

**TOWN OF PEMBROKE,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007**

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PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Pembroke as of and for the fiscal year ended December 31, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Pembroke's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Town of Pembroke as of December 31, 2007, and the changes in financial position thereof for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the Town of Pembroke as of December 31, 2007, and the respective changes in financial position thereof and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, as of January 1, 2007, the Town has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

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

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

*Town of Pembroke
Independent Auditor's Report*

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

*Plodyk & Sanderson
Professional Association*

July 21, 2009

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Net Assets
December 31, 2007

	Governmental Activities	Business-type Activity	Total
ASSETS			
Cash and cash equivalents	\$ 6,574,639	\$ 344,661	\$ 6,919,300
Investments	81,831	26,654	108,485
Intergovernmental receivable	166,560	-	166,560
Other receivables, net of allowance for uncollectible	1,288,751	82,633	1,371,384
Inventory	-	19,674	19,674
Prepaid items	8,276	13,275	21,551
Capital assets, not being depreciated:			
Land	-	31,935	31,935
Capital assets, net of accumulated depreciation:			
Structures	-	1,250,012	1,250,012
Machinery and equipment	-	722,834	722,834
Total assets	<u>8,120,057</u>	<u>2,491,678</u>	<u>10,611,735</u>
LIABILITIES			
Accounts payable	37,514	26,454	63,968
Intergovernmental payable	2,413,009	-	2,413,009
Accrued interest payable	41,975	902	42,877
Retainage payable	9,396	-	9,396
Unearned revenue	2,333	-	2,333
Escrow accounts	-	1,000	1,000
Noncurrent obligations:			
Due within one year:			
Bonds and notes	360,397	20,000	380,397
Due in more than one year:			-
Bonds and notes	2,181,189	20,000	2,201,189
Compensated absences	73,909	-	73,909
Accrued landfill closure and postclosure care costs	410,000	-	410,000
Total liabilities	<u>5,529,722</u>	<u>68,356</u>	<u>5,598,078</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	1,964,781	1,964,781
Restricted for trust purposes	74,227	-	74,227
Unrestricted	2,516,108	458,541	2,974,649
Total net assets	<u>\$ 2,590,335</u>	<u>\$ 2,423,322</u>	<u>\$ 5,013,657</u>

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

EXHIBIT B
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2007

	Program Revenues		Net (Expense) Revenue and Change in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:						
Functions:						
General government	\$ 1,111,075	\$ 22,013	\$ 4,807	\$ (1,084,255)	\$ -	\$ (1,084,255)
Public safety	1,277,617	60,083	48,146	(1,169,388)	-	(1,169,388)
Highways and streets	744,607	128,526	203,391	(412,690)	-	(412,690)
Sanitation	1,064,266	628,560	26,342	(409,364)	-	(409,364)
Health	2,747	-	-	(2,747)	-	(2,747)
Welfare	105,514	-	-	(105,514)	-	(105,514)
Culture and recreation	217,401	-	20,611	(196,790)	-	(196,790)
Conservation	3,179	-	1,273	(1,906)	-	(1,906)
Economic development	1,282	-	-	(1,282)	-	(1,282)
Interest on long-term debt	109,480	-	-	(109,480)	-	(109,480)
Capital outlay	1,023,185	-	-	(1,023,185)	-	(1,023,185)
Total governmental activities	5,660,353	839,182	304,570	(4,516,601)	-	(4,516,601)
Business-type activities:						
Water works	597,638	623,051	-	-	25,413	25,413
Total	<u>\$ 6,257,991</u>	<u>\$ 1,462,233</u>	<u>\$ 304,570</u>	<u>(4,516,601)</u>	<u>25,413</u>	<u>(4,491,188)</u>
General revenues:						
Taxes:						
Property				3,325,676	-	3,325,676
Other				312,574	-	312,574
Motor vehicle permit fees				1,161,703	-	1,161,703
Licenses and other fees				67,043	-	67,043
Grants and contributions not restricted to specific programs				390,858	-	390,858
Miscellaneous				257,585	17,603	275,188
Total general revenues				<u>5,515,439</u>	<u>17,603</u>	<u>5,533,042</u>
Change in net assets				998,838	43,016	1,041,854
Net assets, beginning				1,591,497	2,380,306	3,971,803
Net assets, ending				<u>\$ 2,590,335</u>	<u>\$ 2,423,322</u>	<u>\$ 5,013,657</u>

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

EXHIBIT C-1
TOWN OF PEMBROKE, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2007

