

TOWN OF PEMBROKE, NEW HAMPSHIRE

Financial Statements

December 31, 2013

and

Independent Auditor's Report

**TOWN OF PEMBROKE, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Pembroke, New Hampshire

Report on the Financial Statements

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 as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Pembroke, New Hampshire, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 28-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund and fiduciary fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Jason Clukay & Company PC

Manchester, New Hampshire
August 1, 2014

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2013

Presented herewith please find the Management Discussion & Analysis Report for the Town of Pembroke for the year ending December 31, 2013. 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 position presents information on all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases and decreases in net position 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 position changed during the most recent 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, 2013

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 position and statement of activities.

The Town maintains several individual governmental 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, which is considered a major fund. 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, 2013**

Government-Wide Financial Analysis

Governmental Activities

Statement of Net Position

Net position of the Town of Pembroke's governmental activities as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Current and Other Assets:		
Capital assets	\$ 10,964,141	\$ 9,330,644
Other assets	<u>10,877,806</u>	<u>11,799,450</u>
Total Assets	<u>21,841,947</u>	<u>21,130,094</u>
Deferred Outflows of Resources	<u> </u>	<u> </u>
Long-term and Other Liabilities:		
Long-term obligations	1,200,781	1,529,457
Other liabilities	<u>5,525,085</u>	<u>5,794,312</u>
Total Liabilities	<u>6,725,866</u>	<u>7,323,769</u>
Deferred Inflows of Resources	<u>471</u>	<u>196,596</u>
Net Position:		
Net investment in capital assets	9,614,546	7,636,458
Restricted	549,148	162,171
Unrestricted	<u>4,951,916</u>	<u>5,811,100</u>
Total Net Position	<u>\$ 15,115,610</u>	<u>\$ 13,609,729</u>

The Town's net position totaled \$15,115,610 at December 31, 2013, an increase of \$1,505,881 when compared to the end of 2012.

Approximately 64% of the Town's net position reflects the investment in capital assets such as land, buildings, infrastructure, and equipment less the outstanding debt used to acquire those assets. Another 3.6% of the net position is restricted in regard to how it may be used. For the Town of Pembroke, those restrictions include those related to permanent funds and capital projects funds. The remaining unrestricted portion represents the part of net position available to finance day-to-day operations.

Statement of Activities

Changes in net position of the Town's governmental activities for the years ending December 31, 2013 and 2012 are as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2013

	<u>2013</u>	<u>2012</u>
Program revenues:		
Charges for services	\$ 454,033	\$ 214,976
Operating grants and contributions	315,320	157,792
Capital grants and contributions	365,368	256,193
Total program revenues	<u>1,134,721</u>	<u>628,961</u>
General revenues:		
Property and other taxes	3,817,120	3,422,584
Licenses and permits	1,312,567	1,210,348
Intergovernmental revenue	315,964	316,997
Interest and investment earnings	19,739	21,925
Miscellaneous	141,210	57,889
Total general revenues	<u>5,606,600</u>	<u>5,029,743</u>
Total revenues	<u>6,741,321</u>	<u>5,658,704</u>
Program expenses:		
General government	1,372,950	1,325,371
Public safety	1,932,508	1,607,339
Highways and streets	1,319,851	1,188,332
Sanitation	219,696	223,371
Health and welfare	64,309	87,140
Culture and recreation	276,132	270,415
Interest and fiscal charges	49,994	54,555
Total expenses	<u>5,235,440</u>	<u>4,756,523</u>
Change in net position	1,505,881	902,181
Net position - beginning of year	<u>13,609,729</u>	<u>12,707,548</u>
Net position - ending of year	<u>\$ 15,115,610</u>	<u>\$ 13,609,729</u>

As shown in the above statement the Town's governmental activities experienced a favorable increase in financial position of \$1,505,881 on the full accrual basis of accounting.

Business-Type Activities

Statement of Net Position

Net position of the business-type activities as of December 31, 2013 and 2012 are as follows:

**TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2013**

	<u>2013</u>	<u>2012</u>
Current and Other Assets:		
Capital assets	\$ 4,437,523	\$ 4,515,594
Other assets	<u>1,564,348</u>	<u>1,460,659</u>
Total Assets	<u>6,001,871</u>	<u>5,976,253</u>
Deferred Outflows of Resources	_____	_____
Long-term and Other Liabilities:		
Long-term obligations	476,357	523,473
Other liabilities	<u>57,374</u>	<u>69,493</u>
Total Liabilities	<u>533,731</u>	<u>592,966</u>
Deferred Inflows of Resources	<u>810</u>	<u>810</u>
Net Position:		
Net investment in capital assets	3,915,921	3,945,564
Unrestricted	<u>1,551,409</u>	<u>1,436,913</u>
Total Net Position	<u>\$ 5,467,330</u>	<u>\$ 5,382,477</u>

The largest portion of the Town's net position 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 are not available for future spending.

Statement of Activities

Changes in net position of the Town's business-type activities for the years ending December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Program revenues:		
Charges for services	<u>\$ 1,587,984</u>	<u>\$ 1,546,003</u>
Total program revenues	<u>1,587,984</u>	<u>1,546,003</u>
General revenues:		
Interest and investment earnings	337	437
Miscellaneous	<u>15,247</u>	<u>35,759</u>
Total general revenues	<u>15,584</u>	<u>36,196</u>
Total revenues	<u>1,603,568</u>	<u>1,582,199</u>
Program expenses:		
Water distribution and treatment	635,372	706,145
Sanitation	<u>883,343</u>	<u>790,603</u>
Total expenses	<u>1,518,715</u>	<u>1,496,748</u>
Change in net position	84,853	85,451
Net position - beginning of year	<u>5,382,477</u>	<u>5,297,026</u>
Net position - ending of year	<u>\$ 5,467,330</u>	<u>\$ 5,382,477</u>

**TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2013**

The main funding source for business-type activities is charges for services. Net position increased by \$84,853 in 2013 due to revenues exceeding expenses in the water 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, unassigned 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 \$4,018,630, a decrease of \$295,162. As authorized at the 2013 annual Town meeting, monies were withdrawn from the Expendable Trust Funds (reported with the General Fund per GASB Statement #54) to fund several vehicle purchases, including a fire truck.

Other Governmental Funds

The total fund balance of \$1,014,297 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 (\$326,890 or 32.2%) and the TIF District Fund (\$475,801 or 46.9%). Fund balance of the other governmental funds decreased by \$154,924 in 2013 (or 13.3%). The unexpended bond proceeds in the Road Improvements Capital Projects Fund of \$81,850 were transferred to the General Fund to offset the current year debt service payment.

Proprietary Funds

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

The Town's proprietary funds had unrestricted net position of \$1,551,409 at December 31, 2013, which is an increase of \$114,496 (or 7.97%) from December 31, 2012. There was also a decrease in the net investment in capital assets of \$29,643 (or -0.75%) from December 31, 2012.

**TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2013**

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 5 to the basic financial statements for a complete schedule of capital asset activity for the year.

Long-Term Obligations

During 2013 the Town had a reduction in general obligation bonds in governmental activities of \$402,243 from payments made during the year and amortization of the bond premium. See Note 8 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.

During the year, the original estimated revenue and budgeted appropriations decreased by \$296,011. This increase is the net result of unanticipated income of \$14,663 accepted under RSA 31:95b reduced by the approved appropriations of \$310,674 to be carried forward to 2014.

