liabilities), and do not involve the measurement of results of operations.

**1-C Measurement Focus**

**Government-wide Financial Statements** - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Town are included on the statement of net assets, with the exception of the capital assets and related accumulated depreciation of the governmental activities, which have been omitted because they have not been valued at historical cost. The statement of activities reports revenues, expenses and changes in net assets except for depreciation expense on the omitted assets.

**Fund Financial Statements** - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

All proprietary funds are accounted for using the accrual basis of accounting. Using this basis of accounting, revenues are recognized when they are earned, and expenses are recognized when they are incurred (flow of economic resources measurement focus).

Fiduciary funds also use an economic resources measurement focus. These funds report all assets and liabilities on the statement of fiduciary net assets.

***1-D Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, governmental funds use the modified accrual basis of accounting, and proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of some deferred revenue, and in the presentation of expenses versus expenditures. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

***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 and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year, generally within sixty days of year-end.

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

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: taxes, charges for services, interest, and federal and state grants.

***Deferred Revenue*** - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements (i.e., on the modified accrual basis), receivables that will not be collected within the available period have been reported as deferred revenue (i.e., they are measurable, but not available) rather than as revenue. Grants and entitlements received before the eligibility requirements are met (e.g., cash advances) are recorded as deferred revenue in the governmental funds, and as unearned revenue on the government-wide financial statements.

***Expenses/Expenditures*** - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

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

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

***1-E Assets, Liabilities and Net Assets or Fund Equity***

***1-E-1 Cash, Cash Equivalents and Investments***

***Cash and Cash Equivalents*** - Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Town.

New Hampshire statutes require that the Town treasurer have custody of all moneys 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 N.H. 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.

***Investments*** - Whenever the treasurer has in custody an excess of funds, which is not immediately needed for the purpose of expenditure, the treasurer shall, with the approval of the Board of Selectmen, invest the excess funds.

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

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

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

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

***1-E-2 Receivables***

Tax revenue is recorded when a warrant for collection is committed to the tax collector. Taxes receivable are reported net of an allowance established for any taxes that management deems to have questionable collectability. 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 2-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.

***1-E-3 Interfund Balances***

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

**1-E-4 Inventory and Prepaid Items**

Inventory is valued at cost using the first-in, first-out method. The consumption method is used to account for inventory. Under the consumption method, inventory is recorded when expenditures are consumed rather than when purchased. Reported inventory in the governmental funds is equally offset by a fund balance reserve which indicates that the assets are not available for appropriation even though they are a component of reported assets.

Payments made to vendors for services that will benefit periods beyond year-end are recorded as prepaid items using the consumption method, by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**1-E-5 Capital Assets – Proprietary Fund**

Property, plant and equipment acquired by the proprietary fund are capitalized in that fund. These assets are stated at historical cost. Where cost could not be determined from the available records, estimated historical cost was used to record the value of the assets. Assets acquired by donation are recorded at their fair market value as of the date of transfer.

Depreciation of exhaustible fixed assets used by the proprietary fund is charged as an expense against operations and accumulated depreciation is reported on the statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method.

The estimated useful lives for each major class of depreciable capital assets are as follows:

	<u>Years</u>
Structures	5-67
Machinery and equipment	2-20
Other	5

The Town has not recorded its capital assets used for governmental activities because no inventory valued at historical cost is currently available.

**1-E-6 Compensated Absences**

Vacation and sick pay incentive benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Town will compensate the employees for the benefits through paid time off or some other means. All compensated absence liabilities include salary-related payments, where applicable.

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

**1-E-7 Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

**1-E-8 Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement of repayment are reported as interfund transfers. At the fund reporting level, interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

At the government-wide financial reporting level, transfers between funds that would be reported in the individual funds are eliminated.