	General	Conservation Commission	Expendable Trust	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,040,710	\$ 663,660	\$ 1,377,546	\$ 492,723	\$ 6,574,639
Investments	-	-	-	81,831	81,831
Receivables, net of allowance for uncollectible:					
Taxes	993,857	82,000	-	-	1,075,857
Accounts	9,624	-	-	203,270	212,894
Interfund receivable	-	62,196	-	58,288	120,484
Prepaid items	8,276	-	-	-	8,276
Total assets	<u>\$ 5,052,467</u>	<u>\$ 807,856</u>	<u>\$ 1,377,546</u>	<u>\$ 836,112</u>	<u>\$ 8,073,981</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 13,904	\$ -	\$ -	\$ 23,610	\$ 37,514
Intergovernmental payable	2,413,009	-	-	-	2,413,009
Interfund payable	120,484	-	-	-	120,484
Retainage payable	9,396	-	-	-	9,396
Deferred revenue	1,529	-	-	23,619	25,148
Total liabilities	<u>2,558,322</u>	<u>-</u>	<u>-</u>	<u>47,229</u>	<u>2,605,551</u>
Fund balances:					
Reserved for encumbrances	100,038	-	-	-	100,038
Reserved for special purposes	-	-	-	262,361	262,361
Unreserved, undesignated, reported in:					
General fund	2,394,107	-	-	-	2,394,107
Debt service fund	-	-	-	526,522	526,522
Special revenue funds	-	807,856	1,377,546	-	2,185,402
Total fund balances	<u>2,494,145</u>	<u>807,856</u>	<u>1,377,546</u>	<u>788,883</u>	<u>5,468,430</u>
Total liabilities and fund balances	<u>\$ 5,052,467</u>	<u>\$ 807,856</u>	<u>\$ 1,377,546</u>	<u>\$ 836,112</u>	<u>\$ 8,073,981</u>

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

EXHIBIT C-2
TOWN OF PEMBROKE, NEW HAMPSHIRE
Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets
December 31, 2007

Total fund balances of governmental funds (Exhibit C-1)		\$ 5,468,430
Amounts reported for governmental activities in the statement of net assets are different because:		
Receivables from the State of New Hampshire to offset future debt payments are not due in the current period, and therefore, are not reported in the funds.		
Long-term receivable		166,560
Interfund receivables and payables between governmental funds are eliminated on the statement of net assets.		
Receivables	\$ (120,484)	
Payables	<u>120,484</u>	
		-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(41,975)
Special assessments to pay long-term debt are deferred in governmental funds.		
Deferred special assessments		22,815
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bonds and notes	\$ 2,541,586	
Compensated absences	73,909	
Accrued landfill closure and postclosure care costs	<u>410,000</u>	
		<u>(3,025,495)</u>
Total net assets of governmental activities (Exhibit A)		<u><u>\$ 2,590,335</u></u>

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

EXHIBIT C-3
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended December 31, 2007

	General	Conservation Commission	Expendable Trust	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 3,460,232	\$ 127,700	\$ -	\$ 50,318	\$ 3,638,250
Licenses and permits	1,228,746	-	-	-	1,228,746
Intergovernmental	673,797	-	-	-	673,797
Charges for services	173,015	-	-	669,995	843,010
Miscellaneous	257,585	1,273	19,194	42,804	320,856
Total revenues	5,793,375	128,973	19,194	763,117	6,704,659
Expenditures:					
Current:					
General government	1,115,185	-	-	-	1,115,185
Public safety	1,246,102	-	-	33,797	1,279,899
Highways and streets	744,011	-	-	-	744,011
Sanitation	488,162	-	-	562,738	1,050,900
Health	2,747	-	-	-	2,747
Welfare	105,514	-	-	-	105,514
Culture and recreation	39,474	-	-	178,211	217,685
Conservation	1,175	2,004	-	-	3,179
Economic development	1,282	-	-	-	1,282
Debt service:					
Principal	410,397	-	-	-	410,397
Interest	115,206	-	-	-	115,206
Capital outlay	980,605	-	-	42,580	1,023,185
Total expenditures	5,249,860	2,004	-	817,326	6,069,190
Excess (deficiency) of revenues over (under) expenditures	543,515	126,969	19,194	(54,209)	635,469
Other financing sources (uses):					
Transfers in	203,648	-	453,000	161,909	818,557
Transfers out	(614,909)	-	(152,632)	(51,016)	(818,557)
Total other financing sources and uses	(411,261)	-	300,368	110,893	-
Net change in fund balances	132,254	126,969	319,562	56,684	635,469
Fund balances, beginning, as restated (see Note 2-B)	2,361,891	680,887	1,057,984	732,199	4,832,961
Fund balances, ending	\$ 2,494,145	\$ 807,856	\$ 1,377,546	\$ 788,883	\$ 5,468,430

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

EXHIBIT C-4
TOWN OF PEMBROKE, NEW HAMPSHIRE
*Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities*
For the Fiscal Year Ended December 31, 2007

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 635,469
Amounts reported for governmental activities in the statement of activities are different because:		
Some revenue does not provide current financial resources, and therefore, is not reported as revenue in governmental funds.		
Decrease in long-term State aid receivable		(41,640)
Transfers in and out between governmental funds are eliminated on the operating statement.		
Transfers in	\$ (818,557)	
Transfers out	<u>818,557</u>	-
Special assessments not due until future periods are deferred in the governmental funds.		
Decrease in deferred assessments		(3,828)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.		
Repayment of bond and note principal		410,396
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense	\$ 5,727	
Decrease in compensated absences payable	6,381	
Increase in accrued landfill closure and postclosure care costs payable	<u>(13,667)</u>	(1,559)
Change in net assets of governmental activities (Exhibit B)		<u>\$ 998,838</u>

