

TOWN OF PEMBROKE, NEW HAMPSHIRE

Financial Statements

December 31, 2010

and

Independent Auditor's Report

TOWN OF PEMBROKE, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of 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, New Hampshire (the Town) as of and for the year ended December 31, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Pembroke, New Hampshire'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, business-type activities, each major fund and the aggregate remaining fund information of the Town of Pembroke, New Hampshire as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison information, and the schedule of funding progress for other post-employment benefits on pages i-viii and 29-32, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Pembroke, New Hampshire's basic financial statements. The combining nonmajor fund and fiduciary fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund and fiduciary fund financial statements 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.

Vachon Clukay & Company PC

November 17, 2011

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2010

Presented herewith please find the Management Discussion & Analysis Report for the Town of Pembroke for the year ending December 31, 2010. The responsibility for accuracy of the data, the completeness and fairness of this documentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein is accurate in material aspects. This report and its content have been designed to fairly present the Town's financial position, including the result of operations of all the funds of the Town. All the disclosures necessary to enable and to assist the reader in acquiring an accurate understanding of the Town's financial activities have been included.

The Town's management is responsible for establishing accounting and internal control structures designed to ensure that the physical, data, informational, intellectual, and human resource assets of the Town are protected from loss, theft and misuse, and to ensure that adequate accounting information is maintained and reported in conformity with generally accepted accounting principles (GAAP). Management also strives to ensure that these assets are put to good and effective use. The internal control structure is designed to provide reasonable assurances that these objectives are attained.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Town of Pembroke using the integrated approach as prescribed by GASB Statement 34.

This discussion and analysis is intended to serve as an introduction to the Town of Pembroke's financial statements. The basic financial statements comprise three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

This report also contains supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to most private-sector companies.

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

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2010

Both of the government-wide financial statements have separate sections for two types of activities:

Governmental activities – represent most of the Town's basic services.

Business-type activities -- account for the Town's water and sewer operations and receive a majority of their revenue from user fees.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain the control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and to demonstrate compliance with finance-related legal requirements. The Town maintains three fund types: governmental, proprietary, and fiduciary funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements.

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

The Town maintains several individual government funds. Information is presented separately in the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balances for the General Fund and the Expendable Trust Funds, which are considered major funds. Other governmental funds are aggregated as nonmajor funds.

The Town adopts an annual budget for its governmental funds. A budgetary comparison has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary funds provide water and sewer services to customers and charge a user fee. They are presented on the accrual basis of accounting.

Fiduciary funds are used to account for resources held for the benefit of parties outside of town government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's programs.

Notes to the Basic 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.

**TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2010**

Government-Wide Financial Analysis

Governmental Activities

Statement of Net Assets

Net assets of the Town of Pembroke's governmental activities as of December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Current and other assets:		
Capital assets	\$ 7,814,503	\$ 7,506,980
Other assets	<u>9,834,857</u>	<u>9,933,649</u>
Total assets	<u>17,649,360</u>	<u>17,440,629</u>
Long-term and other liabilities:		
Long-term obligations	1,384,277	1,461,642
Other liabilities	<u>4,392,859</u>	<u>4,828,441</u>
Total liabilities	<u>5,777,136</u>	<u>6,290,083</u>
Net assets:		
Invested in capital assets, net of related debt	6,514,503	6,106,980
Restricted	2,904,724	2,659,711
Unrestricted	<u>2,452,997</u>	<u>2,383,855</u>
Total net assets	<u>\$ 11,872,224</u>	<u>\$ 11,150,546</u>

The Town's net assets totaled \$11,872,224 at December 31, 2010, an increase of \$721,678 when compared to the end of 2009.

Approximately 54.9% of the Town's net assets reflect the investment in capital assets such as land, buildings, infrastructure, and equipment less the outstanding debt used to acquire those assets. Another 24.5% of the net assets are restricted in regard to how they may be used. For the Town of Pembroke, those restrictions include those related to permanent and expendable trust funds. The remaining unrestricted portion represents the part of net assets available to finance day-to-day operations.

Statement of Activities

Changes in net assets of the Town's governmental activities for the years ending December 31, 2010 and 2009 are as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2010

	<u>2010</u>	<u>2009</u>
Program revenues:		
Charges for services	\$ 230,793	\$ 181,880
Operating grants and contributions	278,945	436,325
Capital grants and contributions	<u>36,226</u>	<u>-</u>
Total program revenues	<u>545,964</u>	<u>618,205</u>
General revenues:		
Property and other taxes	3,549,029	3,743,424
Licenses and permits	1,173,486	1,146,378
Intergovernmental revenue	325,941	326,080
Interest and investment earnings	57,378	53,621
Miscellaneous	222,004	45,703
Transfers	<u>(130,928)</u>	<u>(142,242)</u>
Total general revenues	<u>5,196,910</u>	<u>5,172,964</u>
Total revenues	<u>5,742,874</u>	<u>5,791,169</u>
Program expenses:		
General government	1,434,677	1,441,752
Public safety	1,572,547	1,557,383
Highways and streets	1,110,835	979,161
Sanitation	489,972	601,851
Health and welfare	90,632	84,901
Culture and recreation	265,566	258,903
Economic development	-	136
Interest and fiscal charges	<u>56,967</u>	<u>60,440</u>
Total expenses	<u>5,021,196</u>	<u>4,984,527</u>
Change in net assets	721,678	806,642
Net assets - beginning of year	<u>11,150,546</u>	<u>10,343,904</u>
Net assets - ending of year	<u>\$ 11,872,224</u>	<u>\$ 11,150,546</u>

As shown in the above statement the Town's governmental activities experienced a favorable increase in financial position of \$721,678 on the full accrual basis of accounting.

Business-Type Activities

Statement of Net Assets

Net assets of the business-type activities as of December 31, 2010 and 2009 are as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2010

	<u>2010</u>	<u>2009</u>
Current and other assets:		
Capital assets	\$ 4,304,681	\$ 4,355,941
Other assets	<u>1,383,149</u>	<u>1,520,641</u>
Total assets	<u>5,687,830</u>	<u>5,876,582</u>
Long-term and other liabilities:		
Long-term obligations	196,408	413,624
Other liabilities	<u>237,967</u>	<u>311,675</u>
Total liabilities	<u>434,375</u>	<u>725,299</u>
Net assets:		
Invested in capital assets, net of related debt	3,890,979	3,724,513
Restricted	583,295	659,045
Unrestricted	<u>779,181</u>	<u>767,725</u>
Total net assets	<u>\$ 5,253,455</u>	<u>\$ 5,151,283</u>

The largest portion of the Town's net assets for its business-type activities reflects its investment in capital assets, primarily utility plant in service and equipment less any related outstanding debt used to acquire those assets. These assets they are not available for future spending.

Statement of Activities

Changes in net assets of the Town's business-type activities for the years ending December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Program revenues:		
Charges for services	\$ 1,378,854	\$ 1,326,056
Capital grants and contributions	<u>14,739</u>	<u>279,125</u>
Total program revenues	<u>1,393,593</u>	<u>1,605,181</u>
General revenues:		
Interest and investment earnings	1,223	3,658
Miscellaneous	35,646	72,113
Transfers	<u>130,928</u>	<u>142,242</u>
Total general revenues	<u>167,797</u>	<u>218,013</u>
Total revenues	<u>1,561,390</u>	<u>1,823,194</u>
Program expenses:		
Water distribution and treatment	674,450	642,422
Sanitation	<u>784,768</u>	<u>815,078</u>
Total expenses	<u>1,459,218</u>	<u>1,457,500</u>
Change in net assets	102,172	365,694
Net assets - beginning of year	<u>5,151,283</u>	<u>4,785,589</u>
Net assets - ending of year	<u>\$ 5,253,455</u>	<u>\$ 5,151,283</u>

**TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2010**

The main funding source for business-type activities is charges for services, which provided 94.5% and 91.0% of expenses in 2010 and 2009 respectively. Net assets increased by \$102,172 in 2010 largely due to the transfer of funds of \$130,928 from the General Fund to pay a portion of the annual debt service requirements in the Sewer Fund.

Financial Analysis of the Town's Funds

As noted previously, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

General Fund

The General Fund is the main operating fund of the Town. At the end of the current fiscal year, the general fund had a fund balance of \$1,792,524, an increase of \$155,979. There was a budgeted use of fund balance to help offset the current year tax rate in the amount of \$500,000. The increase in fund balance is primarily a result of conservative spending.