**1-E-9 Equity**

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

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

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

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**1-E-10 Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2 - DETAILED NOTES ON ALL FUNDS AND GOVERNMENT-WIDE STATEMENTS**

**2-A Repurchase Agreement**

Included in the Town's cash equivalents at December 31, 2008, is a short-term investment in a repurchase agreement issued by a local banking institution. Under this agreement, the Town will be repaid principal plus interest on a specified date which is subsequent to year-end. The agreement is guaranteed/collateralized with securities held by the banking institution which equal the amount of the agreement. To the extent that the banking institution may default on its commitment to this obligation, the Town is at risk of economic loss. Management considers this exposure to be minimal. At December 31, 2008, the Town held an investment in the following repurchase agreement:

Amount	Interest Rate %	Maturity Date	Underlying Securities	Market Value
\$ 5,213,790	0.05	January 2, 2009	FNMA	\$ 5,242,677

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

**2-B Investment Risks**

As of December 31, 2008, the Town had the following investments:

Certificate of deposit	\$ 27,646
Common stock	493,544
Mutual funds	21,344
New Hampshire Public Deposit Investment Pool	71,726
	<u>\$ 614,260</u>

Investment reconciliation:

Governmental funds, balance sheet (Exhibit C-1)	\$ 71,726
Proprietary fund, statement of net assets (Exhibit D-1)	27,646
Fiduciary funds, statement of fiduciary net assets (Exhibit E)	514,888
	<u>\$ 614,260</u>

*Interest Rate Risk* - 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.

*Credit Risk* - State law limits investments to those described in Note 1-E-1. The Town has no investment policy that would further limit its investment choices.

*Custodial Credit Risk* - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Of the Town's \$614,260 in investments, \$514,888 is subject to custodial credit risk because the securities are held by the counter party's trust department or agent, not in the Town's name. The Town does not have policies for custodial credit risk.

*Concentration of Credit Risk* - The Town places no limit on the amount it may invest in any one issuer. More than five percent of the Town's investments are in Chevron Corp., ExxonMobil, Fortune Branch, American Capital Builder, Progress Energy, and Verizon Communications. These investments are 11.5%, 16.2%, 5.2%, 11.3%, 5.5%, and 5.1%, respectively, of the Town's total investments.

**2-C 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, 2008, upon which the 2008 property tax levy was based is:

For the New Hampshire education tax	\$ 574,237,174
For all other taxes	\$ 595,984,674

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Under this method, tax bills are due on or around July 1 and December 1 of each year, with interest accruing at a rate of 12% on bills outstanding after the due date. 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 allowances at year-end. The property taxes collected by the Town include taxes levied for the State of New Hampshire, Pembroke School District and Merrimack County, which are remitted as required by law. The ultimate responsibility for the collection of taxes rests with the Town.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

The tax rates and amounts assessed for the year ended December 31, 2008, were as follows:

	Per \$1,000 Assessed of Valuation	Property Taxes Assessed
Municipal portion	\$5.69	\$ 3,391,275
School portion:		
State of New Hampshire	\$2.43	1,398,041
Local	\$14.98	8,927,447
County portion	\$2.72	1,618,714
Total		<u>\$ 15,335,477</u>

During the current fiscal year, the tax collector executed a lien on March 10 for all uncollected 2007 property taxes, as follows:

Property:	
Levy of 2008	\$ 911,387
Unredeemed (under tax lien):	
Levy of 2007	327,220
Levy of 2006	187,925
Levy of 2005	4,013
Levies of 2004 and prior	14,617
Yield	14
Less: allowance for estimated uncollectible taxes	(65,000)
Net taxes receivable	<u>\$ 1,380,176</u>

**2-D Other Receivables**

Other receivables at December 31, 2008, consisted of accounts (billings for water, sewer, 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 collectibility.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

**2-E Capital Assets – Proprietary Fund**

Capital asset activity for the year ended December 31, 2008 was as follows:

	Balance, beginning	Changes	Balance, ending
Business-type activities:			
At cost:			
Not being depreciated:			
Land	\$ 31,935	\$ -	\$ 31,935
Being depreciated:			
Structures	2,005,290	82,350	2,087,640
Machinery and equipment	1,786,762	49,783	1,836,545
Other	29,865	-	29,865
Total capital assets being depreciated	3,821,917	132,133	3,954,050
Total all capital assets	3,853,852	132,133	3,985,985
Less accumulated depreciation:			
Structures	(755,278)	(56,419)	(811,697)
Machinery and equipment	(1,063,928)	(61,537)	(1,125,465)
Other	(29,865)	-	(29,865)
Total accumulated depreciation	(1,849,071)	(117,956)	(1,967,027)
Net book value, capital assets being depreciated	1,972,846	14,177	1,987,023
Net book value, all capital assets	\$ 2,004,781	\$ 14,177	\$ 2,018,958

Depreciation expense was charged to the water department function.