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

EXHIBIT D-1
TOWN OF PEMBROKE, NEW HAMPSHIRE
Proprietary Fund - Water Works
Statement of Net Assets
December 31, 2007

ASSETS	
Cash and cash equivalents	\$ 344,661
Investments	26,654
Receivables	82,633
Inventory	19,674
Prepaid items	13,275
Capital assets, not being depreciated:	
Land	31,935
Capital assets, net of accumulated depreciation:	
Structures	1,250,012
Machinery and equipment	722,834
Total assets	<u>2,491,678</u>
LIABILITIES	
Accounts payable	26,454
Accrued interest payable	902
Escrow accounts	1,000
Noncurrent obligations:	
Due within one year:	
Bonds	20,000
Due in more than one year:	
Bonds	20,000
Total liabilities	<u>68,356</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,964,781
Unrestricted	458,541
Total net assets	<u>\$ 2,423,322</u>

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

EXHIBIT D-2
TOWN OF PEMBROKE, NEW HAMPSHIRE
Proprietary Fund - Water Works
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended December 31, 2007

Operating revenues:	
Charges for sales and services:	
User charges	\$ 560,436
Miscellaneous	74,655
Total operating revenues	<u>635,091</u>
Operating expenses:	
Cost of sales and services	487,626
Depreciation	108,083
Total operating expenses	<u>595,709</u>
Operating income	<u>39,382</u>
Nonoperating revenues (expenses):	
Interest revenue	5,563
Interest expense	(1,929)
Total nonoperating revenues	<u>3,634</u>
Net income	43,016
Total net assets, beginning	<u>2,380,306</u>
Total net assets, ending	<u>\$ 2,423,322</u>

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

SCHEDULE D-3
TOWN OF PEMBROKE, NEW HAMPSHIRE
Proprietary Fund - Water Works
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2007

Cash flows from operating activities:	
Cash received from customers and users	\$ 638,260
Cash paid to suppliers and employees	<u>(472,887)</u>
Net cash provided from operating activities	<u>165,373</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	1,929
Principal paid on bonds	(20,000)
Acquisition and construction of capital assets	(109,550)
Interest paid	<u>(2,381)</u>
Net cash used by capital and related financing activities	<u>(130,002)</u>
Cash flows from investing activities:	
Purchase of investments	(1,291)
Interest received	<u>5,563</u>
Net cash provided from investing activities	<u>4,272</u>
Net increase in cash	39,643
Cash, beginning	<u>305,018</u>
Cash, ending	<u>\$ 344,661</u>

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

Operating income	<u>\$ 39,382</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	108,083
Decrease in accounts receivable	3,169
Decrease in inventory	3,105
Decrease in prepaid items	1,433
Increase in accounts payable	<u>10,201</u>
Total adjustments	<u>125,991</u>
Net cash provided by operating activities	<u>\$ 165,373</u>

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

EXHIBIT E
TOWN OF PEMBROKE, NEW HAMPSHIRE
Fiduciary Funds
Statement of Fiduciary Net Assets
December 31, 2007

	Agency
ASSETS	
Cash and cash equivalents	\$ 733,535
Investments	715,305
Total assets	1,448,840
LIABILITIES	
Due to other governmental units	1,419,240
Due to developers	29,600
Total liabilities	1,448,840
NET ASSETS	\$ -

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

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TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1-A Reporting Entity

The Town of Pembroke is a municipal corporation governed by an elected Board of Selectmen. The reporting entity is comprised of the primary government and any other organizations that are included to ensure that the financial statements are not misleading.

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

1-B Basis of Presentation

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

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

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

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

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

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

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

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

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

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

Conservation Commission Fund - The conservation commission fund is used to account for activity related to the conservation commission.

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

The Town also reports ten nonmajor governmental funds.

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

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

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

1-C Measurement Focus

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

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

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

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

1-D Basis of Accounting

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

Revenues - Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year, generally within sixty days of year-end.

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

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

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

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

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

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

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

1-E-1 Cash, Cash Equivalents and Investments

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

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

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

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

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

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

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

1-E-2 Receivables

Tax revenue is recorded when a warrant for collection is committed to the tax collector. Taxes receivable are reported net of an allowance established for any taxes that management deems to have questionable collectability. As prescribed by law, the tax collector executes a lien on properties for all uncollected property taxes in the following year after taxes are due. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed within the 2-year redemption period, the property is tax deeded to the Town.

Accounts receivable include various service charges which are recorded as revenue for the period when service was provided.

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1-E-3 Interfund Balances

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

1-E-4 Inventory and Prepaid Items

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

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

1-E-5 Capital Assets – Proprietary Fund

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

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

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

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

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

1-E-6 Compensated Absences

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

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

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

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

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

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1-E-8 Interfund Activity

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

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

1-E-9 Equity

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

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

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

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

1-E-10 Estimates

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

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLES, FUND RECLASSIFICATIONS AND RESTATEMENT AND RECONCILIATION OF EQUITY BALANCES

2-A Changes in Accounting Principles

For the fiscal year 2007, the Town has implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

These statements create new basic financial statements for reporting the Town's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in a single column.

The government-wide financial statements present the Town's programs as governmental and business-type activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at January 1, 2007, caused by conversion to the accrual basis of accounting.