Actual revenues and transfers in on the budgetary basis exceeded the budgeted amount by \$137,556. This is primarily due to receiving additional revenues from the following budgeted sources: \$163,567 in licenses and permits, \$61,393 in charges for services, and \$74,890 in miscellaneous sources. These additional revenue sources offset the taxes, intergovernmental revenue, and transfers in which were less than the estimated amount by \$162,857.

The Town underexpended its appropriations by \$754,451 or 10.02%. There were savings within all Town departments with the largest savings within general government (\$125,930), public safety (\$229,997), highways and streets (\$89,332), sanitation (\$97,938) and capital outlay (\$159,295).

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 Town continues to plan for the future and continue 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. Several initiatives with Suncook Valley Regional Town Association have enabled Pembroke to substantially lower their costs of health insurance. Also with the addition of the automated recycling program, the Town saved \$41,888 in 2013 and a total of \$162,632 since its inception in 2010 by recycling as opposed to sending it to the incinerator. 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.

**TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2013**

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 Position
December 31, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 9,751,820	\$ 424,119	\$ 10,175,939
Investments	629,889	29,367	659,256
Taxes receivable, net	1,030,306		1,030,306
Accounts receivable, net	59,704	451,042	510,746
Prepaid expenses	23,312	6,009	29,321
Inventory		36,586	36,586
Internal balance	(617,225)	617,225	-
Total Current Assets	<u>10,877,806</u>	<u>1,564,348</u>	<u>12,442,154</u>
Noncurrent Assets:			
Non-depreciable capital assets	4,247,898	231,351	4,479,249
Depreciable capital assets, net	6,716,243	4,206,172	10,922,415
Total Noncurrent Assets	<u>10,964,141</u>	<u>4,437,523</u>	<u>15,401,664</u>
Total Assets	<u>21,841,947</u>	<u>6,001,871</u>	<u>27,843,818</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	-	-	-
LIABILITIES			
Current Liabilities:			
Accounts payable	74,989	5,927	80,916
Retainage payable	4,580		4,580
Accrued expenses	144,355		144,355
Due to other governments	4,901,830		4,901,830
Deposits payable	1,307	1,000	2,307
Current portion of bonds payable	391,943		391,943
Current portion of notes payable		50,447	50,447
Current portion of compensated absences payable	1,081		1,081
Current portion of estimated liability for landfill post-closure care costs	5,000		5,000
Total Current Liabilities	<u>5,525,085</u>	<u>57,374</u>	<u>5,582,459</u>
Noncurrent Liabilities:			
Bonds payable	900,000		900,000
Notes payable	57,652	471,155	528,807
Compensated absences payable	30,297		30,297
Other post-employment benefits payable	72,832	5,202	78,034
Estimated liability for landfill post-closure care costs	140,000		140,000
Total Noncurrent Liabilities	<u>1,200,781</u>	<u>476,357</u>	<u>1,677,138</u>
Total Liabilities	<u>6,725,866</u>	<u>533,731</u>	<u>7,259,597</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned grant revenue	471		471
Unearned user fees		810	810
Total Deferred Inflows of Resources	<u>471</u>	<u>810</u>	<u>1,281</u>
NET POSITION			
Net investment in capital assets	9,614,546	3,915,921	13,530,467
Restricted	549,148		549,148
Unrestricted	4,951,916	1,551,409	6,503,325
Total Net Position	<u>\$ 15,115,610</u>	<u>\$ 5,467,330</u>	<u>\$ 20,582,940</u>

See accompanying notes to the basic financial statements

EXHIBIT B
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Activities
For the Year Ended December 31, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 1,372,950	\$ 25,293			\$ (1,347,657)		\$ (1,347,657)
Public safety	1,932,508	292,474	\$ 159,213	\$ 365,368	(1,115,453)		(1,115,453)
Highways and streets	1,319,851	1,020	156,107		(1,162,724)		(1,162,724)
Sanitation	219,696	112,734			(106,962)		(106,962)
Health and welfare	64,309				(64,309)		(64,309)
Culture and recreation	276,132	22,512			(253,620)		(253,620)
Interest and fiscal charges	49,994				(49,994)		(49,994)
Total governmental activities	<u>5,235,440</u>	<u>454,033</u>	<u>315,320</u>	<u>365,368</u>	<u>(4,100,719)</u>	<u>-</u>	<u>(4,100,719)</u>
Business-type activities:							
Water Department	635,372	738,170				102,798	102,798
Sewer Department	883,343	849,814				(33,529)	(33,529)
Total business-type activities	<u>1,518,715</u>	<u>1,587,984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,269</u>	<u>69,269</u>
Total primary government	<u>\$ 6,754,155</u>	<u>\$ 2,042,017</u>	<u>\$ 315,320</u>	<u>\$ 365,368</u>	<u>(4,100,719)</u>	<u>69,269</u>	<u>(4,031,450)</u>
General revenues:							
Property and other taxes					3,817,120		3,817,120
Licenses and permits					1,312,567		1,312,567
Grants and contributions:							
Rooms and meals tax distribution					315,964		315,964
Interest and investment earnings					19,739	337	20,076
Miscellaneous					141,210	15,247	156,457
Total general revenues					<u>5,606,600</u>	<u>15,584</u>	<u>5,622,184</u>
Change in net position					1,505,881	84,853	1,590,734
Net position - beginning					13,609,729	5,382,477	18,992,206
Net position - ending					<u>\$ 15,115,610</u>	<u>\$ 5,467,330</u>	<u>\$ 20,582,940</u>

See accompanying notes to the basic financial statements

EXHIBIT C
TOWN OF PEMBROKE, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2013

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 9,746,640	\$ 5,180	\$ 9,751,820
Investments		629,889	629,889
Taxes receivable, net	1,030,306		1,030,306
Accounts receivable, net	5,549	54,155	59,704
Due from other funds	237,328	580,585	817,913
Prepaid expenses	23,312		23,312
Total Assets	<u>11,043,135</u>	<u>1,269,809</u>	<u>12,312,944</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 11,043,135</u>	<u>\$ 1,269,809</u>	<u>\$ 12,312,944</u>
LIABILITIES			
Accounts payable	\$ 70,379	\$ 3,781	\$ 74,160
Retainage payable		4,580	4,580
Accrued expenses	110,283	9,352	119,635
Due to other governments	4,901,830		4,901,830
Deposits payable	1,307		1,307
Due to other funds	1,198,639	237,328	1,435,967
Total Liabilities	<u>6,282,438</u>	<u>255,041</u>	<u>6,537,479</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned property taxes	742,067		742,067
Unearned grant revenue		471	471
Total Deferred Inflows of Resources	<u>742,067</u>	<u>471</u>	<u>742,538</u>
FUND BALANCES			
Nonspendable	23,312	40,614	63,926
Restricted		508,534	508,534
Committed	1,173,960	449,079	1,623,039
Assigned	171,068	16,070	187,138
Unassigned	2,650,290		2,650,290
Total Fund Balances	<u>4,018,630</u>	<u>1,014,297</u>	<u>5,032,927</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 11,043,135</u>	<u>\$ 1,269,809</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 10,964,141

Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis 742,067

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 (1,291,943)
Notes payable (57,652)
Accrued interest on long-term obligations (24,720)
Compensated absences payable (31,378)
Other post-employment benefits payable (72,832)
Estimated liability for landfill post-closure care costs (145,000)