**2-F Prepaid Items**

Prepaid items of the governmental activities represent \$7,043 for fuel, \$527 for postage purchased but not yet used, and \$3,831 for fluids and filters purchased but not yet used; and in the business-type activities, \$12,682 for insurance coverage for 2009.

**2-G Interfund Balances and Transfers**

Interfund balances at December 31, 2008 consist of overdrafts in the pooled cash and budgetary transfers not yet made as follows:

Receivable Fund	Payable Fund	Amount
General	Sewer department	\$ 26,293
	Nonmajor	22,854
Nonmajor	General	155,082
		<u>\$ 204,229</u>

Interfund transfers consisted of voted appropriations as follows:

	Transfers In:		
	General Fund	Expendable Trust Fund	Nonmajor Funds
Transfers out:			
General fund	\$ -	\$ 228,500	\$ 322,713
Expendable trust fund	42,613	-	-
Sewer department	51,898	24,000	-
Nonmajor funds	2,737	-	-
Total	<u>\$ 97,248</u>	<u>\$ 252,500</u>	<u>\$ 322,713</u>
			<u>\$ 672,461</u>



**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

**2-H Intergovernmental Payable**

The amount of \$3,825,488 due to other governments at December 31, 2008 consists of the balance of the 2008-2009 district assessment due to the Pembroke School District.

**2-I Deferred/Unearned Revenue**

Deferred revenue at December 31, 2008, consists of miscellaneous donations of \$775 for specific expenditures that are yet to be made, \$804 of sewer rents collected in advance and \$20,951 of betterment assessments, not currently available. On the government-wide statements, the first two items are reported as unearned revenue.

**2-J Long-Term Liabilities**

Changes in the Town's long-term obligations during the year ended December 31, 2008, consisted of the following:

	General Obligation Bonds/Notes	Compensated Absences	Accrued Landfill Postclosure Care Costs	Total
Governmental activities:				
Balance, beginning	\$ 2,541,586	\$ 73,909	\$ 410,000	\$ 3,025,495
Additions	-	20,599	-	20,599
Reductions	(360,397)	-	(279,625)	(640,022)
Balance, ending	<u>\$ 2,181,189</u>	<u>\$ 94,508</u>	<u>\$ 130,375</u>	<u>\$ 2,406,072</u>
Business-type activities:				
Balance, beginning	\$ 40,000	\$ -	\$ -	\$ 40,000
Reductions	(20,000)	-	-	(20,000)
Balance, ending	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,000</u>

Long-term liabilities are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2008	Current Portion
Governmental activities:						
General obligation bonds/notes payable:						
Routes 3/106 sewer extension	\$ 3,155,948	1997	2011	3.9075	\$ 631,189	\$ 210,397
Safety complex and refunding	\$ 2,560,000	2003	2023	3.25-4.6	1,550,000	150,000
					<u>2,181,189</u>	<u>360,397</u>
Compensated absences payable					94,508	-
Accrued landfill postclosure care costs					130,375	-
Total governmental activities					<u>\$ 2,406,072</u>	<u>\$ 360,397</u>
Business-type activities:						
Bonds payable:						
Water works water tank reconditioning					<u>\$ 20,000</u>	<u>\$ 20,000</u>

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

The annual requirements to amortize all general obligation debt outstanding as of December 31, 2008, including interest payments, are as follows:

*Annual Requirements to Amortize Debt of Governmental Activities*

Fiscal Year Ending December 31,	Principal	Interest	Total
2009	\$ 360,397	\$ 87,388	\$ 447,785
2010	310,396	74,292	384,688
2011	310,396	62,821	373,217
2012	100,000	51,100	151,100
2013	100,000	47,750	147,750
2014-2018	500,000	176,200	676,200
2019-2023	500,000	67,750	567,750
Totals	<u>\$ 2,181,189</u>	<u>\$ 567,301</u>	<u>\$ 2,748,490</u>

*Annual Requirements to Amortize Debt of Business-Type Activities*

Fiscal Year Ending December 31,	Principal	Interest	Total
2009	\$ 20,000	\$ 900	\$ 20,900

All debt is general obligation debt of the Town, which is backed by its full faith and credit. Business-type activities debt will be funded through user fees from the proprietary fund. All other debt will be repaid from general governmental revenues.