Expendable Trust Funds

The Expendable Trust Funds received budgeted transfers of \$371,000 from the General Fund. Budgeted funds of \$164,959 were transferred to the General Fund to fund the purchase of a split-body automated recycling collection vehicle and a police vehicle. The fund balance of the Expendable Trust Funds increased by \$176,663 to \$1,570,246.

Other Governmental Funds

The total fund balance of \$1,395,663 in the other governmental funds is restricted for the purposes of the individually established fund. The largest portion of this total represents the balance in the Conservation Commission Fund (\$869,545 or 62.3%) and the TIF District Fund (\$278,236 or 19.9%).

Proprietary Funds

The focus of the Town's proprietary funds is on total economic resources, and changes to net assets, much as it might be for a private-sector business.

The Town's proprietary funds had unrestricted net assets of \$1,362,476 at December 31, 2010, which is a decrease of \$64,294 (or 4.51%) from December 31, 2009. However, there was an increase in the amount invested in capital assets, net of related debt of \$166,466 (or 4.47%) from December 31, 2009.

**TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2010**

Capital Assets and Long-term Obligations

Capital Assets

The Town of Pembroke considers a capital asset to be an asset whose costs exceed or equal \$10,000 and has a useful life of greater than one year. Assets are depreciated using the straight-line method over the course of their useful life. See Note 6 to the basic financial statements for a complete schedule of capital asset activity for the year.

Long-Term Obligations

During 2010 the Town had a reduction in general obligation bonds in governmental and business-type activities of \$100,000 and \$210,396, respectively, from payments made during the year. See Note 10 to the basic financial statements for additional information on the long-term obligations of the Town.

General Fund Budgetary Highlights

Budgetary information for the General Fund (a major governmental fund) is included in the Required Supplementary Information section. Budgetary information in these financial statements has been presented for only one of the Town's major governmental funds (the General Fund). There is no adopted budget for the Expendable Trust Funds.

During the year, the original estimated revenues increased by \$14,469, which represents grants accepted in accordance with the provisions of RSA 31:95b. The appropriations increased by \$79,064, which represents grants accepted, of which \$64,595 was already included in the estimated revenue figures submitted to the Department of Revenue Administration when the tax rate was established.

Actual revenues and transfers in on the budgetary basis exceeded the budgeted amount by \$61,059. This is primarily due to receiving additional revenues from the following budgeted sources: \$46,195 in taxes, \$54,486 in licenses and permits, and \$72,090 in charges for services. These additional revenue sources offset the miscellaneous revenue which was less than the estimated amount by \$133,340 since all of the recycling carts acquired by the Town have not been sold in their entirety as of year end.

The Town underexpended its appropriations by \$477,817 or 7.51%. There were savings within all Town departments with the largest savings within highways and streets, capital outlay, and general government of \$163,583, \$105,364, and \$70,713, respectively.

Economic Conditions

The Town of Pembroke continues to review and update our capital investment plan (CIP) to accommodate and anticipate the needs of the community and its continued operation based on continued growth. By doing so, we have been able to set aside the necessary funds over the years to modernize our services to the community at a savings to the residents. The recent implementation of the new split body trash and recycling vehicle has cut back substantially on manpower at Public Works and also has reduced the amount of trash that we are sending to the incinerator in Penacook. The Town continues to plan for the future and we are also reaching out to other communities in an effort to pool purchasing resources with the goal of being able to maximize services while at the same time stabilizing or cutting costs.

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2010

Several initiatives with Suncook Valley Regional Town Association have enabled Pembroke to substantially lower their costs of health insurance. Though Pembroke is considered mostly a bedroom community, we have been able over the years with proper planning to stabilize the Town portion of the tax rate with little or no tax increase.

Contacting the Town of Pembroke's Financial Management

This financial report is to provide our citizens and creditors with a general overview of the Town's finances and to show a measure of accountability for the money it receives. If you have any questions about this report or need to get additional information, contact the Board of Selectmen at, 311 Pembroke Street, Pembroke, NH 03275, telephone number 603-485-4747.

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,436,957	\$ 188,583	\$ 3,625,540
Investments	5,473,589	28,273	5,501,862
Taxes receivable, net	1,431,804		1,431,804
Accounts receivable	3,330	514,176	517,506
Due from other governments		41,640	41,640
Prepaid expenses	72,472	6,911	79,383
Inventory		20,271	20,271
Internal balance	(583,295)	583,295	-
Total Current Assets	<u>9,834,857</u>	<u>1,383,149</u>	<u>11,218,006</u>
Noncurrent Assets:			
Non-depreciable capital assets	1,723,612	127,924	1,851,536
Depreciable capital assets, net	<u>6,090,891</u>	<u>4,176,757</u>	<u>10,267,648</u>
Total Noncurrent Assets	<u>7,814,503</u>	<u>4,304,681</u>	<u>12,119,184</u>
Total Assets	<u>\$ 17,649,360</u>	<u>\$ 5,687,830</u>	<u>\$ 23,337,190</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 50,483	\$ 9,253	\$ 59,736
Retainage payable		6,040	6,040
Accrued expenses	109,027	2,763	111,790
Deferred revenue	554	804	1,358
Due to other governments	4,008,795		4,008,795
Deposits payable		1,000	1,000
Current portion of bonds payable	100,000	210,397	310,397
Current portion of note payable		7,710	7,710
Current portion of estimated liability for landfill closure and postclosure care costs	<u>124,000</u>		<u>124,000</u>
Total Current Liabilities	<u>4,392,859</u>	<u>237,967</u>	<u>4,630,826</u>
Noncurrent Liabilities:			
Bonds payable	1,200,000		1,200,000
Note payable		195,595	195,595
Compensated absences payable	42,322		42,322
Other post-employment benefits payable	21,955	813	22,768
Estimated liability for landfill closure and postclosure care costs	<u>120,000</u>		<u>120,000</u>
Total Noncurrent Liabilities	<u>1,384,277</u>	<u>196,408</u>	<u>1,580,685</u>
Total Liabilities	<u>5,777,136</u>	<u>434,375</u>	<u>6,211,511</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,514,503	3,890,979	10,405,482
Restricted	2,904,724	583,295	3,488,019
Unrestricted	<u>2,452,997</u>	<u>779,181</u>	<u>3,232,178</u>
Total Net Assets	<u>11,872,224</u>	<u>5,253,455</u>	<u>17,125,679</u>
Total Liabilities and Net Assets	<u>\$ 17,649,360</u>	<u>\$ 5,687,830</u>	<u>\$ 23,337,190</u>

See accompanying notes to the basic financial statements

EXHIBIT B
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Activities
December 31, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 1,434,677	\$ 31,291			\$ (1,403,386)		\$ (1,403,386)
Public safety	1,572,547	30,133	\$ 42,742		(1,499,672)		(1,499,672)
Highways and streets	1,110,835	2,295	236,203	\$ 36,226	(836,111)		(836,111)
Sanitation	489,972	143,627			(346,345)		(346,345)
Health and welfare	90,632				(90,632)		(90,632)
Culture and recreation	265,566	23,447			(242,119)		(242,119)
Interest and fiscal charges	56,967				(56,967)		(56,967)
Total governmental activities	5,021,196	230,793	278,945	36,226	(4,475,232)	\$ -	(4,475,232)
Business-type activities:							
Water Department	674,450	644,070				(30,380)	(30,380)
Sewer Department	784,768	734,784		14,739		(35,245)	(35,245)
Total business-type activities	1,459,218	1,378,854	-	14,739	-	(65,625)	(65,625)
Total primary government	\$ 6,480,414	\$ 1,609,647	\$ 278,945	\$ 50,965	(4,475,232)	(65,625)	(4,540,857)
General revenues:							
Property and other taxes					3,549,029		3,549,029
Licenses and permits					1,173,486		1,173,486
Grants and contributions:							
Rooms and meals tax distribution					325,941		325,941
Interest and investment earnings					57,378	1,223	58,601
Miscellaneous					222,004	35,646	257,650
Transfers					(130,928)	130,928	-
Total general revenues and transfers					5,196,910	167,797	5,364,707
Change in net assets					721,678	102,172	823,850
Net assets - beginning, as restated					11,150,546	5,151,283	16,301,829
Net assets - ending					\$ 11,872,224	\$ 5,253,455	\$ 17,125,679