Net position of governmental activities \$ 15,115,610

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, 2013

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 Year Ended December 31, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds	
Revenues:				
Taxes	\$ 3,766,512	\$ 72,163	\$ 3,838,675	
Licenses and permits	1,312,567		1,312,567	
Intergovernmental	486,776	509,876	996,652	
Charges for services	177,393	276,640	454,033	
Interest and investment income	16,855	2,884	19,739	
Miscellaneous	121,450	14,060	135,510	
Total Revenues	<u>5,881,553</u>	<u>875,623</u>	<u>6,757,176</u>	
Expenditures:				
Current operations:				
General government	1,127,193	2,574	1,129,767	
Public safety	1,331,112	495,125	1,826,237	
Highways and streets	972,010		972,010	
Sanitation	226,106		226,106	
Health and welfare	62,787	1,397	64,184	
Culture and recreation	234,199	24,475	258,674	
Capital outlay	1,717,804	612,682	2,330,486	
Debt service:				
Principal retirement	390,000		390,000	
Interest and fiscal charges	67,450		67,450	
Total Expenditures	<u>6,128,661</u>	<u>1,136,253</u>	<u>7,264,914</u>	
Excess of revenues over (under) expenditures	<u>(247,108)</u>	<u>(260,630)</u>	<u>(507,738)</u>	
Other financing sources (uses):				
Proceeds from notes payable	57,652		57,652	
Transfers in	83,835	189,541	273,376	
Transfers out	(189,541)	(83,835)	(273,376)	
Total other financing sources (uses)	<u>(48,054)</u>	<u>105,706</u>	<u>57,652</u>	
Net change in fund balances	<u>(295,162)</u>	<u>(154,924)</u>	<u>(450,086)</u>	
Fund balances at beginning of year	4,313,792	1,169,221	5,483,013	
Fund balances at end of year	<u>\$ 4,018,630</u>	<u>\$ 1,014,297</u>	<u>\$ 5,032,927</u>	
Net Change in Fund Balances - Total Governmental Funds				\$ (450,086)
Amounts reported for governmental activities in the statement of activities are different because:				
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.				1,636,198
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.				(15,055)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.				390,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.				5,213
Some expense reported in the statement of activities, such as compensated absences, other post-employment benefits, and the estimated liability for landfill post-closure care costs, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.				(5,779)
Proceeds from notes are an other financing source in the funds, but notes payable increase long-term liabilities in the statement of net position.				(57,652)
Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are unearned and amortized in the statement of activities.				12,243
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.				(9,201)
Change in net position of governmental activities				<u>\$ 1,505,881</u>

See accompanying notes to the basic financial statements

EXHIBIT E
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
December 31, 2013

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 133,921	\$ 290,198	\$ 424,119
Investments	29,367		29,367
Accounts receivable, net	173,329	277,713	451,042
Due from other funds	264,717	352,508	617,225
Prepaid expenses	6,009		6,009
Inventory	36,586		36,586
Total Current Assets	<u>643,929</u>	<u>920,419</u>	<u>1,564,348</u>
Noncurrent Assets:			
Non-depreciable capital assets	231,351		231,351
Depreciable capital assets, net	<u>2,482,572</u>	<u>1,723,600</u>	<u>4,206,172</u>
Total Noncurrent Assets	<u>2,713,923</u>	<u>1,723,600</u>	<u>4,437,523</u>
Total Assets	<u>3,357,852</u>	<u>2,644,019</u>	<u>6,001,871</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	3,195	2,732	5,927
Deposits payable	1,000		1,000
Current portion of note payable	<u>50,447</u>		<u>50,447</u>
Total Current Liabilities	<u>54,642</u>	<u>2,732</u>	<u>57,374</u>
Noncurrent Liabilities:			
Note payable	471,155		471,155
Other post-employment benefits payable		5,202	5,202
Total Noncurrent Liabilities	<u>471,155</u>	<u>5,202</u>	<u>476,357</u>
Total Liabilities	<u>525,797</u>	<u>7,934</u>	<u>533,731</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned user fees		810	810
Total Deferred Inflows of Resources	<u>-</u>	<u>810</u>	<u>810</u>
NET POSITION			
Net investment in capital assets	2,192,321	1,723,600	3,915,921
Unrestricted	<u>639,734</u>	<u>911,675</u>	<u>1,551,409</u>
Total Net Position	<u>\$ 2,832,055</u>	<u>\$ 2,635,275</u>	<u>\$ 5,467,330</u>

See accompanying notes to the basic financial statements

EXHIBIT F
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2013

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Operating revenues:			
Charges for services, net	\$ 738,170	\$ 849,814	\$ 1,587,984
Miscellaneous revenues	13,930	1,317	15,247
Total operating revenues	<u>752,100</u>	<u>851,131</u>	<u>1,603,231</u>
Operating expenses:			
Personnel services	236,737	145,866	382,603
Contractual services	57,571	513,081	570,652
Materials and supplies	89,498	5,032	94,530
Maintenance and repairs	12,577	52,786	65,363
Utilities	70,523	18,114	88,637
Depreciation	119,304	133,189	252,493
Miscellaneous expenses	27,219	15,275	42,494
Total operating expenses	<u>613,429</u>	<u>883,343</u>	<u>1,496,772</u>
Operating income (loss)	<u>138,671</u>	<u>(32,212)</u>	<u>106,459</u>
Non-operating revenues (expenses):			
Interest revenue	293	44	337
Interest expense	(21,943)		(21,943)
Net non-operating revenues (expenses)	<u>(21,650)</u>	<u>44</u>	<u>(21,606)</u>
Change in net position	117,021	(32,168)	84,853
Total net position at beginning of year	<u>2,715,034</u>	<u>2,667,443</u>	<u>5,382,477</u>
Total net position at end of year	<u>\$ 2,832,055</u>	<u>\$ 2,635,275</u>	<u>\$ 5,467,330</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, 2013

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 789,198	\$ 884,240	\$ 1,673,438
Cash paid to suppliers	(310,759)	(635,103)	(945,862)
Cash paid to employees	(206,209)	(111,137)	(317,346)
Net cash provided by operating activities	<u>272,230</u>	<u>138,000</u>	<u>410,230</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	(174,404)	(1,200)	(175,604)
Principal paid on long-term debt	(48,428)		(48,428)
Interest paid on long-term debt	(21,943)		(21,943)
Net cash used for capital and related financing activities	<u>(244,775)</u>	<u>(1,200)</u>	<u>(245,975)</u>
Cash flows from investing activities:			
Purchase of investments	(247)		(247)
Interest on investments	293	44	337
Net cash provided by investing activities	<u>46</u>	<u>44</u>	<u>90</u>
Net increase in cash and cash equivalents	27,501	136,844	164,345
Cash and cash equivalents at beginning of year	<u>371,137</u>	<u>505,862</u>	<u>876,999</u>
Cash and cash equivalents at end of year	<u>\$ 398,638</u>	<u>\$ 642,706</u>	<u>\$ 1,041,344</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 138,671	\$ (32,212)	\$ 106,459
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	119,304	133,189	252,493
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:			
Accounts receivable	37,098	33,109	70,207
Prepaid expenses	(3,678)		(3,678)
Inventory	(5,626)		(5,626)
Accounts payable	(12,455)	1,152	(11,303)
Accrued expenses	(1,084)		(1,084)
Other post-employment benefits payable		2,762	2,762
Net cash provided by operating activities	<u>\$ 272,230</u>	<u>\$ 138,000</u>	<u>\$ 410,230</u>

See accompanying notes to the basic financial statements

EXHIBIT H
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2013

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 981,158
Investments	843,584
Due from other funds	829
Total Assets	<u>\$ 1,825,571</u>
LIABILITIES	
Accounts payable	\$ 8,529
Deposits	42,815
Due to other governments	1,773,398
Due to others	829
Total Liabilities	<u>\$ 1,825,571</u>

See accompanying notes to the basic financial statements

**TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2013**

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 position 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 position 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 position 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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

Fund Accounting

The Town uses funds to maintain its financial records during the 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 plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance. The following is the Town's major governmental fund:

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.

2. Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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 position and changes in net position. 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, 2013

Measurement Focus

1. Government-Wide Financial Statements:

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

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, deferred outflows of resources, current liabilities, and deferred inflows of resources 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, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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 unearned revenue, and in the presentation of expenses versus expenditures.

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.

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

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 and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

2. Unearned Revenue:

Unearned 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 unearned revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned 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, 2013, the Town applied \$350,000 of its unassigned fund balance to reduce taxes.

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	\$ 133,921	\$ 290,198	\$ 424,119
Due from other funds	<u>264,717</u>	<u>352,508</u>	<u>617,225</u>
Total cash and cash equivalents	<u>\$ 398,638</u>	<u>\$ 642,706</u>	<u>\$ 1,041,344</u>

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

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, 2013 are recorded as receivables net of reserves for estimated uncollectibles of \$125,979.

Accounts Receivable

Accounts receivable are recorded net of reserves for estimated uncollectibles of \$219,210 in the ambulance fund (a nonmajor governmental fund) and \$74,000 in the sewer fund.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2013 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 position, but are not reported in the governmental fund financial statements.

All capital assets including infrastructure and intangible assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated 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) or its intangible assets (e.g. easements). Infrastructure records have been maintained effective January 1, 2004 and are included in these financial statements.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

All reported capital assets except for land, easements with an indefinite life, 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>
	Intangible assets	10
	Infrastructure	30-67
	Buildings and improvements	30-40
	Vehicles and equipment	5-25

Bond Premium

Bond premiums are amortized as a component of interest expense over the life of the related bond using the effective interest rate method. Bonds payable are reported in the accompanying financial statements including any applicable unamortized bond premium. The balance of the unamortized bond premium as of December 31, 2013 is \$6,943.

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. A 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.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

acquisition, construction or improvement of those assets. Net position is 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. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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 Policy

Under GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Town has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. The components of fund balance are defined as follows:

- ***Nonspendable Fund Balance:*** Amounts that are not in a spendable form (such as inventory or prepaid expenses) or are required to be maintained intact (such as principal of an endowment fund).
- ***Restricted Fund Balance:*** Amounts that can only be spent for specific purposes, such as grant, library, income balance of permanent funds, and capital project funds that cannot change purpose. Restrictions may be changed or lifted only upon the consent of the external resource provider or enabling legislation.
- ***Committed Fund Balance:*** Amounts that can only be used for specific purposes pursuant to a formal vote at Town Meetings; such as expendable trust funds, nonlapsing appropriations, and other special revenue funds not listed under restricted and can change purpose via a vote at Town Meeting.
- ***Assigned Fund Balance:*** Amounts intended by the Board for specific purposes. For all governmental funds other than the General Fund, any remaining positive amounts are to be classified as "assigned." Items that fall under this classification for the General Fund would be encumbrances properly approved by contract, purchase order, or other such actions as required.
- ***Unassigned Fund Balance:*** Amounts that are not obligated or specifically designated and is available for any purpose. The residual classification of any General Fund balance is to be reported here. Any deficit balance of another fund is also classified as unassigned.

Spending Prioritization

In instances where expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first.

When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts and then unassigned amounts.

Minimum Level of Unassigned Fund Balance

The Board will strive to maintain an unassigned fund balance in its General Fund equal to the guidelines established by the NH Government Finance Officers Association (NHGFOA) which are as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

- Retention of 8% to 17% of regular General Fund operating revenues or no less than 2 months of General Fund operating expenditures. This is calculated by adding the municipality's General Fund operating appropriations, the state education tax amount, the local school net tax commitment, and the county appropriation.

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 for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in the proprietary 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 receivables and the liability for other post-employment benefits.

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$623,276,414 as of April 1, 2013) and are due in two installments on July 2, 2013 and December 19, 2013. 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 \$11,151,830 and \$1,652,860 for the Pembroke School District and Merrimack County, respectively. These taxes are not recognized as revenues in these

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

financial statements. At December 31, 2013, the balance of the property tax appropriation due to the Pembroke School District is \$4,901,830. 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, 2013, the Town was a member of and participated in a public entity risk pool (Trust) for property and liability insurance and worker's compensation coverage. Coverage has not been significantly reduced from the prior year and settled claims have not exceeded coverage in any of the past three years.

The Trust agreements permit 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, 2013.

Property and Liability Insurance

The Trust provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the Trust, 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, up to an aggregate of \$5,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

Worker's Compensation

The Trust 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, 2013 are classified in the accompanying financial statements as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
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December 31, 2013

Statement of Net Position:	
Cash and cash equivalents	\$ 10,175,939
Investments	659,256
Statement of Fiduciary Net Position:	
Cash and cash equivalents	981,158
Investments	843,584
Total deposits and investments	<u>\$ 12,659,937</u>

Deposits and investments as of December 31, 2013 consist of the following:

Cash on hand	\$ 1,214
Deposits with financial institutions	6,078,516
Investments	6,580,207
Total deposits and investments	<u>\$ 12,659,937</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>
Open end mutual funds	\$ 100,663
Closed end mutual funds	9,291
Money market mutual funds	50,497
	<u>\$ 160,451</u>

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

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.

Of the Town's deposits at year end, \$5,219,590 was collateralized by securities held by the bank in the bank's name, and \$39,927 was uninsured and uncollateralized.

As of December 31, 2013, 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>
Equity securities	\$ 784,804
Closed end mutual funds	9,291
	<u>\$ 794,095</u>

NOTE 5—CAPITAL ASSETS

The following is a summary of changes in capital assets in the Town's governmental activities:

	<u>Balance 01/01/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/13</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 1,936,383	\$ 607,900		\$ 2,544,283
Easements	608,579			608,579
Construction in progress	5,000	1,150,996	\$ (60,960)	1,095,036
Total capital assets not being depreciated	<u>2,549,962</u>	<u>1,758,896</u>	<u>(60,960)</u>	<u>4,247,898</u>
Other capital assets:				
Intangible assets		60,960		60,960
Infrastructure	4,195,069	156,277		4,351,346
Buildings and improvements	3,843,700			3,843,700
Vehicles and equipment	4,831,150	333,168	(124,335)	5,039,983
Total other capital assets at historical cost	<u>12,869,919</u>	<u>550,405</u>	<u>(124,335)</u>	<u>13,295,989</u>
Less accumulated depreciation for:				
Intangible assets		(6,096)		(6,096)
Infrastructure	(372,642)	(108,784)		(481,426)
Buildings and improvements	(2,574,500)	(86,588)		(2,661,088)
Vehicles and equipment	(3,142,095)	(404,175)	115,134	(3,431,136)
Total accumulated depreciation	<u>(6,089,237)</u>	<u>(605,643)</u>	<u>115,134</u>	<u>(6,579,746)</u>
Total other capital assets, net	<u>6,780,682</u>	<u>(55,238)</u>	<u>(9,201)</u>	<u>6,716,243</u>
Total capital assets, net	<u>\$ 9,330,644</u>	<u>\$ 1,703,658</u>	<u>\$ (70,161)</u>	<u>\$ 10,964,141</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 242,735
Public safety	122,292
Highways and streets	239,401
Culture and recreation	1,215
Total governmental activities depreciation expense	<u>\$ 605,643</u>