*State-Aid for Water Pollution Projects*

Under N.H. 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, 2008, the Town is due to receive the following annual amounts to offset debt payments:

Fiscal Year Ending December 31,	Principal
2009	\$ 41,640
2010	41,640
2011	41,640
Totals	<u>\$ 124,920</u>

*Accrued Landfill Closure and Postclosure Care Costs*

The Town has ceased operating its landfill. Federal and State laws and regulations require that the Town place a final cover on its landfill and perform certain maintenance and monitoring functions at the landfill site after closure. A liability is being recognized based on the future closure and postclosure care costs that will be incurred. The estimated liability for landfill closure and postclosure care costs has a balance of \$130,375 as of December 31, 2008, which is based on the amount that would be paid if all equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of December 31, 2008. However, the actual cost of closure and postclosure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

**NOTE 3 - OTHER MATTERS**

**3-A Pensions**

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

The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees except police officers and firefighters are required to contribute 5% of gross earnings. Police officers and firefighters are required to contribute 9.3% of gross earnings. During 2008, the Town contributed 11.84% for police, 15.92% for fire, and 8.74% for others. The contribution requirements for the Town of Pembroke for the fiscal years 2006, 2007 and 2008 were \$111,510, \$125,621, and \$156,086, respectively, which were paid in full in each year.

The State of New Hampshire funds 35% of employer costs for police officers and firefighters employed by the Town. This amount, \$33,259, is reported as an "on-behalf payment," as an expenditure and revenue on the governmental funds operating statement, and as an expense and revenue on the government-wide statement of activities.

**3-B 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 2008, the Town was a member of the Local Government Center Property-Liability Trust, LLC, which is a Trust organized to provide certain property and liability insurance coverages to member towns, cities and other qualified political subdivisions of New Hampshire. As a member of the Local Government Center Property-Liability Trust, LLC, the Town shares in contributing to the cost of, and receiving benefits from, a self-insured pooled risk management program. The membership and coverage run from July 1 to June 30. The program maintains a self-insured retention above which it purchases reinsurance and excess insurance. This policy covers property, auto physical damage, crime, general liability and public officials' liability subject to a \$1,000 deductible.

Contributions paid in 2008 for fiscal year 2009, ending June 30, 2009, to be recorded as an insurance expenditure totaled \$52,956. There were no unpaid contributions for the year ending June 30, 2009 and due in 2008. The Town also paid \$50,098 for workers' compensation for the year ended December 31, 2008. The trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. At this time, the Trust foresees no likelihood of any additional assessments for past years.

**3-C Contingent Liabilities**

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.