See accompanying notes to the basic financial statements

EXHIBIT C
TOWN OF PEMBROKE, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2010

	General Fund	Expendable Trust Funds	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 1,161,581	\$ 2,153,541	\$ 121,835	\$ 3,436,957
Investments	4,641,843		831,746	5,473,589
Taxes receivable, net	1,431,804			1,431,804
Accounts receivable	1,606		1,724	3,330
Due from other funds			445,804	445,804
Prepaid expenses	72,472			72,472
Total assets	\$ 7,309,306	\$ 2,153,541	\$ 1,401,109	\$ 10,863,956
Liabilities:				
Accounts payable	\$ 43,965		\$ 5,446	\$ 49,411
Accrued expenses	83,395			83,395
Deferred revenue	933,751			933,751
Due to other governments	4,008,795			4,008,795
Due to other funds	446,876	\$ 583,295		1,030,171
Total liabilities	5,516,782	583,295	5,446	6,105,523
Fund balances:				
Reserved for prepaid expenses	72,472			72,472
Reserved for encumbrances	170,852			170,852
Reserved for endowments			40,937	40,937
Unreserved, reported in:				
General fund	1,549,200			1,549,200
Special revenue funds		1,570,246	1,198,510	2,768,756
Capital projects fund			124,802	124,802
Permanent funds			31,414	31,414
Total fund balances	1,792,524	1,570,246	1,395,663	4,758,433
	\$ 7,309,306	\$ 2,153,541	\$ 1,401,109	

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 7,814,503

Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis 933,197

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:

Bonds payable (1,300,000)
Accrued interest on long-term obligations (25,632)
Compensated absences payable (42,322)
Other post-employment benefits payable (21,955)
Estimated liability for landfill closure and postclosure care costs (244,000)

Net assets of governmental activities \$ 11,872,224

See accompanying notes to the basic financial statements

EXHIBIT D

TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

	General Fund	Expendable Trust Funds	Other Governmental Funds	Total Governmental Funds	
Revenues:					
Taxes	\$ 3,537,516		\$ 70,788	\$ 3,608,304	Net Change in Fund Balances - Total Governmental Funds \$ 395,182
Licenses and permits	1,173,486			1,173,486	
Intergovernmental	619,176		9,436	628,612	Amounts reported for governmental activities in the statement of activities are different because:
Charges for services	197,575		28,203	225,778	
Interest and investment income	50,217	\$ 1,942	5,219	57,378	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.
Miscellaneous	209,660	821	16,538	227,019	
Total Revenues	5,787,630	2,763	130,184	5,920,577	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.
Expenditures:					
Current operations:					
General government	1,106,502			1,106,502	Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.
Public safety	1,463,530		24,545	1,488,075	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.
Highways and streets	901,526			901,526	Some expense reported in the statement of activities, such as compensated absences, other post-employment benefits, and the estimated liability for landfill closure and postclosure care costs, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.
Sanitation	305,126			305,126	Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss of disposed capital assets reduced by the actual proceeds received from the sale of capital assets.
Health and welfare	88,125		2,406	90,531	
Culture and recreation	32,577	4,466	227,030	264,073	Change in net assets of governmental activities
Capital outlay	1,046,974	27,675	6,135	1,080,784	
Debt service:					
Principal retirement	100,000			100,000	
Interest and fiscal charges	57,850			57,850	
Total Expenditures	5,102,210	32,141	260,116	5,394,467	
Excess of revenues over (under) expenditures	685,420	(29,378)	(129,932)	526,110	883
Other financing sources (uses):					
Transfers in	165,209	371,000	192,722	728,931	
Transfers out	(694,650)	(164,959)	(250)	(859,859)	(22,635)
Total other financing sources (uses)	(529,441)	206,041	192,472	(130,928)	
Net change in fund balances	155,979	176,663	62,540	395,182	
Fund balances at beginning of year, as restated	1,636,545	1,393,583	1,333,123	4,363,251	(9,000)
Fund balances at end of year	\$ 1,792,524	\$ 1,570,246	\$ 1,395,663	\$ 4,758,433	\$ 721,678

See accompanying notes to the basic financial statements

EXHIBIT E
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
December 31, 2010

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 88,684	\$ 99,899	\$ 188,583
Investments	28,273		28,273
Accounts receivable	172,638	341,538	514,176
Due from other governments		41,640	41,640
Due from other funds	258,512	324,783	583,295
Prepaid expenses	6,911		6,911
Inventory	20,271		20,271
Total Current Assets	<u>575,289</u>	<u>807,860</u>	<u>1,383,149</u>
Noncurrent Assets:			
Non-depreciable capital assets	31,935	95,989	127,924
Depreciable capital assets, net	<u>2,240,487</u>	<u>1,936,270</u>	<u>4,176,757</u>
Total Noncurrent Assets	<u>2,272,422</u>	<u>2,032,259</u>	<u>4,304,681</u>
Total Assets	<u>\$ 2,847,711</u>	<u>\$ 2,840,119</u>	<u>\$ 5,687,830</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 5,232	\$ 4,021	\$ 9,253
Retainage payable		6,040	6,040
Accrued expenses		2,763	2,763
Deferred revenue		804	804
Deposits payable	1,000		1,000
Current portion of bonds payable		210,397	210,397
Current portion of note payable	<u>7,710</u>		<u>7,710</u>
Total Current Liabilities	<u>13,942</u>	<u>224,025</u>	<u>237,967</u>
Noncurrent Liabilities:			
Note payable	195,595		195,595
Other post-employment benefits payable		813	813
Total Noncurrent Liabilities	<u>195,595</u>	<u>813</u>	<u>196,408</u>
Total Liabilities	<u>209,537</u>	<u>224,838</u>	<u>434,375</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,069,117	1,821,862	3,890,979
Unrestricted	<u>569,057</u>	<u>793,419</u>	<u>1,362,476</u>
Total Net Assets	<u>2,638,174</u>	<u>2,615,281</u>	<u>5,253,455</u>
Total Liabilities and Net Assets	<u>\$ 2,847,711</u>	<u>\$ 2,840,119</u>	<u>\$ 5,687,830</u>

See accompanying notes to the basic financial statements

EXHIBIT F
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2010

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Operating revenues:			
Charges for services	\$ 644,070	\$ 734,784	\$ 1,378,854
Miscellaneous revenues	26,844	8,802	35,646
Total operating revenues	<u>670,914</u>	<u>743,586</u>	<u>1,414,500</u>
Operating expenses:			
Personnel services	285,787	118,944	404,731
Contractual services	23,806	449,113	472,919
Materials and supplies	110,340	21,120	131,460
Maintenance and repairs	7,843	23,873	31,716
Utilities	90,161	18,375	108,536
Depreciation	117,496	125,486	242,982
Miscellaneous expenses	30,649	14,132	44,781
Total operating expenses	<u>666,082</u>	<u>771,043</u>	<u>1,437,125</u>
Operating income (loss)	<u>4,832</u>	<u>(27,457)</u>	<u>(22,625)</u>
Non-operating revenues (expenses):			
Interest revenue	359	864	1,223
Interest expense	(8,368)	(13,725)	(22,093)
Net non-operating revenues (expenses)	<u>(8,009)</u>	<u>(12,861)</u>	<u>(20,870)</u>
Loss before contributions and transfers	(3,177)	(40,318)	(43,495)
Capital contributions		14,739	14,739
Transfers in		<u>130,928</u>	<u>130,928</u>
Change in net assets	(3,177)	105,349	102,172
Total net assets at beginning of year, as restated	<u>2,641,351</u>	<u>2,509,932</u>	<u>5,151,283</u>
Total net assets at end of year	<u>\$ 2,638,174</u>	<u>\$ 2,615,281</u>	<u>\$ 5,253,455</u>