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2-B Restatement of Beginning Equity Balances

The general and nonmajor recreation funds balances at January 1, 2007 were restated to remove a receivable and restate equity between funds as follow:

	General Fund	Nonmajor Recreation Fund
Adjustment to remove receivable for grant not received	\$ (59,383)	\$ -
Adjustment to restate equity between funds	14,459	(14,459)
Fund balances, as previously reported	2,406,815	26,202
Fund balances, as restated	\$ 2,361,891	\$ 11,743

2-C Reconciliation of Beginning Net Assets

The transition from governmental fund balance to net assets of the governmental activities (i.e., the GASB Statement No. 34 adjustments) is presented here.

Fund balances of all governmental funds, December 31, 2006, as restated above	\$ 3,701,863
Trust funds previously reported as fiduciary funds, now reported as special revenue funds	1,057,984
Trust funds previously reported as fiduciary funds, now reported as permanent funds	73,114
State aid receivable for water pollution projects	208,200
Accrued interest payable	(47,702)
Deferred assessments	26,643
General obligation bonds payable	(2,951,982)
Compensated absences payable	(80,290)
Accrued landfill closure and postclosure care costs payable	(396,333)
Net assets of governmental activities, December 31, 2006	\$ 1,591,497

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND GOVERNMENT-WIDE STATEMENTS

3-A Repurchase Agreement

Included in the Town's cash equivalents at December 31, 2007, is a short-term investment in a repurchase agreement issued by a local banking institution. Under this agreement, the Town will be repaid principal plus interest on a specified date which is subsequent to year-end. The agreement is guaranteed/collateralized with securities held by the banking institution which equal the amount of the agreement. To the extent that the banking institution may default on its commitment to this obligation, the Town is at risk of economic loss. Management considers this exposure to be minimal. At December 31, 2007, the Town held an investment in the following repurchase agreement:

Amount	Interest Rate %	Maturity Date	Underlying Securities	Market Value
\$ 4,418,554	3.31	January 2, 2008	FNR	\$ 4,440,758

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3-B Investment Risks

As of December 31, 2007, the Town had the following investments:

Certificate of deposit	\$ 26,654
Mutual funds	120,932
Common stocks	594,373
New Hampshire Public Deposit Investment Pool	81,831
	<u>\$ 823,790</u>

Investment reconciliation:

Governmental funds, balance sheet (Exhibit C-1)	\$ 81,831
Proprietary fund, statement of net assets (Exhibit D-1)	26,654
Fiduciary funds, statement of fiduciary net assets	715,305
	<u>\$ 823,790</u>

Interest Rate Risk - The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

Custodial Credit Risk - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Of the Town's \$823,790 in investments, \$715,305 is subject to custodial credit risk because the securities are held by the counter party's trust department or agent, not in the Town's name. The Town does not have policies for custodial credit risk.

Concentration of Credit Risk - The Town places no limit on the amount it may invest in any one issuer. More than five percent of the Town's investments are in Bank of America, Chevron Corp., ExxonMobil, Fortune Branch and American Capital Builder. These investments are 5.7%, 10.8%, 14.2%, 6.7% and 9.2%, respectively, of the Town's total investments.

Between the date of the financial statements and the date of this report, the Town's investments in common stocks and mutual funds have experienced a material decline in value.

3-C Taxes Receivable

The property tax year is from April 1 to March 31 and all property taxes are assessed on the inventory taken in April of that year. The net assessed valuation as of April 1, 2007, upon which the 2007 property tax levy was based is:

For the New Hampshire education tax	\$ 569,952,944
For all other taxes	\$ 587,493,044

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Under this method, tax bills are due on or around July 1 and December 1 of each year, with interest accruing at a rate of 12% on bills outstanding after the due date. The first billing is considered an estimate only and is one half of the previous year's tax billing. The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated and approved the Town's tax rate for the fiscal year.

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

The tax rates and amounts assessed for the year ended December 31, 2007, were as follow:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$5.98	\$ 3,510,470
School portion:		
State of New Hampshire	\$2.41	1,372,833
Local	\$12.83	7,540,176
County portion	\$2.44	1,434,335
Total		\$ 13,857,814

During the current fiscal year, the tax collector executed a lien on March 6 for all uncollected 2006 property taxes.

Taxes receivable at December 31, 2007, are as follow:

Property:	
Levy of 2007	\$ 647,550
Unredeemed (under tax lien):	
Levy of 2006	236,425
Levy of 2005	145,021
Levy of 2004	2,670
Levies of 2003 and prior	12,191
Land use change	82,000
Less: allowance for estimated uncollectible taxes	(50,000)
Net taxes receivable	\$ 1,075,857

3-D Other Receivables

Other receivables at December 31, 2007, consisted of accounts (billings for water, sewer, and other user charges), and intergovernmental amounts arising from grants.