***REQUIRED SUPPLEMENTARY INFORMATION***

**EXHIBIT F-1**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
*Schedule of Revenues, Expenditures and Changes in Fund Balance*  
*Budget and Actual (Non-GAAP Budgetary Basis)*  
**General Fund**  
**For the Fiscal Year Ended December 31, 2008**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Taxes	\$ 3,313,022	\$ 3,353,205	\$ 40,183
Licenses and permits	1,146,750	1,214,796	68,046
Intergovernmental	609,907	609,422	(485)
Charges for services	170,000	205,892	35,892
Miscellaneous	91,000	87,542	(3,458)
Total revenues	<u>5,330,679</u>	<u>5,470,857</u>	<u>140,178</u>
<b>Expenditures:</b>			
Current:			
General government	1,200,743	1,111,618	89,125
Public safety	1,508,183	1,417,874	90,309
Highways and streets	823,731	781,678	42,053
Sanitation	483,488	480,330	3,158
Health	14,615	13,614	1,001
Welfare	89,496	77,745	11,751
Culture and recreation	38,467	28,899	9,568
Conservation	1,050	756	294
Economic development	7,200	2,205	4,995
Debt service:			
Principal	360,397	360,397	-
Interest	100,486	100,485	1
Capital outlay	656,031	565,619	90,412
Total expenditures	<u>5,283,887</u>	<u>4,941,220</u>	<u>342,667</u>
Excess of revenues over expenditures	<u>46,792</u>	<u>529,637</u>	<u>482,845</u>
<b>Other financing sources (uses):</b>			
Transfers in	106,109	97,248	(8,861)
Transfers out	(552,901)	(551,213)	1,688
Total other financing sources and uses	<u>(446,792)</u>	<u>(453,965)</u>	<u>(7,173)</u>
Net change in fund balances	<u>\$ (400,000)</u>	<u>75,672</u>	<u>\$ 475,672</u>
Unreserved fund balance, beginning		2,394,107	
Unreserved fund balance, ending		<u>\$ 2,469,779</u>	

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

**EXHIBIT F-2**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
*Schedule of Revenues, Expenditures and Changes in Fund Balance*  
*Budget and Actual (Non-GAAP Budgetary Basis)*  
*Sewer Department Fund*  
*For the Fiscal Year Ended December 31, 2008*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services	\$ 675,135	\$ 675,603	\$ 468
Miscellaneous	-	8,352	8,352
Total revenues	675,135	683,955	8,820
Expenditures:			
Current:			
Sanitation	675,135	625,193	49,942
Excess of revenues over expenditures	-	58,762	58,762
Other financing uses:			
Transfers out	-	(75,898)	(75,898)
Net change in fund balances	\$ -	(17,136)	\$ (17,136)
Unreserved fund balance, beginning		312,517	
Unreserved fund balance, ending		\$ 295,381	

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

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

General Budget Policies.....	1
Budgetary Reconciliation.....	2

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2008**

**1. General Budget Policies**

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

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

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

State statutes require balanced budgets, but provide for the use of beginning unreserved fund balance to achieve that end. In the fiscal year 2008, \$400,000 of the beginning general fund fund balance was applied for this purpose.

**2. Budgetary Reconciliation**

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

Revenues:

Per Exhibit F-1 (budgetary basis)	\$ 5,470,857
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Adjustment:

Basis difference:

On-behalf retirement contributions made by the State of New Hampshire  
recognized as revenue on the GAAP basis, but not on the budgetary basis

33,259

Per Exhibit C-3 (GAAP basis)	<u>\$ 5,504,116</u>
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Expenditures:

Per Exhibit F-1 (budgetary basis)	\$ 4,941,220
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Adjustment:

Basis differences:

Encumbrances, beginning

100,038

Encumbrances, ending

(53,076)

On-behalf retirement contributions made by the State of New Hampshire

recognized as expenditures on the GAAP basis, but not on the budgetary basis

33,259

Per Exhibit C-3 (GAAP basis)	<u>\$ 5,021,441</u>
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***COMBINING AND INDIVIDUAL FUND SCHEDULES***

**SCHEDULE 1**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Major General Fund**  
*Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)*  
*For the Fiscal Year Ended December 31, 2008*