See accompanying notes to the basic financial statements

EXHIBIT G
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2010

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 647,660	\$ 722,206	\$ 1,369,866
Cash paid to suppliers	(319,922)	(626,592)	(946,514)
Cash paid to employees	(225,241)	(87,569)	(312,810)
Net cash provided by operating activities	<u>102,497</u>	<u>8,045</u>	<u>110,542</u>
Cash flows from noncapital financing activities:			
Transfer from other funds		130,928	130,928
Net cash provided by noncapital financing activities	<u>-</u>	<u>130,928</u>	<u>130,928</u>
Cash flows from capital and related financing activities:			
Capital contributions		145,196	145,196
Purchases of capital assets	(91,613)	(94,069)	(185,682)
Principal paid on long-term debt	(7,330)	(210,396)	(217,726)
Interest paid on long-term debt	(8,368)	(16,443)	(24,811)
Net cash used for capital and related financing activities	<u>(107,311)</u>	<u>(175,712)</u>	<u>(283,023)</u>
Cash flows from investing activities:			
Sale of investments		20,884	20,884
Interest on investments	359	864	1,223
Net cash provided by investing activities	<u>359</u>	<u>21,748</u>	<u>22,107</u>
Net increase (decrease) in cash and cash equivalents	(4,455)	(14,991)	(19,446)
Cash and cash equivalents at beginning of year, as restated	351,651	439,673	791,324
Cash and cash equivalents at end of year	<u>\$ 347,196</u>	<u>\$ 424,682</u>	<u>\$ 771,878</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 4,832	\$ (27,457)	\$ (22,625)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	117,496	125,486	242,982
Changes in assets and liabilities:			
Accounts receivable	(23,254)	(9,612)	(32,866)
Prepaid expenses	4,430		4,430
Inventory	(4,859)		(4,859)
Accounts payable	3,852	(69,417)	(65,565)
Deferred revenue		(11,768)	(11,768)
Other post-employment benefits payable		813	813
Net cash provided by operating activities	<u>\$ 102,497</u>	<u>\$ 8,045</u>	<u>\$ 110,542</u>

See accompanying notes to the basic financial statements

EXHIBIT H
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2010

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 819,205
Investments	604,175
Due from other funds	<u>1,072</u>
Total assets	<u>\$ 1,424,452</u>
LIABILITIES	
Deposits	\$ 36,512
Due to other governments	1,386,868
Due to others	<u>1,072</u>
Total liabilities	<u>\$ 1,424,452</u>

See accompanying notes to the basic financial statements

**TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2010**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Pembroke, New Hampshire conform to accounting policies generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

Financial Reporting Entity

The Town of Pembroke, New Hampshire (the Town) was incorporated in 1759. The Town operates under the Town Meeting/Board of Selectmen form of government and performs local governmental functions authorized by State law.

The financial statements include those of the various departments governed by the Board of Selectmen and other officials with financial responsibility. The Town has no other separate organizational units, which meet criteria for inclusion in the financial statements as defined by the Governmental Accounting Standards Board (GASB).

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.

1. Government-Wide Financial Statements:

The statement of net assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Town at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Town.

2. Fund Financial Statements:

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

Fund Accounting

The Town uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Town employs the use of three categories of funds: governmental, proprietary and fiduciary.

1. 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. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Town's major governmental funds:

The *General Fund* is the main operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Expendable Trust Funds account for all the financial resources of the various trust arrangements held by the Trustees of Trust Funds in which the principal and income benefit the various departments of the Town.

2. Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The Town has no internal service funds. The following are the Town's major proprietary funds:

The *Water and Sewer Funds* account for all revenues and expenses pertaining to the Town's water and wastewater operations. The Water and Sewer Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e. expenses including depreciation) of providing goods or services to the residents on a continuing basis are financed or recovered primarily through user charges.

3. Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category has one classification: agency funds. The Town's agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The Town's agency funds account for the capital reserve and other funds of the Pembroke School District, which are held by the Town's Trustees of Trust Funds in accordance with State law. The Town also accounts for certain performance deposits in its agency funds.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

Measurement Focus

1. Government-Wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the Statement of Net Assets.

2. 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 on 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 statements for governmental funds.

Like the government-wide statements, the proprietary fund type is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.

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. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

In the government-wide financial statements and proprietary fund statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Town has elected not to follow the FASB pronouncements issued subsequent to November 30, 1989.

1. Revenues – Exchange and Non-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 a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Town, available means expected to be received within sixty days of year end.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (see Note 2). Revenue from grants, entitlements and donations is recognized in the year in which all 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 non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes and interest on investments.

Licenses and permits, charges for services, and miscellaneous revenues (except interest on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received.

2. Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

3. Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

Budgetary Data

The Town's budget represents functional appropriations as authorized by annual or special Town meetings. The Selectmen may transfer funds between operating categories as they deem necessary. The Town adopts its budget under State regulations, which differ somewhat from accounting principles generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended December 31, 2010, the Town applied \$500,000 of its unappropriated fund balance to reduce taxes.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

Encumbrance Accounting

Encumbrance accounting, under which purchase orders and other commitments for expenditure of monies are recorded in order to reserve a portion of the applicable appropriation, is employed as an extension of formal budgetary integration in Governmental Funds. Encumbrances outstanding at year end are reported as a component of fund balance since they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of the following:

	Water <u>Fund</u>	Sewer <u>Fund</u>	<u>Totals</u>
Cash and cash equivalents	\$ 88,684	\$ 99,899	\$ 188,583
Due from other funds	258,512	324,783	583,295
Total cash and cash equivalents	<u>\$ 347,196</u>	<u>\$ 424,682</u>	<u>\$ 771,878</u>

Investments

Investments are stated at their fair value in all funds. Certificates of deposit and repurchase agreements with a maturity of greater than ninety days from the date of issuance are included in investments.

Taxes Receivable

Taxes levied during the current year and prior and uncollected at December 31, 2010 are recorded as receivables net of reserves for estimated uncollectibles of \$80,000.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2010 are recorded as prepaid items.

Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net assets, but are not reported in the governmental fund financial statements.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

All capital assets including infrastructure are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the date received. The Town maintains a capitalization threshold of \$10,000. The Town's infrastructure consists of roads, water purification and distribution system, sewer collection and treatment system, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction phase of capital assets of business-type activities is also capitalized.

The Town is not required to retroactively report its general infrastructure (e.g. roads, bridges and sidewalks). Infrastructure records have been maintained effective January 1, 2004 and are included in these financial statements.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the Town's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Infrastructure	40
Buildings and improvements	40
Vehicles and equipment	10-25

Compensated Absences

Full time employees accrue sick leave days at a rate of four hours for each calendar month of service. Regular part time employees accrue sick leave at a pro-rated rate based on the number of hours of employment. Both full and part time employees may accrue sick leave cumulative to a maximum of 96 hours. Upon reaching the maximum accumulation of 96 hours, the employee shall be paid for 48 hours of the accumulated sick leave and shall have 48 hours of accumulated sick leave remaining. No payment for unused sick leave is made upon involuntary termination. Town employees earn vacation at 80-120 hours per year dependent on length of service. Vacation can only be accrued up to 80 hours. Provision has been made in the financial statements for accrued/unused vacation.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee death or retirement. The entire compensated absence liability is reported on the government-wide financial statements.

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 resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they are due for payment during the current year. General obligation bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings 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.

The Town's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balance Reserves

The Town reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. A fund balance reserve has been established for endowments, encumbrances and prepaid expenses.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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 for repayment are reported as interfund transfers. 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 in the financial statements.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the water fund and sewer fund, these revenues are charges to customers for sales and services. Operating expenses, which include depreciation on capital assets, are necessary costs incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. Significant estimates include depreciation expense, the allowance for uncollectible taxes and the liability for other post-employment benefits.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$608,918,703 as of April 1, 2010) and are due in two installments on July 1, 2010 and December 17, 2010. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

Under State law, the Tax Collector obtains tax liens on properties which have unpaid taxes in the following calendar year after taxes were due for the amount of unpaid taxes, interest and costs. These priority tax liens accrue interest at 18% per annum. If the property is not redeemed within a two year redemption period, the property may be tax deeded to the Town.

In accordance with State law, the Town collects taxes for the Pembroke School District and Merrimack County, both independent governmental units, which are remitted to them as required by law. The Town also collects State of New Hampshire education taxes, which are remitted directly to the school district. Total taxes appropriated during the year were \$10,501,601 and \$1,689,902 for the Pembroke School District and Merrimack County, respectively. These taxes are not recognized as revenues in these financial statements. The Town bears responsibility for uncollected taxes.