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

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3-E Capital Assets – Proprietary Fund

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance, beginning	Changes	Balance, ending
Business-type activities:			
At cost:			
Not being depreciated:			
Land	\$ 31,935	\$ -	\$ 31,935
Being depreciated:			
Structures	1,985,917	19,373	2,005,290
Machinery and equipment	1,696,585	90,177	1,786,762
Other	29,865	-	29,865
Total capital assets being depreciated	3,712,367	109,550	3,821,917
Total all capital assets	3,744,302	109,550	3,853,852
Less accumulated depreciation:			
Structures	(719,376)	(35,902)	(755,278)
Machinery and equipment	(989,818)	(74,110)	(1,063,928)
Other	(29,865)	-	(29,865)
Total accumulated depreciation	(1,739,059)	(110,012)	(1,849,071)
Net book value, capital assets being depreciated	1,973,308	(462)	1,972,846
Net book value, all capital assets	\$ 2,005,243	\$ (462)	2,004,781

Depreciation expense was charged to the water department function.

3-F Prepaid Items

Prepaid items of the governmental activities represent \$7,514 for fuel and \$762 for postage purchased but not yet used, and in the business-type activities, \$9,865 for insurance coverage for 2008 and \$3,410 for fuel not yet used.

3-G Interfund Balances and Transfers

Interfund balances at December 31, 2007 consist of overdrafts in the pooled cash and budgetary transfers not yet made as follow:

Receivable Fund	Payable Fund	Amount
Conservation commission	General	\$ 62,196
Nonmajor	General	58,288
		\$ 120,484

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Interfund transfers consisted of voted appropriations as follow:

	Transfers In:			Total
	General Fund	Expendable Trust Fund	Nonmajor Funds	
Transfers out:				
General fund	\$ -	\$ 453,000	\$ 161,909	\$ 614,909
Expendable trust fund	152,632	-	-	152,632
Nonmajor funds	51,016	-	-	51,016
Total	<u>\$ 203,648</u>	<u>\$ 453,000</u>	<u>\$ 161,909</u>	<u>\$ 818,557</u>

3-H Intergovernmental Payable

The amount of \$2,413,009 due to other governments at December 31, 2007 consists of the balance of the 2007-2008 district assessment due to the Pembroke School District.

3-I Deferred/Unearned Revenue

Deferred revenue at December 31, 2007, consists of miscellaneous donations of \$1,529 for specific expenditures that are yet to be made, \$804 of sewer rents collected in advance and \$22,815 of betterment assessments, not currently available. On the government-wide statements, the first two items are reported as unearned revenue.

3-J Long-Term Liabilities

Changes in the Town's long-term obligations during the year ended December 31, 2007, consisted of the following:

	General Obligation Bonds/Notes	Compensated Absences	Accrued Landfill Closure and Postclosure Care Costs	Total
Governmental activities:				
Balance, beginning	\$ 2,951,982	\$ 80,290	\$ 396,333	\$ 3,428,605
Additions	-	-	13,667	13,667
Reductions	(410,396)	(6,381)	-	(416,777)
Balance, ending	<u>\$ 2,541,586</u>	<u>\$ 73,909</u>	<u>\$ 410,000</u>	<u>\$ 3,025,495</u>
Business-type activities:				
Balance, beginning	\$ 60,000	\$ -	\$ -	\$ 60,000
Reductions	(20,000)	-	-	(20,000)
Balance, ending	<u>\$ 40,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,000</u>

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Long-term liabilities are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2007	Current Portion
Governmental activities:						
General obligation bonds/notes payable:						
Routes 3/106 sewer extension	\$ 3,155,948	1997	2011	3.9075	\$ 841,586	\$ 210,397
Safety complex and refunding	\$ 2,560,000	2003	2023	3.25-4.6	1,700,000	150,000
					<u>2,541,586</u>	<u>360,397</u>
Compensated absences payable					73,909	-
Accrued landfill closure and postclosure care costs					410,000	-
Total governmental activities					<u>\$ 3,025,495</u>	<u>\$ 360,397</u>
Business-type activities:						
Bonds payable:						
Water works water tank reconditioning					<u>\$ 40,000</u>	<u>\$ 20,000</u>

The annual requirements to amortize all general obligation debt outstanding as of December 31, 2007, including interest payments, are as follow:

Annual Requirements To Amortize Debt of Governmental Activities

Fiscal Year Ending December 31,	Principal	Interest	Total
2008	\$ 360,397	\$ 100,485	\$ 460,882
2009	360,397	87,388	447,785
2010	310,396	74,292	384,688
2011	310,396	62,821	373,217
2012	100,000	51,100	151,100
2013-2017	500,000	197,000	697,000
2018-2022	500,000	90,100	590,100
2023	100,000	4,600	104,600
Totals	<u>\$ 2,541,586</u>	<u>\$ 667,786</u>	<u>\$ 3,209,372</u>

Annual Requirements to Amortize Debt of Business-Type Activities

Fiscal Year Ending December 31,	Principal	Interest	Total
2008	\$ 20,000	\$ 1,800	\$ 21,800
2009	20,000	900	20,900
Totals	<u>\$ 40,000</u>	<u>\$ 2,700</u>	<u>\$ 42,700</u>

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

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State-Aid for Water Pollution Projects

Under N.H. RSA Chapter 486, the Town receives from the State of New Hampshire a percentage of the annual amortization charges on the original costs resulting from the acquisition and construction of sewage disposal facilities. At December 31, 2007, the Town is due to receive the following annual amounts to offset debt payments:

Fiscal Year Ending December 31,	Principal
2008	\$ 41,640
2009	41,640
2010	41,640
2011	41,640
Totals	<u>\$ 166,560</u>

Accrued Landfill Closure and Postclosure Care Costs

The Town has ceased operating its landfill. Federal and State laws and regulations require that the Town place a final cover on its landfill and perform certain maintenance and monitoring functions at the landfill site after closure. A liability is being recognized based on the future closure and postclosure care costs that will be incurred. The estimated liability for landfill closure and postclosure care costs has a balance of \$410,000 as of December 31, 2007, which is based on the amount that would be paid if all equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of December 31, 2007. However, the actual cost of closure and postclosure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations.