	Estimated	Actual	Variance Positive (Negative)
<b>Taxes:</b>			
Property	\$ 3,164,022	\$ 3,200,459	\$ 36,437
Yield	5,000	3,693	(1,307)
Excavation	7,000	5,641	(1,359)
Payment in lieu of taxes	12,000	12,000	-
Interest and penalties on taxes	125,000	131,412	6,412
Total taxes	<u>3,313,022</u>	<u>3,353,205</u>	<u>40,183</u>
<b>Licenses, permits and fees:</b>			
Business licenses, permits and fees	1,750	1,530	(220)
Motor vehicle permit fees	1,070,000	1,125,811	55,811
Building permits	35,000	46,122	11,122
Other	40,000	41,333	1,333
Total licenses, permits and fees	<u>1,146,750</u>	<u>1,214,796</u>	<u>68,046</u>
<b>Intergovernmental:</b>			
State:			
Shared revenue block grant	81,221	81,221	-
Meals and rooms distribution	326,748	326,748	-
Highway block grant	142,240	141,751	(489)
Water pollution grants	48,148	48,148	-
Other	3,000	3,000	-
Federal:			
FEMA	8,550	8,554	4
Total intergovernmental	<u>609,907</u>	<u>609,422</u>	<u>(485)</u>
<b>Charges for services:</b>			
Income from departments	<u>170,000</u>	<u>205,892</u>	<u>35,892</u>
<b>Miscellaneous:</b>			
Sale of municipal property	2,000	398	(1,602)
Interest on investments	65,000	57,055	(7,945)
Rent of property	15,000	15,068	68
Insurance dividends and reimbursements	6,000	11,373	5,373
Other	3,000	3,648	648
Total miscellaneous	<u>91,000</u>	<u>87,542</u>	<u>(3,458)</u>
<b>Other financing sources:</b>			
Transfers in	<u>106,109</u>	<u>97,248</u>	<u>(8,861)</u>
Total revenues and other financing sources	<u>5,436,788</u>	<u>\$ 5,568,105</u>	<u>\$ 131,317</u>
Unreserved fund balance used to reduce tax rate	<u>400,000</u>		
Total revenues, other financing sources and use of fund balance	<u>\$ 5,836,788</u>		

**SCHEDULE 2**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Major General Fund**

**Schedule of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)**  
**For the Fiscal Year Ended December 31, 2008**

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 333,366	\$ 310,788	\$ -	\$ 22,578
Election and registration	-	141,314	140,490	540	284
Financial administration	-	204,597	198,668	-	5,929
Planning and zoning	-	246,818	201,459	-	45,359
General government buildings	-	149,923	140,784	-	9,139
Cemeteries	-	31,225	17,093	-	14,132
Insurance, not otherwise allocated	-	93,500	101,796	-	(8,296)
Total general government	-	1,200,743	1,111,078	540	89,125
Public safety:					
Police	-	1,162,279	1,123,988	-	38,291
Ambulance	-	70,000	50,119	-	19,881
Fire	-	244,534	213,141	2,536	28,857
Emergency management	-	5,162	1,648	-	3,514
Other	-	26,208	26,442	-	(234)
Total public safety	-	1,508,183	1,415,338	2,536	90,309
Highways and streets:					
Administration	-	175,467	171,744	-	3,723
Highways and streets	-	519,717	486,251	-	33,466
Street lighting	-	31,000	32,762	-	(1,762)
Other	-	97,547	90,921	-	6,626
Total highways and streets	-	823,731	781,678	-	42,053
Sanitation:					
Solid waste collection	-	483,488	480,330	-	3,158
Health	-	14,615	13,614	-	1,001
Welfare:					
Administration	-	24,614	25,213	-	(599)
Vendor payments	-	64,882	52,532	-	12,350
Total welfare	-	89,496	77,745	-	11,751
Culture and recreation:					
Parks and recreation	-	32,217	25,649	-	6,568
Other	-	6,250	3,250	-	3,000
Total culture and recreation	-	38,467	28,899	-	9,568
Conservation	-	1,050	756	-	294
Economic development	-	7,200	2,205	-	4,995
Debt service:					
Principal of long-term debt	-	360,397	360,397	-	-
Interest on long-term debt	-	100,485	100,485	-	-
Interest on tax anticipation notes	-	1	-	-	1
Total debt service	-	460,883	460,882	-	1

(continued)

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

**Schedule of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)**  
**For the Fiscal Year Ended December 31, 2008**

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Capital outlay:					
Capital equipment	-	27,639	26,754	-	885
Minor equipment	-	11,500	10,319	-	1,181
Buildings	-	53,557	7,733	-	45,824
Other improvements	42,543	563,335	513,356	50,000	42,522
Road construction	57,495	-	57,495	-	-
Total capital outlay	100,038	656,031	615,657	50,000	90,412
Other financing uses:					
Transfers out	-	552,901	551,213	-	1,688
Total appropriations, expenditures, other financing uses and encumbrances	\$ 100,038	\$ 5,836,788	\$ 5,539,395	\$ 53,076	\$ 344,355

