

TOWN OF PEMBROKE, NEW HAMPSHIRE

Financial Statements

December 31, 2011

and

Independent Auditor's Report

TOWN OF PEMBROKE, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Pembroke, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pembroke, New Hampshire (the Town) as of and for the year ended December 31, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Pembroke, New Hampshire's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pembroke, New Hampshire as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 benefit on pages i-viii and 29-31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Pembroke, New Hampshire's 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Vachon Clukay & Company PC

October 23, 2012

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

Presented herewith please find the Management Discussion & Analysis Report for the Town of Pembroke for the year ending December 31, 2011. The responsibility for accuracy of the data, the completeness and fairness of this documentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein is accurate in material aspects. This report and its content have been designed to fairly present the Town's financial position, including the result of operations of all the funds of the Town. All the disclosures necessary to enable and to assist the reader in acquiring an accurate understanding of the Town's financial activities have been included.

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

Overview of the Financial Statements

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

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

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

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

Government-Wide Financial Statements

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

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

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

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

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

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

Fund Financial Statements

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

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

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

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

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

Government-Wide Financial Analysis

Governmental Activities

Statement of Net Assets

Net assets of the Town of Pembroke's governmental activities as of December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Current and other assets:		
Capital assets	\$ 9,255,342	\$ 7,814,503
Other assets	<u>10,597,925</u>	<u>9,834,857</u>
Total assets	<u>19,853,267</u>	<u>17,649,360</u>
Long-term and other liabilities:		
Long-term obligations	1,929,869	1,384,277
Other liabilities	<u>5,215,850</u>	<u>4,392,859</u>
Total liabilities	<u>7,145,719</u>	<u>5,777,136</u>
Net assets:		
Invested in capital assets, net of related debt	7,155,342	6,514,503
Restricted	296,286	213,527
Unrestricted	<u>5,255,920</u>	<u>5,144,194</u>
Total net assets	<u>\$ 12,707,548</u>	<u>\$ 11,872,224</u>

The Town's net assets totaled \$12,707,548 at December 31, 2011, an increase of \$835,324 when compared to the end of 2010.

Approximately 56% of the Town's net assets reflect the investment in capital assets such as land, buildings, infrastructure, and equipment less the outstanding debt used to acquire those assets. Another 2% of the net assets are restricted in regard to how they may be used. For the Town of Pembroke, those restrictions include those related to permanent funds and capital projects funds. The remaining unrestricted portion represents the part of net assets available to finance day-to-day operations.

Statement of Activities

Changes in net assets of the Town's governmental activities for the years ending December 31, 2011 and 2010 are as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

	<u>2011</u>	<u>2010</u>
Program revenues:		
Charges for services	\$ 270,365	\$ 230,793
Operating grants and contributions	201,340	278,945
Capital grants and contributions	<u>289,500</u>	<u>36,226</u>
Total program revenues	<u>761,205</u>	<u>545,964</u>
General revenues:		
Property and other taxes	3,597,341	3,549,029
Licenses and permits	1,150,090	1,173,486
Intergovernmental revenue	317,819	325,941
Interest and investment earnings	40,137	57,378
Miscellaneous	62,713	222,004
Transfers	<u>(124,051)</u>	<u>(130,928)</u>
Total general revenues	<u>5,044,049</u>	<u>5,196,910</u>
Total revenues	<u>5,805,254</u>	<u>5,742,874</u>
Program expenses:		
General government	1,285,541	1,434,677
Public safety	1,690,746	1,572,547
Highways and streets	1,119,875	1,110,835
Sanitation	432,756	489,972
Health and welfare	100,257	90,632
Culture and recreation	274,518	265,566
Economic development	-	-
Interest and fiscal charges	<u>66,237</u>	<u>56,967</u>
Total expenses	<u>4,969,930</u>	<u>5,021,196</u>
Change in net assets	835,324	721,678
Net assets - beginning of year	<u>11,872,224</u>	<u>11,150,546</u>
Net assets - ending of year	<u>\$ 12,707,548</u>	<u>\$ 11,872,224</u>

As shown in the above statement the Town's governmental activities experienced a favorable increase in financial position of \$835,324 on the full accrual basis of accounting.