NOTE 4 - OTHER MATTERS

4-A Pensions

The Town of Pembroke participates in the New Hampshire Retirement System (the System) which consists of a cost-sharing, multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provisions for benefits and contributions are established and can be amended by the New Hampshire Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees except police officers and firefighters are required to contribute 5% of gross earnings. Police officers and firefighters are required to contribute 9.3% of gross earnings. For the first six months of 2007, the Town contributed 9.68% for police, 14.36% for fire and 6.81% for other employees. As of July 1, those rates increased to 11.84% for police and 15.92% for fire and 8.74% for others. The contribution requirements for the Town of Pembroke for the fiscal years 2005, 2006 and 2007 were \$98,772, \$111,510 and \$125,621, respectively, which were paid in full in each year.

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

4-B Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2007, the Town was a member of the Local Government Center Property-Liability Trust, LLC, which is a Trust organized to provide certain property and liability insurance coverages to member towns, cities and other qualified political subdivisions of New Hampshire. As a member of the Local Government Center Property-Liability Trust, LLC, the Town shares in contributing to the cost of, and receiving benefits from, a self-insured pooled risk management program. The membership and coverage run from July 1 to June 30. The program maintains a self-insured retention above which it purchases reinsurance and excess insurance. This policy covers property, auto physical damage, crime, general liability and public officials' liability subject to a \$1,000 deductible.

Contributions paid in 2007 for fiscal year 2008, ending June 30, 2008, to be recorded as an insurance expenditure totaled \$51,225. There were no unpaid contributions for the year ending June 30, 2008 and due in 2007. The Town also paid \$41,875 for workers' compensation for the year ended December 31, 2007. The trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. At this time, the Trust foresees no likelihood of any additional assessments for past years.

4-C Contingent Liabilities

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

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

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT F
TOWN OF PEMBROKE, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2007

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes	\$ 3,315,396	\$ 3,460,232	\$ 144,836
Licenses and permits	1,250,750	1,228,746	(22,004)
Intergovernmental	601,862	640,538	38,676
Charges for services	199,700	173,015	(26,685)
Miscellaneous	148,000	257,585	109,585
Total revenues	<u>5,515,708</u>	<u>5,760,116</u>	<u>244,408</u>
Expenditures:			
Current:			
General government	1,125,664	1,115,185	10,479
Public safety	1,310,541	1,209,593	100,948
Highways and streets	807,130	744,011	63,119
Sanitation	500,409	488,162	12,247
Health	3,574	2,747	827
Welfare	94,942	105,514	(10,572)
Culture and recreation	43,633	39,474	4,159
Conservation	1,050	1,175	(125)
Economic development	7,200	(213)	7,413
Debt service:			
Principal	410,397	410,397	-
Interest	115,206	115,206	-
Capital outlay	850,736	872,370	(21,634)
Total expenditures	<u>5,270,482</u>	<u>5,103,621</u>	<u>166,861</u>
Excess of revenues over expenditures	<u>245,226</u>	<u>656,495</u>	<u>411,269</u>
Other financing sources (uses):			
Transfers in	155,443	203,648	48,205
Transfers out	(610,669)	(614,909)	(4,240)
Total other financing sources and uses	<u>(455,226)</u>	<u>(411,261)</u>	<u>43,965</u>
Net change in fund balance	<u>\$ (210,000)</u>	<u>245,234</u>	<u>\$ 455,234</u>
Unreserved fund balance, beginning, as restated (see Note 2-B)		<u>2,148,873</u>	
Unreserved fund balance, ending		<u>\$ 2,394,107</u>	

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

1. General Budget Policies

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

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

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

State statutes require balanced budgets, but provide for the use of beginning unreserved fund balance to achieve that end. In the fiscal year 2007, \$210,000 of the beginning general fund fund balance was applied for this purpose.