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

The following is a summary of changes in capital assets in the Town's business-type activities:

	<u>Balance</u> <u>01/01/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/13</u>
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 31,935			\$ 31,935
Construction in progress	78,246	\$ 150,170	\$ (29,000)	199,416
Total capital assets not being depreciated	<u>110,181</u>	<u>150,170</u>	<u>(29,000)</u>	<u>231,351</u>
Other capital assets:				
Intangible assets		29,000		29,000
Building and improvements	272,333			272,333
Water infrastructure	2,159,916			2,159,916
Sewer infrastructure	3,417,224			3,417,224
Machinery, vehicles, and equipment	2,942,750	24,252		2,967,002
Other	29,865			29,865
Total other capital assets at historical cost	<u>8,822,088</u>	<u>53,252</u>	<u>-</u>	<u>8,875,340</u>
Less accumulated depreciation for:				
Intangible assets		(2,900)		(2,900)
Building and improvements	(197,054)	(5,791)		(202,845)
Water infrastructure	(859,060)	(42,120)		(901,180)
Sewer infrastructure	(1,728,317)	(113,908)		(1,842,225)
Machinery, vehicles, and equipment	(1,602,379)	(87,774)		(1,690,153)
Other	(29,865)			(29,865)
Total accumulated depreciation	<u>(4,416,675)</u>	<u>(252,493)</u>	<u>-</u>	<u>(4,669,168)</u>
Total other capital assets, net	<u>4,405,413</u>	<u>(199,241)</u>	<u>-</u>	<u>4,206,172</u>
Total capital assets, net	<u>\$ 4,515,594</u>	<u>\$ (49,071)</u>	<u>\$ (29,000)</u>	<u>\$ 4,437,523</u>

Depreciation expense was charged to the proprietary funds as follows:

Water Fund	\$ 119,304
Sewer Fund	<u>133,189</u>
Total business-type activities depreciation expense	<u>\$ 252,493</u>

NOTE 6—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.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Funding Policy

Covered public safety employees are required to contribute 11.55% of their covered salary, whereas general employees are required to contribute 7.0% 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 19.95% and 8.8%, respectively through June 30, 2013 and 25.30% and 10.77%, respectively thereafter. The Town contributed 100% of the employer cost for public safety and general employees.

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, 2013, 2012 and 2011 were \$235,544, \$195,224, and \$200,826, respectively, equal to the required contributions for each year.

NOTE 7—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 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, 2013, the actuarial valuation date, participants of the postretirement plan that meet eligibility requirements are comprised of 6 retirees and 30 active employees with 6 currently eligible to retire. The plan does not issue a separate financial report.

Annual OPEB Costs

The Town's fiscal 2013 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, 2013 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, 2013 is as follows:

Annual required contribution	\$ 64,552
Interest on net OPEB obligation	2,733
NOO amortization adjustment to ARC	<u>(2,715)</u>
Annual OPEB cost	64,570
Contributions made	<u>(54,858)</u>
Increase in net OPEB obligation	9,712
Net OPEB obligation - beginning of year	<u>68,322</u>
Net OPEB obligation - end of year	<u>\$ 78,034</u>

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ending December 31, 2013, 2012 and 2011 are as follows:

Fiscal Year <u>Ended</u>	Annual OPEB Cost	Percentage of OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
12/31/2013	\$ 64,570	85.0%	\$ 78,034
12/31/2012	\$ 68,934	67.0%	\$ 68,322
12/31/2011	\$ 68,928	67.0%	\$ 45,542

The Town's net OPEB obligation as of December 31, 2013 is recognized as a liability in these financial statements.

Funded Status and Funding Progress for OPEB

The funded status of the plan as of January 1, 2013, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 860,755
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 860,755</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 1,384,167
UAAL as a percentage of covered payroll	62.2%

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 RP-2000 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. 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.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

In the January 1, 2013 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 9.0% initially, and then reduced by 0.5% decrements to an ultimate rate of 5.0% after 8 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.

NOTE 8—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the Town's long-term obligations for the year ended December 31, 2013 are as follows:

	<u>Balance</u> <u>01/01/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/13</u>	<u>Due Within</u> <u>One Year</u>
<i>Governmental activities:</i>					
Bonds payable	\$ 1,675,000		\$ (390,000)	\$ 1,285,000	\$ 385,000
Unamortized bond premium	<u>19,186</u>		<u>(12,243)</u>	<u>6,943</u>	<u>6,943</u>
Total bonds payable	1,694,186	\$ -	(402,243)	1,291,943	391,943
Notes payable		57,652		57,652	
Compensated absences payable	<u>27,549</u>	<u>7,613</u>	<u>(3,784)</u>	<u>31,378</u>	<u>1,081</u>
Total governmental activities	<u>\$ 1,721,735</u>	<u>\$ 65,265</u>	<u>\$ (406,027)</u>	<u>\$ 1,380,973</u>	<u>\$ 393,024</u>
<i>Business-type activities:</i>					
Notes payable	\$ 570,030		\$ (48,428)	\$ 521,602	\$ 50,447
Total business-type activities	<u>\$ 570,030</u>	<u>\$ -</u>	<u>\$ (48,428)</u>	<u>\$ 521,602</u>	<u>\$ 50,447</u>

Payments on the general obligation bonds of the governmental activities are paid out of the General Fund. Amortization of the bond premium is recognized as a component of interest expense on the government-wide financial statements. Payments on the notes 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

Bonds payable at December 31, 2013 is comprised of the following individual issues:

\$2,560,000, 2003 Safety complex and refunding, due in annual installments of \$100,000 through July 2023, interest at 3.25-4.6%	\$ 1,000,000
\$864,000, 2011 Road paving bonds, due in varying annual installments of \$285,000 - \$290,000 through August 2014, interest at 2.00-4.00%	<u>285,000</u>
	1,285,000
Add: Unamortized bond premium	<u>6,943</u>
	<u>\$ 1,291,943</u>

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Debt service requirements to retire general obligation bonds outstanding for governmental activities at December 31, 2013 are as follows:

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 385,000	\$ 54,750	\$ 439,750
2015	100,000	39,350	139,350
2016	100,000	35,350	135,350
2017	100,000	31,200	131,200
2018	100,000	26,950	126,950
2019-2023	<u>500,000</u>	<u>68,150</u>	<u>568,150</u>
Total	1,285,000	255,750	1,540,750
Add: <i>Bond Premium</i>	<u>6,943</u>		<u>6,943</u>
	<u>\$ 1,291,943</u>	<u>\$ 255,750</u>	<u>\$ 1,547,693</u>

As included on the Statement of Activities (Exhibit B), interest expense for the year ended December 31, 2013 was \$49,994 on general obligation debt for governmental activities.

Notes payable

The note payable at December 31, 2013 is comprised of the following individual issue:

\$57,652, 2013 Ambulance promissory note, due in annual installments of \$28,826 in January 2015 and 2016, interest at 2.55%	<u>\$ 57,652</u>
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Debt service requirements to retire the note payable for governmental activities at December 31, 2013 are as follows:

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014		\$ 862	\$ 862
2015	\$ 28,826	1,121	29,947
2016	<u>28,826</u>	<u>376</u>	<u>29,202</u>
	<u>\$ 57,652</u>	<u>\$ 2,359</u>	<u>\$ 60,011</u>

Business-type Activities

Notes payable

The notes payable at December 31, 2013 are comprised of the following individual issues:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

\$450,000, 2011 Water line construction note, due in monthly installments of \$4,556, including interest at 4.00%, through April 2021	\$ 347,118
\$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>174,484</u>
	<u>\$ 521,602</u>

Debt service requirements to retire the notes payable for business-type activities at December 31, 2013 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 50,447	\$ 19,923	\$ 70,370
2015	52,503	17,868	70,371
2016	54,642	15,729	70,371
2017	56,868	13,502	70,370
2018	59,185	11,186	70,371
2019-2021	<u>247,957</u>	<u>7,168</u>	<u>255,125</u>
	<u>\$ 521,602</u>	<u>\$ 85,376</u>	<u>\$ 606,978</u>

As included on the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (Exhibit F), interest expense for the year ended December 31, 2013 was \$21,943 on general obligation debt for business-type activities.