Business-Type Activities

Statement of Net Assets

Net assets of the business-type activities as of December 31, 2011 and 2010 are as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

	<u>2011</u>	<u>2010</u>
Current and other assets:		
Capital assets	\$ 4,567,927	\$ 4,304,681
Other assets	<u>1,428,551</u>	<u>1,383,149</u>
Total assets	<u>5,996,478</u>	<u>5,687,830</u>
Long-term and other liabilities:		
Long-term obligations	576,027	196,408
Other liabilities	<u>73,211</u>	<u>237,967</u>
Total liabilities	<u>649,238</u>	<u>434,375</u>
Net assets:		
Invested in capital assets, net of related debt	3,947,144	3,890,979
Unrestricted	<u>1,400,096</u>	<u>1,362,476</u>
Total net assets	<u>\$ 5,347,240</u>	<u>\$ 5,253,455</u>

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

Statement of Activities

Changes in net assets of the Town's business-type activities for the years ending December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Program revenues:		
Charges for services	\$ 1,528,471	\$ 1,378,854
Capital grants and contributions	<u>1,627</u>	<u>14,739</u>
Total program revenues	<u>1,530,098</u>	<u>1,393,593</u>
General revenues:		
Interest and investment earnings	1,100	1,223
Miscellaneous	18,151	35,646
Transfers	<u>124,051</u>	<u>130,928</u>
Total general revenues	<u>143,302</u>	<u>167,797</u>
Total revenues	<u>1,673,400</u>	<u>1,561,390</u>
Program expenses:		
Water distribution and treatment	764,001	674,450
Sanitation	<u>815,614</u>	<u>784,768</u>
Total expenses	<u>1,579,615</u>	<u>1,459,218</u>
Change in net assets	93,785	102,172
Net assets - beginning of year	<u>5,253,455</u>	<u>5,151,283</u>
Net assets - ending of year	<u>\$ 5,347,240</u>	<u>\$ 5,253,455</u>

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

The main funding source for business-type activities is charges for services, which provided 97% and 94% of expenses in 2011 and 2010 respectively. Net assets increased by \$93,785 in 2011 largely due to the transfer of funds of \$124,051 from the General Fund to pay a portion of the annual debt service requirements in the Sewer Fund.

Financial Analysis of the Town's Funds

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

Governmental Funds

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

During the year ended December 31, 2011, the Town implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Under Statement 54, the Town has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned and Unassigned. Complete descriptions of these classifications may be found on page 15 of the Notes to the Basic Financial Statements. One major example of the effects caused by implementation of GASB 54 is that the Expendable Trust Funds and the Library Fund are now reported as part of the General Fund.

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 \$4,067,108, an increase of \$692,292. There was a budgeted use of fund balance to help offset the current year tax rate in the amount of \$404,000. The increase in fund balance is primarily due to conservative spending.

Roads Capital Projects Fund

During 2011, the Town issued \$900,000 worth of debt service and combined with that another \$500,000 of General Fund appropriations to complete a major road reconstruction project. The total fund balance at year end is \$212,590 which is listed as restricted fund balance to complete the project and pay remaining expenses in 2012.

Other Governmental Funds

The total fund balance of \$1,008,840 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 (\$558,239 or 55.3%) and the TIF District Fund (\$344,128 or 34.1%).

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

Proprietary Funds

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

The Town's proprietary funds had unrestricted net assets of \$1,400,096 at December 31, 2011, which is an increase of \$37,620 (or 2.76%) from December 31, 2010. There was also an increase in the amount invested in capital assets, net of related debt of \$56,165 (or 1.44%) from December 31, 2010.

Capital Assets and Long-term Obligations

Capital Assets

The Town of Pembroke considers a capital asset to be an asset whose costs exceed or equal \$10,000 and has a useful life of greater than one year. Assets are depreciated using the straight-line method over the course of their useful life. See Note 5 to the basic financial statements for a complete schedule of capital asset activity for the year.

Long-Term Obligations

During 2011 the Town had a reduction in general obligation bonds in governmental and business-type activities of \$100,000 and \$210,397, respectively, from payments made during the year. See Note 9 to the basic financial statements for additional information on the long-term obligations of the Town.

General Fund Budgetary Highlights

Budgetary information for the General Fund (a major governmental fund) is included in the Required Supplementary Information section. Budgetary information in these financial statements has been presented for the General Fund, a major governmental fund.