2. Budgetary Reconciliation

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

Revenues and other financing sources:	
Per Exhibit F (budgetary basis)	\$ 5,963,764
Adjustment:	
Basis difference:	
On-behalf retirement contributions made by the State of New Hampshire recognized as revenue on the GAAP basis, but not on the budgetary basis	<u>33,259</u>
Per Exhibit C-3 (GAAP basis)	<u>\$ 5,997,023</u>
Expenditures and other financing uses:	
Per Exhibit F (budgetary basis)	\$ 5,718,530
Adjustments:	
Basis difference:	
Encumbrances, beginning	213,018
Encumbrances, ending	(100,038)
On-behalf retirement contributions made by the State of New Hampshire recognized as expenditures on the GAAP basis, but not on the budgetary basis	<u>33,259</u>
Per Exhibit C-3 (GAAP basis)	<u>\$ 5,864,769</u>

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
TOWN OF PEMBROKE, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2007

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 3,213,396	\$ 3,325,676	\$ 112,280
Yield	20,000	24,142	4,142
Excavation	10,000	6,692	(3,308)
Payment in lieu of taxes	12,000	12,000	-
Interest and penalties on taxes	60,000	91,722	31,722
Total taxes	<u>3,315,396</u>	<u>3,460,232</u>	<u>144,836</u>
Licenses, permits and fees:			
Business licenses, permits and fees	1,750	2,100	350
Motor vehicle permit fees	1,185,000	1,161,703	(23,297)
Building permits	30,000	33,704	3,704
Other	34,000	31,239	(2,761)
Total licenses, permits and fees	<u>1,250,750</u>	<u>1,228,746</u>	<u>(22,004)</u>
Intergovernmental:			
State:			
Shared revenue block grant	81,221	81,221	-
Meals and rooms distribution	309,637	309,637	-
Highway block grant	136,228	136,228	-
Water pollution grants	49,776	49,776	-
Federal	25,000	63,676	38,676
Total intergovernmental	<u>601,862</u>	<u>640,538</u>	<u>38,676</u>
Charges for services:			
Income from departments	199,700	173,015	(26,685)
Miscellaneous:			
Sale of municipal property	12,000	34,462	22,462
Interest on investments	125,000	202,486	77,486
Rent of property	10,000	14,110	4,110
Insurance dividends and reimbursements	-	3,059	3,059
Other	1,000	3,468	2,468
Total miscellaneous	<u>148,000</u>	<u>257,585</u>	<u>109,585</u>
Other financing sources:			
Transfers in	155,443	203,648	48,205
Total revenues and other financing sources	5,671,151	<u>\$ 5,963,764</u>	<u>\$ 292,613</u>
Unreserved fund balance used to reduce tax rate	210,000		
Total revenues, other financing sources and use of fund balance	<u>\$ 5,881,151</u>		

SCHEDULE 2
TOWN OF PEMBROKE, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2007

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 342,967	\$ 332,289	\$ -	\$ 10,678
Election and registration	-	125,545	120,559	-	4,986
Financial administration	-	181,750	188,601	-	(6,851)
Planning and zoning	-	221,390	205,394	-	15,996
General government buildings	-	135,442	148,093	-	(12,651)
Cemeteries	-	30,570	29,397	-	1,173
Insurance, not otherwise allocated	-	88,000	90,852	-	(2,852)
Total general government	-	1,125,664	1,115,185	-	10,479
Public safety:					
Police	-	995,880	967,727	-	28,153
Ambulance	-	65,000	46,673	-	18,327
Fire	3,250	201,885	169,131	-	36,004
Emergency management	-	22,036	3,416	-	18,620
Other	-	25,740	25,896	-	(156)
Total public safety	3,250	1,310,541	1,212,843	-	100,948
Highways and streets:					
Administration	-	171,935	169,601	-	2,334
Highways and streets	-	538,595	426,547	-	112,048
Street lighting	-	26,000	34,097	-	(8,097)
Other	-	70,600	113,766	-	(43,166)
Total highways and streets	-	807,130	744,011	-	63,119
Sanitation:					
Solid waste collection	-	500,409	488,162	-	12,247
Health	-	3,574	2,747	-	827
Welfare:					
Administration	-	64,245	74,817	-	(10,572)
Vendor payments	-	30,697	30,697	-	-
Total welfare	-	94,942	105,514	-	(10,572)
Culture and recreation:					
Parks and recreation	-	37,383	33,675	-	3,708
Other	-	6,250	5,799	-	451
Total culture and recreation	-	43,633	39,474	-	4,159
Conservation	-	1,050	1,175	-	(125)
Economic development	1,495	7,200	1,282	-	7,413
Debt service:					
Principal of long-term debt	-	410,397	410,397	-	-
Interest on long-term debt	-	115,206	115,206	-	-
Total debt service	-	525,603	525,603	-	-

(continued)

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

Schedule of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2007

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Capital outlay:					
Capital equipment	-	133,419	123,022	-	10,397
Minor equipment	6,955	24,217	29,736	-	1,436
Buildings	-	20,000	-	-	20,000
Other improvements	-	45,000	2,457	42,543	-
Road construction	201,318	534,000	731,027	57,495	(53,204)
Vehicle maintenance	-	45,100	53,843	-	(8,743)
Technologies	-	49,000	40,520	-	8,480
Total capital outlay	<u>208,273</u>	<u>850,736</u>	<u>980,605</u>	<u>100,038</u>	<u>(21,634)</u>
Other financing uses:					
Transfers out	-	610,669	614,909	-	(4,240)
Total appropriations, expenditures, other financing uses and encumbrances	<u>\$ 213,018</u>	<u>\$ 5,881,151</u>	<u>\$ 5,831,510</u>	<u>\$ 100,038</u>	<u>\$ 162,621</u>