NOTE 3—RISK MANAGEMENT

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2010, the Town was a member of the Local Government Center (LGC). The Town currently reports all of its risk management activities in its General Fund. The Trust is classified as a "Risk Pool" in accordance with accounting principles generally accepted in the United States of America.

The Trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at December 31, 2010.

Property and Liability Insurance

The LGC provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the LGC, the Town shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

Worker's Compensation

The LGC provides statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. The Trust is self-sustaining through annual member premiums and provides coverage for the statutorily required workers' compensation benefits and employer's liability coverage up to \$2,000,000. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

NOTE 4—DEPOSITS AND INVESTMENTS

Deposits and investments as of December 31, 2010 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and cash equivalents	\$ 3,625,540
Investments	5,501,862
Statement of Fiduciary Net Assets:	
Cash and cash equivalents	819,205
Investments	604,175
Total deposits and investments	<u>\$ 10,550,782</u>

Deposits and investments as of December 31, 2010 consist of the following:

Cash on hand	\$ 7,043
Deposits with financial institutions	8,549,302
Investments	<u>1,994,437</u>
Total deposits and investments	<u>\$ 10,550,782</u>

The Town limits its investments to United States Treasury securities maturing in less than one year, fully insured or collateralized certificates of deposits in either local or national banks and overnight repurchase agreements in accordance with New Hampshire State law (RSA 41:29) or the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. Responsibility for the investments of the Trust Funds is with the Board of Trustees.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The Town's policy for its governmental and proprietary funds addresses credit risk by limiting investments to the safest types of securities and diversifying the investment portfolio. The Trustees of Trust Funds' investment policy addresses credit risk by limiting investments on the unexpendable portion of trust funds in high grade equity investments, common stock, and mutual funds. The following is the actual rating at year end for each investment type:

<u>Investment Type</u>	<u>Not rated</u>
Money market mutual funds	<u>\$ 9,300</u>

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Town's policy for its governmental and proprietary funds addresses custodial credit risk by stating that all deposits are to be fully collateralized. The investment policy of the Trustees of Trust Funds specifies that short term funds and capital reserve funds are to be invested in money market or regular savings accounts when collateralization is not an issue.

As of December 31, 2010, Town investments in the following investment types were held by the same counterparty that was used to buy the securities.

<u>Investment Type</u>	<u>Reported Amount</u>
Overnight repurchase agreement	\$ 1,390,262
Equity securities	594,875
Money market mutual funds	9,300
	<u>\$ 1,994,437</u>

NOTE 5—DUE FROM OTHER GOVERNMENTS

Receivables from other governments at December 31, 2010 consist of sewer state aid. All receivables are considered collectible in full and will be received within one year.

NOTE 6—CAPITAL ASSETS

The following is a summary of changes in capital assets in the governmental funds:

	<u>Restated Balance 01/01/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/10</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 1,723,612			\$ 1,723,612
Construction in progress	115,605		\$ (115,605)	-
Total capital assets not being depreciated	<u>1,839,217</u>	<u>\$ -</u>	<u>(115,605)</u>	<u>1,723,612</u>
Other capital assets:				
Infrastructure	2,179,237	456,843		2,636,080
Buildings and improvements	3,843,700			3,843,700
Vehicles and equipment	4,361,982	459,093	(30,000)	4,791,075
Total other capital assets at historical cost	<u>10,384,919</u>	<u>915,936</u>	<u>(30,000)</u>	<u>11,270,855</u>

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

Less accumulated depreciation for:

Infrastructure	(135,961)	(65,902)		(201,863)
Buildings and improvements	(2,314,737)	(86,588)		(2,401,325)
Vehicles and equipment	(2,266,458)	(331,318)	21,000	(2,576,776)
Total accumulated depreciation	(4,717,156)	(483,808)	21,000	(5,179,964)
Total other capital assets, net	5,667,763	432,128	(9,000)	6,090,891
Total capital assets, net	<u>\$ 7,506,980</u>	<u>\$ 432,128</u>	<u>\$ (124,605)</u>	<u>\$ 7,814,503</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 246,653
Public safety	64,010
Highways and streets	173,145
Total governmental activities depreciation expense	<u>\$ 483,808</u>

The following is a summary of changes in capital assets in the proprietary funds:

	Balance 01/01/10	Additions	Reductions	Balance 12/31/10
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 31,935			\$ 31,935
Construction in progress	287,096	\$ 95,989	\$ (287,096)	95,989
Total capital assets not being depreciated	319,031	95,989	(287,096)	127,924
Other capital assets:				
Building and improvements	272,333			272,333
Water infrastructure	2,108,355	51,561		2,159,916
Sewer infrastructure	2,994,977	291,216		3,286,193
Machinery, vehicles, and equipment	2,300,922	40,052		2,340,974
Other	29,865			29,865
Total other capital assets at historical cost	7,706,452	382,829	-	8,089,281
Less accumulated depreciation for:				
Building and improvements	(174,145)	(7,636)		(181,781)
Water infrastructure	(717,236)	(47,104)		(764,340)
Sewer infrastructure	(1,392,131)	(109,540)		(1,501,671)
Machinery, vehicles, and equipment	(1,356,165)	(78,702)		(1,434,867)
Other	(29,865)			(29,865)
Total accumulated depreciation	(3,669,542)	(242,982)	-	(3,912,524)
Total other capital assets, net	4,036,910	139,847	-	4,176,757
Total capital assets, net	<u>\$ 4,355,941</u>	<u>\$ 235,836</u>	<u>\$ (287,096)</u>	<u>\$ 4,304,681</u>

Depreciation expense was charged to the proprietary funds as follows:

Water Fund	\$ 117,496
Sewer Fund	125,486
Total business-type activities depreciation expense	<u>\$ 242,982</u>

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

NOTE 7—DUE TO OTHER GOVERNMENTS

In accordance with State law, the Town collects taxes for the Pembroke School District and Merrimack County, both independent governmental units, which are remitted to them as required by law. At December 31, 2010, the balance of the property tax appropriation due to the Pembroke School District is \$4,001,601.

Also, the Town collects motor vehicle fees for the State of New Hampshire, at December 31, 2010; the balance owed to the State of New Hampshire for these fees is \$7,194.

NOTE 8—DEFINED BENEFIT PLAN

Plan Description

The Town contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer defined benefit pension plan administered by the NHRS Board of Trustees. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

Funding Policy

Covered public safety employees are required to contribute 9.3% of their covered salary, whereas general employees are required to contribute 5.0% of their covered salary. The Town is required to contribute at an actuarially determined rate. The Town's contribution rates for the covered payroll of police officers and general employees were 13.66% and 9.16%, respectively through June 30, 2010 and 14.63% and 9.16%, respectively, thereafter. The Town contributes 70% of the employer cost for public safety officers employed by the Town, and the State contributes the remaining 30% of the employer cost, through June 30, 2010 and 75% and 25%, respectively, thereafter. The Town contributes 100% of the employer cost for general employees of the Town. In accordance with accounting principles generally accepted in the United States of America (GASB Statement #24), on-behalf fringe benefits contributed by the State of New Hampshire of \$32,306 have been reported as a revenue and expenditure in the General Fund in these financial statements.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The Town's contributions to the NHRS for the years ending December 31, 2010, 2009 and 2008 were \$180,442, \$160,934 and \$156,086, respectively, equal to the required contributions for each year.

NOTE 9—OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the Town provides implicit post-employment medical benefits to its eligible retirees and their spouses. General employees must reach age 50 with 10 years of service, obtain 20 years of service and 70 points (the sum of age plus years of service) or reach age 60 with no service to qualify for this benefit. Public safety employees are required to reach age 45 with 20 years of service or reach age 60 with no service to qualify for this benefit. Retirees pay the full cost of the health

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

care coverage. This valuation does not account for the cost of benefits to retirees or their spouses after age 65. Surviving beneficiaries continue to receive medical coverage after the death of the eligible retired employee as long as they pay the required premiums. This valuation does not account for the cost of benefits to survivors. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of January 1, 2010, the actuarial valuation date, participants of the postretirement plan that meet eligibility requirements are comprised of 6 retirees and 28 active employees with 7 currently eligible to retire. The plan does not issue a separate financial report.