During the year, the original estimated revenues increased by \$6,317, which represents grants accepted in accordance with the provisions of RSA 31:95b of \$8,317 less \$2,000 being carried forward to 2012 to offset continuing appropriations at year end. The appropriations also increased by a net figure of \$6,317.

Actual revenues and transfers in on the budgetary basis exceeded the budgeted amount by \$205,200. This is primarily due to receiving additional revenues from the following budgeted sources: \$40,563 in taxes, \$55,238 in licenses and permits, and \$102,500 in charges for services. These additional revenue sources offset the Intergovernmental revenue which was less than the estimated amount by \$47,109.

The Town underexpended its appropriations by \$409,053 or 7.01%. There were savings within all Town departments with the largest savings within general government, public safety, highways and streets and capital outlay of \$94,714, \$58,963, \$45,797 and \$136,651, respectively.

**TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011**

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 \$54,811 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.

Contacting the Town of Pembroke's Financial Management

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

EXHIBIT A
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Net Assets
December 31, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 7,545,687	\$ 234,724	\$ 7,780,411
Investments	2,529,891	28,903	2,558,794
Taxes receivable, net	1,053,718		1,053,718
Accounts receivable	18,581	561,480	580,061
Prepaid expenses	16,665	3,290	19,955
Inventory		33,537	33,537
Internal balance	(566,617)	566,617	-
Total Current Assets	<u>10,597,925</u>	<u>1,428,551</u>	<u>12,026,476</u>
Noncurrent Assets:			
Non-depreciable capital assets	3,600,165	31,935	3,632,100
Depreciable capital assets, net	5,655,177	4,535,992	10,191,169
Total Noncurrent Assets	<u>9,255,342</u>	<u>4,567,927</u>	<u>13,823,269</u>
Total Assets	<u>\$ 19,853,267</u>	<u>\$ 5,996,478</u>	<u>\$ 25,849,745</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 86,834	\$ 16,533	\$ 103,367
Retainage payable	25,484	8,491	33,975
Accrued expenses	118,711		118,711
Deferred revenue	1,055	804	1,859
Due to other governments	4,522,952		4,522,952
Deposits payable		1,000	1,000
Current portion of deferred bond premium	16,814		16,814
Current portion of bonds payable	389,000		389,000
Current portion of note payable		46,383	46,383
Current portion of estimated liability for landfill closure and postclosure care costs	55,000		55,000
Total Current Liabilities	<u>5,215,850</u>	<u>73,211</u>	<u>5,289,061</u>
Noncurrent Liabilities:			
Deferred bond premium	19,186		19,186
Bonds payable	1,675,000		1,675,000
Note payable		574,400	574,400
Compensated absences payable	46,768		46,768
Other post-employment benefits payable	43,915	1,627	45,542
Estimated liability for landfill closure and postclosure care costs	145,000		145,000
Total Noncurrent Liabilities	<u>1,929,869</u>	<u>576,027</u>	<u>2,505,896</u>
Total Liabilities	<u>7,145,719</u>	<u>649,238</u>	<u>7,794,957</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,155,342	3,947,144	11,102,486
Restricted	296,286		296,286
Unrestricted	5,255,920	1,400,096	6,656,016
Total Net Assets	<u>12,707,548</u>	<u>5,347,240</u>	<u>18,054,788</u>
Total Liabilities and Net Assets	<u>\$ 19,853,267</u>	<u>\$ 5,996,478</u>	<u>\$ 25,849,745</u>