*SCHEDULE 3*  
*TOWN OF PEMBROKE, NEW HAMPSHIRE*  
*Major General Fund*  
*Schedule of Changes in Unreserved - Undesignated Fund Balance (Non-GAAP Budgetary Basis)*  
*For the Fiscal Year Ended December 31, 2008*

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Unreserved, undesignated fund balance, beginning		\$ 2,394,107
Changes:		
Unreserved fund balance used to reduce 2008 tax rate		(400,000)
2008 Budget summary:		
Revenue surplus (Schedule 1)	\$ 131,317	
Unexpended balance of appropriations (Schedule 2)	<u>344,355</u>	
2008 Budget surplus		<u>475,672</u>
Unreserved, undesignated fund balance, ending		<u>\$ 2,469,779</u>

**SCHEDULE 4**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**December 31, 2008**

	Public Library	Conservation Commission	Police Grants	Police Detail	Recreation	Special Revenue Funds Grants	Town Clock
<b>ASSETS</b>							
Cash and cash equivalents	\$ 341	\$ 727,430	\$ 8,451	\$ 18,245	\$ 14,579	\$ -	\$ 617
Receivables:							
Accounts	-	-	-	1,616	-	-	-
Intergovernmental	-	-	-	-	-	22,854	-
Interfund receivable	59,373	95,709	-	-	-	-	-
Total assets	<u>\$ 59,714</u>	<u>\$ 823,139</u>	<u>\$ 8,451</u>	<u>\$ 19,861</u>	<u>\$ 14,579</u>	<u>\$ 22,854</u>	<u>\$ 617</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interfund payable	-	-	-	-	-	22,854	-
Total liabilities	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,854</u>	<u>-</u>
Fund balances:							
Reserved for encumbrances	-	-	-	-	-	-	-
Reserved for special purposes	-	-	-	-	-	-	-
Unreserved, undesignated	59,711	823,139	8,451	19,861	14,579	-	617
Total fund balances	<u>59,711</u>	<u>823,139</u>	<u>8,451</u>	<u>19,861</u>	<u>14,579</u>	<u>-</u>	<u>617</u>
Total liabilities and fund balances	<u>\$ 59,714</u>	<u>\$ 823,139</u>	<u>\$ 8,451</u>	<u>\$ 19,861</u>	<u>\$ 14,579</u>	<u>\$ 22,854</u>	<u>\$ 617</u>

Christmas Donations	Capital Project Funds			Debt		Total
	Safety Center	Solid Waste	Highway Garage	Service Fund	Permanent Fund	
\$ 1,046	\$ 9,521	\$ 136,163	\$ -	\$ 158,204	\$ 72,209	\$ 1,146,806
-	-	-	-	-	-	1,616
-	-	-	-	-	-	22,854
-	-	-	-	-	-	155,082
<u>\$ 1,046</u>	<u>\$ 9,521</u>	<u>\$ 136,163</u>	<u>\$ -</u>	<u>\$ 158,204</u>	<u>\$ 72,209</u>	<u>\$ 1,326,358</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3
-	-	-	-	-	-	22,854
-	-	-	-	-	-	22,857
-	-	43,840	-	-	-	43,840
-	9,521	92,323	-	-	72,209	174,053
1,046	-	-	-	158,204	-	1,085,608
<u>1,046</u>	<u>9,521</u>	<u>136,163</u>	<u>-</u>	<u>158,204</u>	<u>72,209</u>	<u>1,303,501</u>
<u>\$ 1,046</u>	<u>\$ 9,521</u>	<u>\$ 136,163</u>	<u>\$ -</u>	<u>\$ 158,204</u>	<u>\$ 72,209</u>	<u>\$ 1,326,358</u>

**SCHEDULE 5**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Nonmajor Governmental Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the Fiscal Year Ended December 31, 2008**