Authorized and Unissued Debt

As of December 31, 2013, the Town had the following debt authorized and unissued:

<u>Description</u>	<u>Amount</u>
Roadway improvement and reconstruction	<u>\$ 536,000</u>

NOTE 9—LANDFILL POST-CLOSURE 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. The Town's landfill was closed during 2012. An estimated liability has been recorded based on the future post-closure care costs that will be incurred. The estimated liability for landfill post-closure care costs has a balance of \$145,000 as of December 31, 2013. The estimated total current cost of the post-closure care 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, 2013. However, the actual cost of post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The following is a summary of changes in the estimated liability for post-closure care cost for the year ended December 31, 2013:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Balance - January 1, 2013	\$ 150,000
Change in estimated liability	69
Expenditures recognized in General Fund	<u>(5,069)</u>
Balance - December 31, 2013	<u>\$ 145,000</u>

NOTE 10—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 (reported within the General Fund) consist of temporarily investing funds applicable to other funds within the Town. Interfund balances at December 31, 2013 are as follows:

	General Fund	Due from Nonmajor Governmental	
		Funds	Totals
Due to General Fund		\$ 237,328	\$ 237,328
Nonmajor Governmental Funds	\$ 580,585		580,585
Water Fund	264,717		264,717
Sewer Fund	352,508		352,508
Fiduciary Funds	829		829
	<u>\$ 1,198,639</u>	<u>\$ 237,328</u>	<u>\$ 1,435,967</u>

During the year, several interfund transactions occurred between funds. The transfers out of the Nonmajor Governmental Funds were made to distribute the earned income during the year to support the Town's programs and to transfer the unexpended bond proceeds to offset the current year debt service payment. The transfer out of the General Fund was made in accordance with budgetary authorizations. Interfund transfers for the year ended December 31, 2013 are as follows:

	General Fund	Transfer from Nonmajor Governmental	
		Funds	Totals
Transfer to General Fund		\$ 83,835	\$ 83,835
Nonmajor Governmental Funds	\$ 189,541		189,541
	<u>\$ 189,541</u>	<u>\$ 83,835</u>	<u>\$ 273,376</u>

NOTE 11—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

	<u>Governmental Activities</u>
Permanent Funds - Endowments	\$ 40,614
Permanent Funds - Income	30,237
Tax Increment Financing District	475,801
Police Grants Fund	2,496
	<u>\$ 549,148</u>

**TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013**

NOTE 12—COMPONENTS OF FUND BALANCE

The Town's fund balance components are comprised as follows:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Permanent Funds - Endowments		\$ 40,614	\$ 40,614
Prepaid expenses	\$ 23,312		23,312
Restricted for:			
Permanent Funds - Income		30,237	30,237
Tax Increment Financing District		475,801	475,801
Police Grants Fund		2,496	2,496
Committed for:			
Police Details Fund		24,849	24,849
Conservation Commission		326,890	326,890
Ambulance Fund		97,340	97,340
Expendable Trust Funds	1,173,960		1,173,960
Assigned for:			
Recreation Fund		16,053	16,053
Town Clock Fund		17	17
Library operations	5,646		5,646
Encumbrances	125,422		125,422
Subsequent year's expenditures	40,000		40,000
Unassigned:			
Unassigned - General operations	<u>2,650,290</u>		<u>2,650,290</u>
	<u>\$ 4,018,630</u>	<u>\$ 1,014,297</u>	<u>\$ 5,032,927</u>

NOTE 13—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.

NOTE 14—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, 2013 amounted to \$95,814.

NOTE 15—SUBSEQUENT EVENTS

At the March 2014 annual Town meeting, the Town authorized the issuance of long-term debt in the amount of \$1,200,000 for roadway improvements and \$300,000 for water line infrastructure improvements.

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 3,779,794	\$ 3,779,794	\$ 3,744,957	\$ (34,837)
Licenses and permits	1,149,000	1,149,000	1,312,567	163,567
Intergovernmental	707,783	559,718	486,776	(72,942)
Charges for services	116,000	116,000	177,393	61,393
Interest and investment income	16,000	16,000	16,563	563
Miscellaneous	42,340	42,340	117,230	74,890
Total Revenues	<u>5,810,917</u>	<u>5,662,852</u>	<u>5,855,486</u>	<u>192,634</u>
Expenditures:				
Current:				
General government	1,254,298	1,254,298	1,128,368	125,930
Public safety	1,539,358	1,539,358	1,309,361	229,997
Highways and streets	1,033,508	1,048,171	958,839	89,332
Sanitation	324,044	324,044	226,106	97,938
Health and welfare	108,111	108,111	62,787	45,324
Culture and recreation	35,631	35,631	31,337	4,294
Economic development	1,305	1,305	-	1,305
Capital outlay	2,124,854	1,814,180	1,654,885	159,295
Debt service:				
Principal retirement	390,000	390,000	390,000	-
Interest and fiscal charges	67,451	67,451	67,450	1
Total Expenditures	<u>6,878,560</u>	<u>6,582,549</u>	<u>5,829,133</u>	<u>753,416</u>
Excess of revenues over (under) expenditures	<u>(1,067,643)</u>	<u>(919,697)</u>	<u>26,353</u>	<u>946,050</u>
Other financing sources (uses):				
Transfers in	1,661,154	1,513,208	1,458,130	(55,078)
Transfers out	(943,511)	(943,511)	(942,476)	1,035
Total other financing sources (uses)	<u>717,643</u>	<u>569,697</u>	<u>515,654</u>	<u>(54,043)</u>
Net change in fund balance	<u>(350,000)</u>	<u>(350,000)</u>	<u>542,007</u>	<u>892,007</u>
Fund balance at beginning of year				
- Budgetary Basis	<u>2,913,662</u>	<u>2,913,662</u>	<u>2,913,662</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 2,563,662</u>	<u>\$ 2,563,662</u>	<u>\$ 3,455,669</u>	<u>\$ 892,007</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, 2013

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial 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>
1/1/2013	\$ -	\$ 860,755	\$ 860,755	0%	\$ 1,384,167	62.2%
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, 2013

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. Budgetary revenues and expenditures were adjusted for notes payable activity, non-budgetary revenues and expenditures, and budgetary transfers in and out as follows:

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 6,023,040	\$ 6,318,202
Difference in property taxes meeting susceptible to accrual criteria	(21,555)	
Encumbrances - December 31, 2013		125,422
Encumbrances - December 31, 2012		(164,436)
Notes payable activity	(57,652)	(57,652)
Non-budgetary revenues and expenditures	(6,497)	(202,862)
Budgetary transfers in and out	<u>1,376,280</u>	<u>752,935</u>
Per Schedule 1	<u>\$ 7,313,616</u>	<u>\$ 6,771,609</u>

NOTE 2—BUDGETARY FUND BALANCES

The components of the budgetary fund balance for the General Fund are as follows:

Nonspendable:	
Prepaid expenses	\$ 23,312
Assigned for:	
Subsequent year's expenditures	40,000
Unassigned:	
Unassigned - General operations	<u>3,392,357</u>
	<u>\$ 3,455,669</u>

NOTE 3—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 two most recent actuarial valuation reports. 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, 2013

	Total Special Revenue Funds	Total Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS				
Cash and cash equivalents			\$ 5,180	\$ 5,180
Investments	\$ 564,218		65,671	629,889
Accounts receivable, net	54,155			54,155
Due from other funds	100,204	\$ 480,381		580,585
Total Assets	<u>718,577</u>	<u>480,381</u>	<u>70,851</u>	<u>1,269,809</u>
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 718,577</u>	<u>\$ 480,381</u>	<u>\$ 70,851</u>	<u>\$ 1,269,809</u>
LIABILITIES				
Accounts payable	\$ 3,781			\$ 3,781
Retainage payable		\$ 4,580		4,580
Accrued expenses	9,352			9,352
Due to other funds	237,328			237,328
Total Liabilities	<u>250,461</u>	<u>4,580</u>	<u>\$ -</u>	<u>255,041</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned grant revenue	471			471
Total Deferred Inflows of Resources	<u>471</u>	<u>-</u>	<u>-</u>	<u>471</u>
FUND BALANCES				
Nonspendable			40,614	40,614
Restricted	2,496	475,801	30,237	508,534
Committed	449,079			449,079
Assigned	16,070			16,070
Total Fund Balances	<u>467,645</u>	<u>475,801</u>	<u>70,851</u>	<u>1,014,297</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 718,577</u>	<u>\$ 480,381</u>	<u>\$ 70,851</u>	<u>\$ 1,269,809</u>

SCHEDULE A-1
TOWN OF PEMBROKE, NEW HAMPSHIRE
 Combining Balance Sheet
 Governmental Funds - All Nonmajor Special Revenue Funds
 December 31, 2013

	Recreation Fund	Police Details Fund	Christmas Donations Fund	Town Clock Fund	Police Grants Fund	Conservation Commission Fund	Grants Fund	Ambulance Fund	Total Special Revenue Funds
ASSETS									
Investments									
Accounts receivable, net	\$ 383	\$ 383				\$ 564,218		\$ 53,772	\$ 564,218
Due from other funds	16,053	24,466	\$ 1,397	\$ 17	\$ 2,711		\$ 471	54,155	54,155
Total Assets	<u>16,053</u>	<u>24,849</u>	<u>1,397</u>	<u>17</u>	<u>2,711</u>	<u>564,218</u>	<u>471</u>	<u>108,861</u>	<u>718,577</u>
DEFERRED OUTFLOWS OF RESOURCES									
Total Deferred Outflows of Resources	-	-	-	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 16,053</u>	<u>\$ 24,849</u>	<u>\$ 1,397</u>	<u>\$ 17</u>	<u>\$ 2,711</u>	<u>\$ 564,218</u>	<u>\$ 471</u>	<u>\$ 108,861</u>	<u>\$ 718,577</u>
LIABILITIES									
Accounts payable			\$ 1,397		\$ 215			\$ 2,169	\$ 3,781
Accrued expenses						\$ 237,328		9,352	9,352
Due to other funds									237,328
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>1,397</u>	<u>\$ -</u>	<u>215</u>	<u>237,328</u>	<u>\$ -</u>	<u>11,521</u>	<u>250,461</u>
DEFERRED INFLOWS OF RESOURCES									
Unearned grant revenue							471		471
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>471</u>	<u>-</u>	<u>471</u>
FUND BALANCES									
Restricted									2,496
Committed		24,849				326,890		97,340	449,079
Assigned	16,053			17					16,070
Total Fund Balances	<u>16,053</u>	<u>24,849</u>	<u>-</u>	<u>17</u>	<u>2,496</u>	<u>326,890</u>	<u>-</u>	<u>97,340</u>	<u>467,645</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 16,053</u>	<u>\$ 24,849</u>	<u>\$ 1,397</u>	<u>\$ 17</u>	<u>\$ 2,711</u>	<u>\$ 564,218</u>	<u>\$ 471</u>	<u>\$ 108,861</u>	<u>\$ 718,577</u>

SCHEDULE A-2
TOWN OF PEMBROKE, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Capital Projects Funds
December 31, 2013

	Road Improvements Fund	TIF District Fund	Total Capital Projects Funds
ASSETS			
Due from other funds	\$ 4,580	\$ 475,801	\$ 480,381
Total Assets	<u>4,580</u>	<u>475,801</u>	<u>480,381</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 4,580</u>	<u>\$ 475,801</u>	<u>\$ 480,381</u>
LIABILITIES			
Retainage payable	\$ 4,580		\$ 4,580
Total Liabilities	<u>4,580</u>	<u>\$ -</u>	<u>4,580</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Restricted		<u>475,801</u>	<u>475,801</u>
Total Fund Balances	<u>-</u>	<u>475,801</u>	<u>475,801</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,580</u>	<u>\$ 475,801</u>	<u>\$ 480,381</u>

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, 2013

	Total Special Revenue Funds	Total Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
Revenues:				
Taxes	\$ 6,370	\$ 65,793		\$ 72,163
Intergovernmental revenue	509,876			509,876
Charges for services	276,640			276,640
Interest and investment income	2,958		\$ (74)	2,884
Miscellaneous	14,060			14,060
Total Revenues	<u>809,904</u>	<u>\$ 65,793</u>	<u>(74)</u>	<u>875,623</u>
Expenditures:				
Current operations:				
General government	2,574			2,574
Public safety	495,125			495,125
Health and welfare	1,397			1,397
Culture and recreation	24,475			24,475
Capital outlay	608,102	4,580		612,682
Total Expenditures	<u>1,131,673</u>	<u>4,580</u>	<u>-</u>	<u>1,136,253</u>
Excess of revenues over (under) expenditures	<u>(321,769)</u>	<u>61,213</u>	<u>(74)</u>	<u>(260,630)</u>
Other financing sources (uses):				
Transfers in	189,541			189,541
Transfers out	(485)	(81,850)	(1,500)	(83,835)
Total other financing sources (uses)	<u>189,056</u>	<u>(81,850)</u>	<u>(1,500)</u>	<u>105,706</u>
Net change in fund balances	(132,713)	(20,637)	(1,574)	(154,924)
Fund balances at beginning of year	<u>600,358</u>	<u>496,438</u>	<u>72,425</u>	<u>1,169,221</u>
Fund balances at end of year	<u>\$ 467,645</u>	<u>\$ 475,801</u>	<u>\$ 70,851</u>	<u>\$ 1,014,297</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, 2013