During the year, the Town prospectively implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

Annual OPEB Costs

The Town's fiscal 2010 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined using the alternative measurement method in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid, on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of thirty years. The Town's annual OPEB cost for the year ending December 31, 2010 including the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2010 is as follows:

Annual required contribution	\$ 68,922
Interest on net OPEB obligation	-
Annual OPEB cost	68,922
Contributions made	(46,154)
Increase in net OPEB obligation	22,768
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u>\$ 22,768</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending December 31, 2010 are as follows:

Fiscal Year <u>Ended</u>	Annual <u>OPEB Cost</u>	Percentage of OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
12/31/2010	\$ 68,922	67.0%	\$ 22,768

The Town's net OPEB obligation as of December 31, 2010 is recognized as a liability in these financial statements.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

Funded Status and Funding Progress for OPEB

The funded status of the plan as of January 1, 2010, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 833,515
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 833,515</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 1,205,567
UAAL as a percentage of covered payroll	69.1%

The alternative measurement valuation involves estimates of the value of reported amounts and assumptions about the probability of events in the future. The total cost of providing post-employment benefits is projected, taking into account assumptions about current claim cost, turnover, mortality, health care trends, and other actuarial assumptions. Internally generated key assumptions, based on recent trends within the Town, include general considerations, expected point at which benefits begin, and marital dependency status. Mortality assumptions were derived from the RP2000 Mortality Table. The assumption on health care trends was provided by an independent company that assisted the Town in the preparation of the alternative measurement method for GASB 45. Based on this independent company's help, the health care trends do not reflect potential changes in future health costs due to the passage of the Patient Protection and Affordable Care Act signed on March 23, 2010, as amended by the Health Care and Education Reconciliation Act signed on March 30, 2010 as the impact of these recent legislations are unknown. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, when available.

Actuarial Methods and Assumptions for OPEB

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the January 1, 2010 actuarial valuation, the Projected Unit Credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an annual healthcare cost trend rate of 10.0% initially, and then reduced by 0.5% decrements to an ultimate rate of 5.0% after 10 years. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level percentage of payroll for a period of thirty years on an open group basis. This has been calculated assuming the amortization payment increases at a rate of 3.0% per year.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

NOTE 10—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the Town's long-term obligations for the year ended December 31, 2010 are as follows:

	Restated Balance 01/01/10	Additions	Reductions	Balance 12/31/10	Due Within One Year
<i>Governmental activities:</i>					
Bonds payable	\$ 1,400,000		\$ (100,000)	\$ 1,300,000	\$ 100,000
Estimated liability for landfill closure and postclosure care costs	244,000	\$ 1,802	(1,802)	244,000	124,000
Compensated absences payable	41,642	8,086	(7,406)	42,322	
Total governmental activities	<u>\$ 1,685,642</u>	<u>\$ 9,888</u>	<u>\$ (109,208)</u>	<u>\$ 1,586,322</u>	<u>\$ 224,000</u>
<i>Business-type activities:</i>					
Bonds payable	\$ 420,793		\$ (210,396)	\$ 210,397	\$ 210,397
Note payable	210,635		(7,330)	203,305	7,709
Total business-type activities	<u>\$ 631,428</u>	<u>\$ -</u>	<u>\$ (217,726)</u>	<u>\$ 413,702</u>	<u>\$ 218,106</u>

Payments on the general obligation bonds of the governmental activities are paid out of the General Fund. Payments on the general obligation bonds of the business-type activities are paid out of the Water and Sewer Funds. Payments on the note payable of the business-type activities are paid out of the Water Fund. Compensated absences payable will be paid from the fund where the employee's salary is paid.

Governmental Activities

Bonds payable at December 31, 2010 is comprised of the following individual issue:

\$2,560,000, 2003 Safety complex and refunding, due in annual installments of \$100,000 through July 2023, interest at 3.25-4.6%	<u>\$ 1,300,000</u>
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Debt service requirements to retire general obligation bonds outstanding for governmental activities at December 31, 2010 are as follows:

Year Ending December 31,	Principal	Interest	Totals
2011	\$ 100,000	\$ 54,600	\$ 154,600
2012	100,000	51,100	151,100
2013	100,000	47,350	147,350
2014	100,000	43,350	143,350
2015	100,000	39,350	139,350
2016-2020	500,000	134,250	634,250
2021-2023	300,000	27,400	327,400
	<u>\$ 1,300,000</u>	<u>\$ 397,400</u>	<u>\$ 1,697,400</u>

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

As included on the Statement of Activities (Exhibit B), interest expense for the year ended December 31, 2010 was \$56,967 on general obligation debt for governmental activities.

Business-type Activities

Bonds payable

Bonds payable at December 31, 2010 are comprised of the following individual issue:

\$3,155,948, 1997 Route 3/106 sewer extension, due in annual installments of \$210,397 through September 1, 2011, interest at 3.91%	<u>\$ 210,397</u>
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Debt service requirements to retire general obligation bonds outstanding for business-type activities at December 31, 2010 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	<u>\$ 210,397</u>	<u>\$ 8,221</u>	<u>\$ 218,618</u>

The State of New Hampshire annually reimburses the Town for its share of Sewer related debt service payments. For the year ended December 31, 2010, the reimbursement was \$44,894.

Note payable

The note payable at December 31, 2010 is comprised of the following individual issue:

\$216,000, 2009 Water Works promissory note, due in monthly installments of \$1,308, including interest at 4.00%, through February 28, 2019, and a balloon payment for the principal balance and accrued interest on March 31, 2019	<u>\$ 203,305</u>
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Debt service requirements to retire the note payable for business-type activities at December 31, 2010 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$ 7,710	\$ 7,988	\$ 15,698
2012	8,023	7,675	15,698
2013	8,350	7,348	15,698
2014	8,691	7,007	15,698
2015	9,045	6,653	15,698
2016-2019	<u>161,486</u>	<u>19,000</u>	<u>180,486</u>
	<u>\$ 203,305</u>	<u>\$ 55,671</u>	<u>\$ 258,976</u>

As included on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds (Exhibit F), interest expense for the year ended December 31, 2010 was \$8,368 and \$13,725 on general obligation debt in the Water Fund and Sewer Fund, respectively.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

NOTE 11—LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the Town place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. An estimated liability has been recorded 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 \$244,000 as of December 31, 2010, which is based on 100% usage of the landfill. The estimated total current cost of the landfill closure and postclosure care of \$244,000 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, 2010. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The Town's landfill, which has ceased operations, is expected to be closed during the year ended December 31, 2011. The Town had previously established a capital projects fund to partially finance the closure and postclosure costs. At December 31, 2010, the balance in the solid waste capital projects fund (a nonmajor governmental fund) is \$124,802. The remaining closure and postclosure care costs are expected to be financed through general taxation.

The following is a summary of changes in the estimated liability for closure and postclosure care cost for the year ended December 31, 2010:

Balance - January 1, 2010	\$ 244,000
Expenditures recognized in General Fund	(1,802)
Net change in estimated liability for closure and postclosure care costs	1,802
Balance - December 31, 2010	<u>\$ 244,000</u>

NOTE 12—INTERFUND BALANCES AND TRANSFERS

The Town combined the cash resources of its governmental fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance. The Expendable Trust Funds consist of temporarily investing funds applicable to other funds within the Town. Interfund balances at December 31, 2010 are as follows:

	General Fund	Due from Expendable Trust Funds	Totals
Nonmajor Governmental Funds	\$ 445,804		\$ 445,804
Water Fund		\$ 258,512	258,512
Sewer Fund		324,783	324,783
Fiduciary Funds	1,072		1,072
	<u>\$ 446,876</u>	<u>\$ 583,295</u>	<u>\$ 1,030,171</u>

During the year, several interfund transactions occurred between funds. The various transfers were made in accordance with budgetary authorizations. Interfund transfers for the year ended December 31, 2010 are as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

	General Fund	Transfer from		Totals
		Expendable Trust Funds	Nonmajor Governmental Funds	
General Fund		\$ 164,959	\$ 250	\$ 165,209
Expendable Trust Funds	\$ 371,000			371,000
Nonmajor Governmental Funds	192,722			192,722
Sewer Fund	130,928			130,928
	<u>\$ 694,650</u>	<u>\$ 164,959</u>	<u>\$ 250</u>	<u>\$ 859,859</u>

NOTE 13—PERMANENT FUNDS

Permanent funds account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the Town's programs. Principal and income balances at December 31, 2010 are as follows:

	<u>Principal</u>	<u>Income</u>	<u>Total</u>
Cemetery funds	\$ 36,270	\$ 29,408	\$ 65,678
Library funds	4,667	2,006	6,673
	<u>\$ 40,937</u>	<u>\$ 31,414</u>	<u>\$ 72,351</u>

NOTE 14—RESTRICTED NET ASSETS

Net assets are restricted for specific purposes as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Expendable Trust Funds	\$ 1,570,246	\$ 583,295
Conservation Commission Fund	869,545	
TIF District Fund	278,236	
Capital Projects Funds	124,802	
Endowments	40,937	
Police Details Fund	20,958	
	<u>\$ 2,904,724</u>	<u>\$ 583,295</u>

NOTE 15—COMMITMENTS AND CONTINGENCIES

Litigation

The Town's general counsel estimates that any potential claims against the Town, which are not covered by insurance, are immaterial and would not affect the financial position of the Town.