See accompanying notes to the basic financial statements

EXHIBIT B
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Activities
December 31, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental Activities:						
General government	\$ 1,285,541	\$ 45,040			\$ (1,240,501)	\$ (1,240,501)
Public safety	1,690,746	35,065	\$ 22,458		(1,633,223)	(1,633,223)
Highways and streets	1,119,875	1,565	178,882		(939,428)	(939,428)
Sanitation	432,756	168,875			(263,881)	(263,881)
Health and welfare	100,257				(100,257)	(100,257)
Culture and recreation	274,518	19,820		\$ 289,500	34,802	34,802
Interest and fiscal charges	66,237				(66,237)	(66,237)
Total governmental activities	4,969,930	270,365	201,340	289,500	(4,208,725)	(4,208,725)
Business-type activities:						
Water Department	764,001	751,887				(12,114)
Sewer Department	815,614	776,584		1,627		(37,403)
Total business-type activities	1,579,615	1,528,471	-	1,627	-	(49,517)
Total primary government	\$ 6,549,545	\$ 1,798,836	\$ 201,340	\$ 291,127	(4,208,725)	(4,258,242)
General revenues:						
Property and other taxes					3,597,341	3,597,341
Licenses and permits					1,150,090	1,150,090
Grants and contributions:						
Rooms and meals tax distribution					317,819	317,819
Interest and investment earnings					40,137	41,237
Miscellaneous					62,713	80,864
Transfers					(124,051)	-
Total general revenues and transfers					5,044,049	5,187,351
Change in net assets					835,324	929,109
Net assets - beginning					11,872,224	17,125,679
Net assets - ending					\$ 12,707,548	\$ 18,054,788

See accompanying notes to the basic financial statements

EXHIBIT C
TOWN OF PEMBROKE, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2011

	General Fund	Roads Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 7,470,403		\$ 75,284	\$ 7,545,687
Investments	1,971,652		558,239	2,529,891
Taxes receivable, net	1,053,718			1,053,718
Accounts receivable	17,037		1,544	18,581
Due from other funds		\$ 237,990	377,771	615,761
Prepaid expenses	16,665			16,665
Total assets	<u>\$ 10,529,475</u>	<u>\$ 237,990</u>	<u>\$ 1,012,838</u>	<u>\$ 11,780,303</u>
Liabilities:				
Accounts payable	\$ 81,960	\$ 2,344	\$ 1,070	\$ 85,374
Retainage payable		23,056	2,428	25,484
Accrued expenses	81,442			81,442
Deferred revenue	592,175		500	592,675
Due to other governments	4,522,952			4,522,952
Due to other funds	1,183,838			1,183,838
Total liabilities	<u>6,462,367</u>	<u>25,400</u>	<u>3,998</u>	<u>6,491,765</u>
Fund balances:				
Nonspendable	16,665		40,937	57,602
Restricted	8,412	212,590	34,347	255,349
Committed	1,839,521		924,263	2,763,784
Assigned	45,673		9,293	54,966
Unassigned	2,156,837			2,156,837
Total fund balances	<u>4,067,108</u>	<u>212,590</u>	<u>1,008,840</u>	<u>5,288,538</u>
	<u>\$ 10,529,475</u>	<u>\$ 237,990</u>	<u>\$ 1,012,838</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 9,255,342

Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis 591,620

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 (2,064,000)
Deferred bond premium (36,000)
Accrued interest on long-term obligations (37,269)
Compensated absences payable (46,768)
Other post-employment benefits payable (43,915)
Estimated liability for landfill closure and postclosure care costs (200,000)

Net assets of governmental activities \$ 12,707,548

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, 2011

	General Fund	Roads Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 3,872,800		\$ 66,118	\$ 3,938,918
Licenses and permits	1,150,090			1,150,090
Intergovernmental	514,568		4,591	519,159
Charges for services	242,500		19,742	262,242
Interest and investment income	33,250	\$ 289	6,598	40,137
Miscellaneous	62,439		11,917	74,356
Total Revenues	5,875,647	289	108,966	5,984,902
Expenditures:				
Current operations:				
General government	1,023,501		3,000	1,026,501
Public safety	1,545,917		19,726	1,565,643
Highways and streets	938,895			938,895
Sanitation	308,708		124,802	433,510
Health and welfare	99,026		1,070	100,096
Culture and recreation	247,352		16,066	263,418
Capital outlay	741,305	687,699	319,079	1,748,083
Debt service:				
Principal retirement	100,000			100,000
Interest and fiscal charges	54,600			54,600
Total Expenditures	5,059,304	687,699	483,743	6,230,746
Excess of revenues over (under) expenditures	816,343	(687,410)	(374,777)	(245,844)
Other financing sources (uses):				
Proceeds from bond issuance		864,000		864,000
Bond premium		36,000		36,000
Transfers in	15,112			15,112
Transfers out	(139,163)			(139,163)
Total other financing sources (uses)	(124,051)	900,000	-	775,949
Net change in fund balances	692,292	212,590	(374,777)	530,105
Fund balances at beginning of year, as restated	3,374,816	-	1,383,617	4,758,433
Fund balances at end of year	\$ 4,067,108	\$ 212,590	\$ 1,008,840	\$ 5,288,538