	Town Donation Fund	Recreation Fund	Police Details Fund	Christmas Donations Fund	Town Clock Fund	Police Grants Fund	Conservation Commission Fund	Grants Fund	Ambulance Fund	Total Special Revenue Funds
Revenues:										
Taxes			\$ 7,255				\$ 6,370		\$ 137,253	\$ 6,370
Intergovernmental revenue			15,862						239,566	509,876
Charges for services		\$ 21,212								276,640
Interest and investment income		6,021		\$ 1,340	\$ 10	\$ 1	2,957		1,173	2,958
Miscellaneous		27,233	23,117	1,340	10	2,016	9,327		377,992	14,060
Total Revenues	\$ -	\$ 54,476	\$ 50,382	\$ 2,680	\$ 20	\$ 2,017	\$ 9,327	\$ 368,868	\$ 377,992	\$ 809,904
Expenditures:										
Current operations:										
General government										2,574
Public safety			20,747	1,397		2,295			470,193	495,125
Health and welfare										1,397
Culture and recreation		24,475					243,698			24,475
Capital outlay		24,475	20,747	1,397		2,295	243,698		470,193	608,102
Total Expenditures	-	48,950	41,494	2,794		4,590	487,396		940,386	1,131,673
Excess of revenues over (under) expenditures	-	5,526	8,888	(514)	10	(278)	(234,371)	-	(92,201)	(321,769)
Other financing sources (uses):										
Transfers in									189,541	189,541
Transfers out	(485)								(485)	(485)
Total other financing sources (uses)	(485)								189,056	189,056
Net change in fund balances	(485)	5,526	8,888	(514)	10	(278)	(234,371)	-	97,340	(132,713)
Fund balances at beginning of year	485	13,295	22,479	57	7	2,774	561,261	-	-	600,358
Fund balances at end of year	\$ -	\$ 16,053	\$ 24,849	\$ -	\$ 17	\$ 2,496	\$ 326,890	\$ -	\$ 97,340	\$ 467,645

SCHEDULE B-2
TOWN OF PEMBROKE, NEW HAMPSHIRE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - All Nonmajor Capital Projects Fund
For the Year Ended December 31, 2013

	Road Improvements Fund	TIF District Fund	Total Capital Projects Funds
Revenues:			
Taxes		\$ 65,793	\$ 65,793
Total Revenues	<u>\$ -</u>	<u>65,793</u>	<u>65,793</u>
Expenditures:			
Capital outlay	4,580		4,580
Total Expenditures	<u>4,580</u>	<u>-</u>	<u>4,580</u>
Excess of revenues over (under) expenditures	<u>(4,580)</u>	<u>65,793</u>	<u>61,213</u>
Other financing sources (uses):			
Transfers out	(81,850)		(81,850)
Total other financing sources (uses)	<u>(81,850)</u>	<u>-</u>	<u>(81,850)</u>
Net change in fund balances	(86,430)	65,793	(20,637)
Fund balances at beginning of year	<u>86,430</u>	<u>410,008</u>	<u>496,438</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ 475,801</u>	<u>\$ 475,801</u>

SCHEDULE C
TOWN OF PEMBROKE, NEW HAMPSHIRE
Combining Statement of Fiduciary Net Position
Fiduciary Funds - All Agency Funds
December 31, 2013

	School Agency <u>Fund</u>	M & M <u>Fund</u>	Performance Bond Agency <u>Fund</u>	Total Agency <u>Funds</u>
ASSETS				
Cash and cash equivalents	\$ 929,814		\$ 51,344	\$ 981,158
Investments	843,584			843,584
Due from other funds		\$ 829		829
Total Assets	<u>\$ 1,773,398</u>	<u>\$ 829</u>	<u>\$ 51,344</u>	<u>\$ 1,825,571</u>
LIABILITIES				
Accounts payable			\$ 8,529	\$ 8,529
Deposits			42,815	42,815
Due to other governments	\$ 1,773,398			1,773,398
Due to others		\$ 829		829
Total Liabilities	<u>\$ 1,773,398</u>	<u>\$ 829</u>	<u>\$ 51,344</u>	<u>\$ 1,825,571</u>

August 1, 2014

To the Board of Selectmen
Town of Pembroke, New Hampshire

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pembroke, New Hampshire for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 10, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town of Pembroke, New Hampshire are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2013. We noted no transactions entered into by the Town of Pembroke, New Hampshire during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the financial statements of the Governmental Activities, Business-type Activities, and major Proprietary Funds was:

Management's estimates of the useful lives of depreciable capital assets and the other post-employment benefits payable are based on historical utilization of assets and actuarial valuations, respectively. We evaluated the key factors and assumptions used to develop the useful lives of depreciable capital assets and the other post-employment benefits payable in determining that it is reasonable in relation to the financial statements taken as a whole.

The most sensitive estimate affecting the financial statements of the Governmental Activities, Business-type Activities, General Fund, Sewer Fund and the aggregate remaining information was:

Management's estimate of the allowance for uncollectible receivables is based on the likelihood of the Town to collect monies owed to it. We evaluated the key factors and assumptions used to develop the estimate for uncollectible receivables in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedules summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements. Please see the attached schedule of material adjustments detected and corrected as a result of audit procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 1, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Town of Pembroke, New Hampshire's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town of Pembroke, New Hampshire's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress for other post-employment benefits, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining nonmajor fund and fiduciary fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Selectmen and management of the Town of Pembroke, New Hampshire and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Vachon Clukay & Company PC

Town of Pembroke, New Hampshire
For the year ended 12/31/13
Material Audit Adjustments

The following is a listing of the Material Audit Adjustments made for the year ended 12/31/13:

General Fund:

- To remove the budgeted activity of the water and sewer funds of \$876,057 and \$914,741, respectively, recorded as revenues and expenditures.
- To record a transfer in from the Road Improvements Capital Projects Fund of \$81,850.

Sewer Fund:

- To record current year depreciation on capital assets in the amount of \$133,189.

Water Fund:

- To record current year depreciation on capital assets in the amount of \$119,305.

Aggregate Remaining Information:

- To restore prior year audited fund balance in the amount of \$186,214 in the Grants Fund.
- To recognize the previously unearned revenue in the amount of \$190,583 in the Grants Fund.
- To record accounts receivable at year end in the amount of \$272,981 in the Ambulance Fund.
- To record an allowance for doubtful accounts in the amount of \$219,210 in the Ambulance Fund.
- To record a transfer out in the Road Improvements Fund of \$81,850 to the General Fund.
- To increase the investment balance of the school agency funds in the amount of \$421,112.

**REPORT ON INTERNAL CONTROL BASED ON
AN AUDIT OF BASIC FINANCIAL STATEMENTS**

To the Board of Selectmen
Town of Pembroke, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, 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, 2013, 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 that are appropriate in the circumstances for the purpose of expressing our opinion 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's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Town's internal control to be material weaknesses:

LACK OF SEGREGATION OF DUTIES

Observation

During the audit we noted that there continues to be a lack of segregation of duties in the Sewer Department. The financial records of the Town's sewer operation are maintained separately from the town's finance department. During 2013, a single individual in the department prepares the utility billings, receives payments, post payments against the individual billings, prepares and makes the deposits, reconciles the bank account, and maintains the general ledger.

Implication

The internal controls over cash are weakened in the Sewer Fund. This separately maintained fund is exposed to an increased risk that funds could be lost or misplaced. To the extent possible, all of the financial responsibilities should not be assigned to one individual.

We understand the difficulty in segregating these responsibilities; however, the lack of segregation of duties is a serious concern and places increased responsibilities on the Commissioners to oversee the daily operations of these functions.

Recommendation

We recommend that the Board of Sewer Commissioners review their current procedures regarding the billing and collection of user fees and the maintenance of the fund's general ledger. Sound internal controls provide for the distribution of duties to various personnel to reduce the risk of loss and to provide a system of checks and balances. Due to the limited personnel within the department, the Board of Commissioners should consider utilizing the services of other individuals within the sewer department on a regular basis to segregate the incompatible functions. An additional option could be to transfer the collection responsibilities to the tax collector. Most communities have centralized revenue collections in this manner to improve efficiencies. If it is decided to maintain the current operating practices, the Sewer Commissioners must take steps to define oversight procedures over these functions and document their compliance with these procedures.

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

Vachon Clukay & Company PC

Manchester, New Hampshire
August 1, 2014