Federal Grants

The Town participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

NOTE 16—RELATED PARTY TRANSACTIONS

A member of the Board of Sewer Commissioners is employed as the sewer fund's bookkeeper. The spouse of this commissioner is also employed by the sewer fund. Total payroll expenses to both of these individuals during the year ending December 31, 2010 amounted to \$85,269.

A member of the Board of Water Commissioners is employed as the water superintendent. Total payroll expenses to this individual during the year ending December 31, 2010 amounted to \$54,642.

NOTE 17—RESTATEMENT OF EQUITY

Fund Financial Statements

During the year ended December 31, 2010, it was determined that the interfund balance between the General Fund and the Sewer Fund was overstated. Fund balance of the General Fund and net assets of the Sewer Fund as of January 1, 2010 have been restated as follows:

	General Fund	Sewer Fund
Fund balance/Net assets - January 1, 2010 (as previously reported)	\$ 1,594,743	\$ 2,551,734
Amount of restatement due to:		
Overstatement of interfund payable	41,802	
Overstatement of interfund receivable		(41,802)
Fund balance/Net assets - January 1, 2010, as restated	<u>\$ 1,636,545</u>	<u>\$ 2,509,932</u>

Government-Wide Statements

During the year ended December 31, 2010, it was determined that the interfund balance between the General Fund and the Sewer Fund was overstated. Upon review of the capital asset listing during the year ended December 31, 2010, management determined there were additional parcels of land owned by the town not included in capital assets.

Net Assets of the governmental activities and business-type activities as of January 1, 2010 have been restated as follows:

	Governmental Activities	Business-type Activities
Net Assets - January 1, 2010 (as previously reported)	\$ 10,988,390	\$ 5,193,085
Amount of restatement due to:		
Overstatement of internal balance	41,802	(41,802)
Understatement of capital assets	120,354	
Net Assets - January 1, 2010, as restated	<u>\$ 11,150,546</u>	<u>\$ 5,151,283</u>

**TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010**

NOTE 18—SUBSEQUENT EVENTS

Road Improvement Bond

Per Article #3 at the March 2011 annual meeting, the Town authorized the issuance of long-term debt up to \$1,400,000 for the roadway improvement and reconstruction project for various streets. During July 2011, the Town issued a \$864,000 general obligation bond for these authorized road improvements. A bond premium in the amount of \$36,000 was received resulting in total proceeds from the bond issuance of \$900,000. This bond has an interest rate of 2.00% - 4.00% and matures on August 15, 2014.

Water Line Infrastructure Loan

Per Article #4 at the March 2011 annual meeting, the Town authorized the issuance of long-term debt up to \$450,000 for the water line infrastructure replacement on various streets. During April 2011, the Town's Water Fund borrowed \$450,000 for the authorized water line infrastructure project. This loan agreement has an interest rate of 4.00% and matures in April 2021.

Tax Rate Setting

During November 2011, the Town's tax rate was set. State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended December 31, 2011, the Town applied \$404,000 of its unappropriated fund balance to reduce taxes.

SCHEDULE 1
TOWN OF PEMBROKE, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 3,432,046	\$ 3,432,046	\$ 3,478,241	\$ 46,195
Licenses and permits	1,119,000	1,119,000	1,173,486	54,486
Intergovernmental	571,400	585,869	586,870	1,001
Charges for services	125,485	125,485	197,575	72,090
Interest and investment income	40,000	40,000	50,217	10,217
Miscellaneous	343,000	343,000	209,660	(133,340)
Total Revenues	<u>5,630,931</u>	<u>5,645,400</u>	<u>5,696,049</u>	<u>50,649</u>
Expenditures:				
Current:				
General government	1,162,347	1,162,347	1,091,634	70,713
Public safety	1,495,723	1,495,723	1,437,292	58,431
Highways and streets	986,045	1,065,109	901,526	163,583
Sanitation	344,080	344,080	305,126	38,954
Health and welfare	116,174	116,174	88,125	28,049
Culture and recreation	36,530	36,530	32,577	3,953
Economic development	7,738	7,738	-	7,738
Capital outlay	1,283,561	1,283,561	1,178,197	105,364
Debt service:				
Principal retirement	100,000	100,000	100,000	-
Interest and fiscal charges	57,851	57,851	57,850	1
Total Expenditures	<u>5,590,049</u>	<u>5,669,113</u>	<u>5,192,327</u>	<u>476,786</u>
Excess of revenues over (under) expenditures	<u>40,882</u>	<u>(23,713)</u>	<u>503,722</u>	<u>527,435</u>
Other financing sources (uses):				
Transfers in	154,799	154,799	165,209	10,410
Transfers out	(695,681)	(695,681)	(694,650)	1,031
Total other financing sources (uses)	<u>(540,882)</u>	<u>(540,882)</u>	<u>(529,441)</u>	<u>11,441</u>
Net change in fund balance	<u>(500,000)</u>	<u>(564,595)</u>	<u>(25,719)</u>	<u>538,876</u>
Fund balance at beginning of year				
- Budgetary Basis	<u>2,580,588</u>	<u>2,580,588</u>	<u>2,580,588</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 2,080,588</u>	<u>\$ 2,015,993</u>	<u>\$ 2,554,869</u>	<u>\$ 538,876</u>

See accompanying notes to the required supplementary information

SCHEDULE 2

TOWN OF PEMBROKE, NEW HAMPSHIRE

Schedule of Funding Progress for Other Post-Employment Benefits

For the Year Ended December 31, 2010

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Projected Unit Credit</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/2010	\$ -	\$ 833,515	\$ 833,515	0%	\$ 1,205,567	69.1%

See accompanying notes to the required supplementary information

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2010

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund (Schedule 1) are reported on the basis budgeted by the Town. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). Property tax budgetary revenues are recognized when levied rather than when susceptible to accrual. Budgetary expenditures were adjusted for encumbrances and on-behalf payments for fringe benefits.

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 5,952,839	\$ 5,796,860
Difference in property taxes meeting susceptible to accrual criteria	(59,275)	
Encumbrances - December 31, 2010		170,852
Encumbrances - December 31, 2009		(48,429)
On-behalf fringe benefits	(32,306)	(32,306)
Per Schedule 1	<u>\$ 5,861,258</u>	<u>\$ 5,886,977</u>

Major Special Revenue Fund

Budgetary information in these financial statements has been presented only for the General Fund as there is no adopted budget for the Expendable Trust Funds.

NOTE 2—ENCUMBRANCES

Functional encumbrances in the General Fund as of December 31, 2010 are as follows:

General government	\$ 1,200
Public safety	11,818
Capital outlay	157,834
	<u>\$ 170,852</u>

NOTE 3—BUDGETARY FUND BALANCES

The components of the budgetary fund balance for major funds are as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
December 31, 2010

	General Fund	Expendable Trust Funds
Reserved for prepaid expenses	\$ 72,472	
Unreserved:		
Undesignated	<u>2,482,397</u>	<u>\$ 1,570,246</u>
	<u>\$ 2,554,869</u>	<u>\$ 1,570,246</u>

NOTE 4—SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS

In accordance with GASB Statement #45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, the Town is required to disclose the schedule of funding progress for each of the three most recent actuarial valuations. The Town implemented the provisions of GASB Statement #45 during the year ended December 31, 2010. Accordingly, the funding progress has only been presented for the most recent actuarial valuation report. Additional disclosures will be made as the information becomes available.