	Special Revenue Funds					
	Public Library	Conservation Commission	Police Grants	Police Detail	Recreation	Town Clock
Revenues:						
Taxes	\$ -	\$ 10,400	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	9,706	-	32,341
Charges for services	-	-	-	16,944	-	-
Miscellaneous	4,758	5,768	4,801	-	18,445	617
Total revenues	4,758	16,168	4,801	26,650	18,445	32,341
Expenditures:						
Current:						
Public safety	-	-	3,821	32,654	-	32,341
Culture and recreation	187,110	-	-	-	20,650	-
Conservation	-	885	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	187,110	885	3,821	32,654	20,650	32,341
Excess (deficiency) of revenues over (under) expenditures	(182,352)	15,283	980	(6,004)	(2,205)	617
Other financing sources (uses):						
Transfers in	178,813	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources and uses	178,813	-	-	-	-	-
Net change in fund balances	(3,539)	15,283	980	(6,004)	(2,205)	617
Fund balances, beginning	63,250	807,856	7,471	25,865	16,784	-
Fund balances, ending	\$ 59,711	\$ 823,139	\$ 8,451	\$ 19,861	\$ 14,579	\$ 617



	Capital Project Funds			Debt		
Christmas Donations	Safety Center	Solid Waste	Highway Garage	Service Fund	Permanent Fund	Total
\$ -	\$ -	\$ -	\$ -	\$ 57,569	\$ -	\$ 67,969
-	-	-	-	-	-	42,047
-	-	-	-	-	-	16,944
1,046	-	-	-	-	719	36,154
1,046	-	-	-	57,569	719	163,114
-	-	-	-	-	-	68,816
-	-	-	-	-	-	207,760
-	-	-	-	-	-	885
-	-	186,349	1	-	-	186,350
-	-	186,349	1	-	-	463,811
1,046	-	(186,349)	(1)	57,569	719	(300,697)
-	-	143,900	-	-	-	322,713
-	-	-	-	-	(2,737)	(2,737)
-	-	143,900	-	-	(2,737)	319,976
1,046	-	(42,449)	(1)	57,569	(2,018)	19,279
-	9,521	178,612	1	100,635	74,227	1,284,222
\$ 1,046	\$ 9,521	\$ 136,163	\$ -	\$ 158,204	\$ 72,209	\$ 1,303,501



## **PLODZIK & SANDERSON**

*Professional Association/Accountants & Auditors*

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

### ***INDEPENDENT AUDITOR'S COMMUNICATION OF CONTROL DEFICIENCIES AND OTHER MATTERS***

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

In planning and reporting our audit of the financial statements of the Town of Pembroke as of and for the fiscal year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Pembroke's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency and another deficiency that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the following deficiency to be a significant deficiency in internal control.

#### ***Treasurers Stamp***

While the treasurer's stamp is being maintained in a secure location, it is not being retained by the Town treasurer. It was also noted that in the absence of the Town Treasurer, the stamp is used to sign checks by a member of the finance office, with the treasurer's permission.

Access to the stamp, by the finance office, could lead to unauthorized disbursements. It is noted, that during audit fieldwork, the stamp was destroyed by the Town Administrator, to avoid any such problems.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control. We did not identify any deficiencies that we consider to be material weaknesses.

We did discuss certain matters with management that we do not consider to be significant deficiencies.

#### ***Town Clerk***

During review of the Town Clerk's deposits, it was noted on numerous occasions that deposits were not paid over as required by NH RSA 261:165. It was also noted that the deposits were being taken from Town Hall for completion prior to deposit in the Town's bank account.

*Town of Pembroke*  
*Independent Auditor's Communication of Control Deficiencies*

We recommend that all deposits be made in accordance with state statute and be kept on premises in a locked, secure location until such time as they can be deposited to the bank.

*Financial Statement Preparation*

Due to the limited resources (time, personnel) available in the Town, management has requested that our firm prepare the financial statements and footnote disclosures for them to review and approve. This does not violate professional independence standards as the Town Administrator takes responsibility for the statements and is the most cost effective option for the Town. We recommend that management annually evaluate whether it is cost effective to allocate resources to prepare the financial statements and disclosures.

This communication is intended solely for the information and use of management, the board of selectmen, others within the organization, and state and federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

May 5, 2010

*Plodzik & Sanderson*  
*Professional Association*