SCHEDULE 3
TOWN OF PEMBROKE, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unreserved - Undesignated Fund Balance (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2007

Unreserved, undesignated fund balance, beginning, as restated (see Note 2-B)		\$ 2,148,873
Changes:		
Unreserved fund balance used to reduce 2007 tax rate		(210,000)
2007 Budget summary:		
Revenue surplus (Schedule 1)	\$ 292,613	
Unexpended balance of appropriations (Schedule 2)	162,621	
2007 Budget surplus		455,234
Unreserved, undesignated fund balance, ending		\$ 2,394,107

SCHEDULE 4
TOWN OF PEMBROKE, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2007

	Special Revenue Funds				Capital Projects Funds				Debt		
	Public Library	Police Grants	Sewer Department	Police Detail	Recreation	Safety Center	Solid Waste	Highway Garage	Service Fund	Permanent Fund	Total
ASSETS											
Cash and cash equivalents	\$ 15,692	\$ 5,828	\$ 67,437	\$ 21,952	\$ 17,575	\$ 9,521	\$ 179,855	\$ 1	\$ 100,635	\$ 74,227	\$ 492,723
Investments	-	-	81,831	-	-	-	-	-	-	-	81,831
Accounts receivable	-	-	199,357	3,913	-	-	-	-	-	-	203,270
Interfund receivable	56,645	1,643	-	-	-	-	-	-	-	-	58,288
Total assets	\$ 72,337	\$ 7,471	\$ 348,625	\$ 25,865	\$ 17,575	\$ 9,521	\$ 179,855	\$ 1	\$ 100,635	\$ 74,227	\$ 836,112
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	\$ 9,087	\$ -	\$ 12,489	\$ -	\$ 791	\$ -	\$ 1,243	\$ -	\$ -	\$ -	\$ 23,610
Deferred revenue	-	-	23,619	-	-	-	-	-	-	-	23,619
Total liabilities	9,087	-	36,108	-	791	-	1,243	-	-	-	47,229
Fund balances:											
Reserved for special purposes	-	-	-	-	-	9,521	178,612	1	-	74,227	262,361
Unreserved, undesignated	63,250	7,471	312,517	25,865	16,784	-	-	-	100,635	-	526,522
Total fund balances	63,250	7,471	312,517	25,865	16,784	9,521	178,612	1	100,635	74,227	788,883
Total liabilities and fund balances	\$ 72,337	\$ 7,471	\$ 348,625	\$ 25,865	\$ 17,575	\$ 9,521	\$ 179,855	\$ 1	\$ 100,635	\$ 74,227	\$ 836,112

SCHEDULE 5
TOWN OF PEMBROKE, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2007

	Special Revenue Funds				Capital Projects Funds				Debt		Total
	Public Library	Police Grants	Sewer Department	Police Detail	Recreation	Safety Center	Solid Waste	Highway Garage	Service Fund	Permanent Fund	
Revenues:											
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,318	\$ -	\$ 50,318
Charges for services	-	-	632,388	37,607	-	-	-	-	-	-	669,995
Miscellaneous	4,095	10,587	10,873	-	16,136	-	-	-	-	1,113	42,804
Total revenues	4,095	10,587	643,261	37,607	16,136	-	-	-	50,318	1,113	763,117
Expenditures:											
Current:											
Public safety	-	6,420	-	27,377	-	-	-	-	-	-	33,797
Sanitation	-	-	562,738	-	-	-	-	-	-	-	562,738
Culture and recreation	167,116	-	-	-	11,095	-	-	-	-	-	178,211
Capital outlay	-	-	24,000	-	-	-	18,580	-	-	-	42,580
Total expenditures	167,116	6,420	586,738	27,377	11,095	-	18,580	-	-	-	817,326
Excess (deficiency) of revenues over (under) expenditures	(163,021)	4,167	56,523	10,230	5,041	-	(18,580)	-	50,318	1,113	(54,209)
Other financing sources (uses):											
Transfers in	161,909	-	-	-	-	-	-	-	-	-	161,909
Transfers out	-	-	(51,016)	-	-	-	-	-	-	-	(51,016)
Total other financing sources and uses	161,909	-	(51,016)	-	-	-	-	-	-	-	110,893
Net change in fund balances	(1,112)	4,167	5,507	10,230	5,041	-	(18,580)	-	50,318	1,113	56,684
Fund balances, beginning, as restated (see Note 2-B)	64,362	3,304	307,010	15,635	11,743	9,521	197,192	1	50,317	73,114	732,199
Fund balances, ending	\$ 63,250	\$ 7,471	\$ 312,517	\$ 25,865	\$ 16,784	\$ 9,521	\$ 178,612	\$ 1	\$ 100,635	\$ 74,227	\$ 788,883



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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INDEPENDENT AUDITOR'S COMMUNICATION OF CONTROL DEFICIENCIES AND OTHER MATTERS

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

In planning and reporting our audit of the financial statements of the Town of Pembroke as of and for the fiscal year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Pembroke's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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

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

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

One such area was the importance of retaining payroll related documentation to ensure compliance with IRS regulations.

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

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

*Plodzik & Sanderson
Professional Association*

July 21, 2009