SCHEDULE A
TOWN OF PEMBROKE, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Funds
December 31, 2010

	Total Special Revenue Funds	Solid Waste Capital Projects Fund	Permanent Trust Funds	Total Nonmajor Funds
Assets:				
Cash and cash equivalents	\$ 49,484		\$ 72,351	\$ 121,835
Investments	831,746			831,746
Accounts receivable	1,724			1,724
Due from other funds	321,002	\$ 124,802		445,804
Total assets	<u>\$ 1,203,956</u>	<u>\$ 124,802</u>	<u>\$ 72,351</u>	<u>\$ 1,401,109</u>
Liabilities:				
Accounts payable	\$ 5,446			\$ 5,446
Total liabilities	<u>5,446</u>	<u>\$ -</u>	<u>\$ -</u>	<u>5,446</u>
Fund balances:				
Reserved for endowments			40,937	40,937
Unreserved reported in:				
Special revenue funds	1,198,510			1,198,510
Capital projects funds		124,802		124,802
Permanent funds			31,414	31,414
Total fund balances	<u>1,198,510</u>	<u>124,802</u>	<u>72,351</u>	<u>1,395,663</u>
Total liabilities and fund balances	<u>\$ 1,203,956</u>	<u>\$ 124,802</u>	<u>\$ 72,351</u>	<u>\$ 1,401,109</u>

SCHEDULE A-1
TOWN OF PEMBROKE, NEW HAMPSHIRE
 Combining Balance Sheet
 Governmental Funds - All Nonmajor Special Revenue Funds
 December 31, 2010

	Town Donation Fund	Library Fund	Recreation Fund	Police Details Fund	Christmas Donations Fund	Town Clock Fund	Police Grants Fund	Conservation Commission Fund	TIF District Fund	Total Special Revenue Funds
Assets:										
Cash and cash equivalents	\$ 484	\$ 12,077					\$ 3,844	\$ 33,079		\$ 49,484
Investments				\$ 499				831,746		831,746
Accounts receivable		3,979	\$ 11,735	20,459	\$ 1,461	\$ 1,637		1,225		1,724
Due from other funds			\$ 11,735	\$ 20,958	\$ 1,461	\$ 1,637		3,495	\$ 278,236	321,002
Total assets	\$ 484	\$ 16,056	\$ 11,735	\$ 20,958	\$ 1,461	\$ 1,637	\$ 3,844	\$ 869,545	\$ 278,236	\$ 1,203,956
Liabilities:										
Accounts payable		\$ 4,010			\$ 1,436					\$ 5,446
Total liabilities	\$ -	4,010	\$ -	\$ -	1,436	\$ -	\$ -	\$ -	\$ -	5,446
Fund balances:										
Unreserved, reported in:										
Special revenue funds	484	12,046	11,735	20,958	25	1,637	3,844	869,545	278,236	1,198,510
Total fund balances	484	12,046	11,735	20,958	25	1,637	3,844	869,545	278,236	1,198,510
Total liabilities and fund balances	\$ 484	\$ 16,056	\$ 11,735	\$ 20,958	\$ 1,461	\$ 1,637	\$ 3,844	\$ 869,545	\$ 278,236	\$ 1,203,956

SCHEDULE B

TOWN OF PEMBROKE, NEW HAMPSHIRE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds - All Nonmajor Funds

For the Year Ended December 31, 2010

		Capital Project Funds				
	Total Special Revenue Funds	Safety Center Capital Projects Fund	Solid Waste Capital Projects Fund	Total Capital Projects Funds	Permanent Trust Funds	Total Nonmajor Funds
Revenues:						
Taxes	\$ 70,788			\$ -		\$ 70,788
Intergovernmental revenue	9,436			-		9,436
Charges for services	28,203			-		28,203
Interest and investment income	5,116			-	\$ 103	5,219
Miscellaneous	16,538			-		16,538
Total Revenues	<u>130,081</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>103</u>	<u>130,184</u>
Expenditures:						
Current operations:						
Public safety	24,545			-		24,545
Health and welfare	2,406			-		2,406
Culture and recreation	227,030			-		227,030
Capital outlay	1,505	4,630		4,630		6,135
Total Expenditures	<u>255,486</u>	<u>4,630</u>	<u>-</u>	<u>4,630</u>	<u>-</u>	<u>260,116</u>
Excess of revenues over (under) expenditures	<u>(125,405)</u>	<u>(4,630)</u>	<u>-</u>	<u>(4,630)</u>	<u>103</u>	<u>(129,932)</u>
Other financing sources (uses):						
Transfers in	192,722			-		192,722
Transfers out	-			-	(250)	(250)
Total other financing sources (uses)	<u>192,722</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(250)</u>	<u>192,472</u>
Net change in fund balances	67,317	(4,630)	-	(4,630)	(147)	62,540
Fund balances at beginning of year	<u>1,131,193</u>	<u>4,630</u>	<u>\$ 124,802</u>	<u>129,432</u>	<u>72,498</u>	<u>1,333,123</u>
Fund balances at end of year	<u>\$ 1,198,510</u>	<u>\$ -</u>	<u>\$ 124,802</u>	<u>\$ 124,802</u>	<u>\$ 72,351</u>	<u>\$ 1,395,663</u>

SCHEDULE B - 1

TOWN OF PEMBROKE, NEW HAMPSHIRE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - All Nonmajor Special Revenue Funds

For the Year Ended December 31, 2010

	Town Donation Fund	Library Fund	Recreation Fund	Police Details Fund	Christmas Donations Fund	Town Clock Fund	Police Grants Fund	Conservation Commission Fund	Grants Fund	TIF District Fund	Total Special Revenue Funds
Revenues:											
Taxes											
Intergovernmental revenue				\$ 3,292				\$ 8,965	\$ 6,144	\$ 61,823	\$ 70,788
Charges for services	\$ 1	\$ 24	\$ 16,622	11,581							9,436
Interest and investment income							\$ 12	5,079			28,203
Miscellaneous		13,074	510		\$ 1,515		436	1,003			5,116
Total Revenues	1	13,098	17,132	14,873	1,515	\$ -	448	15,047	6,144	61,823	16,538
											130,081
Expenditures:											
Current operations:											
Public safety				14,221			4,180		6,144		24,545
Health and welfare					2,406						2,406
Culture and recreation		207,133	16,860					3,037			227,030
Capital outlay		207,133	16,860	14,221	2,406		4,180	1,505	6,144		1,505
Total Expenditures	-	(194,035)	272	652	(891)	-	(3,732)	10,505	-	61,823	(123,405)
Excess of revenues over (under) expenditures	1										
Other financing sources:											
Transfers in		192,722									192,722
Total other financing sources	-	192,722	-	-	-	-	-	-	-	-	192,722
Net change in fund balances	1	(1,313)	272	652	(891)	-	(3,732)	10,505	-	61,823	67,317
Fund balances at beginning of year	483	13,359	11,463	20,306	916	1,637	7,576	859,040	-	216,413	1,131,193
Fund balances at end of year	484	\$ 12,046	\$ 11,735	\$ 20,958	\$ 25	\$ 1,637	\$ 3,844	\$ 869,545	\$ -	\$ 278,236	\$ 1,198,510

SCHEDULE C
TOWN OF PEMBROKE, NEW HAMPSHIRE
Combining Statement of Fiduciary Net Assets
Fiduciary Funds - All Agency Funds
December 31, 2010

	School Agency <u>Fund</u>	M & M <u>Fund</u>	Performance Bond Agency <u>Fund</u>	Combining <u>Totals</u>
ASSETS				
Cash and cash equivalents	\$ 782,693		\$ 36,512	\$ 819,205
Investments	604,175			604,175
Due from other funds		\$ 1,072		1,072
Total assets	<u>\$ 1,386,868</u>	<u>\$ 1,072</u>	<u>\$ 36,512</u>	<u>\$ 1,424,452</u>
LIABILITIES				
Deposits			\$ 36,512	\$ 36,512
Due to other governments	\$ 1,386,868			1,386,868
Due to others		\$ 1,072		1,072
Total liabilities	<u>\$ 1,386,868</u>	<u>\$ 1,072</u>	<u>\$ 36,512</u>	<u>\$ 1,424,452</u>