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, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ 530,105
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.	1,451,639
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(341,577)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	100,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(11,637)
Some expense reported in the statement of activities, such as compensated absences, other post-employment benefits, and the estimated liability for landfill closure and postclosure care costs, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	17,594
Proceeds from bond issues are an other financing source in the funds, but bond issues increase long-term liabilities in the statement of net assets.	(864,000)
Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(36,000)
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.	(10,800)
Change in net assets of governmental activities	\$ 835,324

EXHIBIT E
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
December 31, 2011

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 89,736	\$ 144,988	\$ 234,724
Investments	28,903		28,903
Accounts receivable	197,846	363,634	561,480
Due from other funds	264,574	302,043	566,617
Prepaid expenses	3,290		3,290
Inventory	33,537		33,537
Total Current Assets	<u>617,886</u>	<u>810,665</u>	<u>1,428,551</u>
Noncurrent Assets:			
Non-depreciable capital assets	31,935		31,935
Depreciable capital assets, net	<u>2,632,419</u>	<u>1,903,573</u>	<u>4,535,992</u>
Total Noncurrent Assets	<u>2,664,354</u>	<u>1,903,573</u>	<u>4,567,927</u>
Total Assets	<u>\$ 3,282,240</u>	<u>\$ 2,714,238</u>	<u>\$ 5,996,478</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 7,397	\$ 9,136	\$ 16,533
Retainage payable	8,491		8,491
Deferred revenue		804	804
Deposits payable	1,000		1,000
Current portion of note payable	<u>46,383</u>		<u>46,383</u>
Total Current Liabilities	<u>63,271</u>	<u>9,940</u>	<u>73,211</u>
Noncurrent Liabilities:			
Note payable	574,400		574,400
Other post-employment benefits payable		<u>1,627</u>	<u>1,627</u>
Total Noncurrent Liabilities	<u>574,400</u>	<u>1,627</u>	<u>576,027</u>
Total Liabilities	<u>637,671</u>	<u>11,567</u>	<u>649,238</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,043,571	1,903,573	3,947,144
Unrestricted	<u>600,998</u>	<u>799,098</u>	<u>1,400,096</u>
Total Net Assets	<u>2,644,569</u>	<u>2,702,671</u>	<u>5,347,240</u>
Total Liabilities and Net Assets	<u>\$ 3,282,240</u>	<u>\$ 2,714,238</u>	<u>\$ 5,996,478</u>

See accompanying notes to the basic financial statements

EXHIBIT F
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Operating revenues:			
Charges for services	\$ 751,887	\$ 776,584	\$ 1,528,471
Miscellaneous revenues	17,704	447	18,151
Total operating revenues	<u>769,591</u>	<u>777,031</u>	<u>1,546,622</u>
Operating expenses:			
Personnel services	315,293	125,557	440,850
Contractual services	74,736	494,054	568,790
Materials and supplies	104,744	5,005	109,749
Maintenance and repairs	7,186	24,229	31,415
Utilities	88,994	17,883	106,877
Depreciation	120,245	128,686	248,931
Miscellaneous expenses	33,168	14,742	47,910
Total operating expenses	<u>744,366</u>	<u>810,156</u>	<u>1,554,522</u>
Operating income (loss)	<u>25,225</u>	<u>(33,125)</u>	<u>(7,900)</u>
Non-operating revenues (expenses):			
Interest revenue	805	295	1,100
Interest expense	<u>(19,635)</u>	<u>(5,458)</u>	<u>(25,093)</u>
Net non-operating revenues (expenses)	<u>(18,830)</u>	<u>(5,163)</u>	<u>(23,993)</u>
Income (loss) before contributions and transfers	6,395	(38,288)	(31,893)
Capital contributions		1,627	1,627
Transfers in		139,163	139,163
Transfers out		<u>(15,112)</u>	<u>(15,112)</u>
Change in net assets	6,395	87,390	93,785
Total net assets at beginning of year	<u>2,638,174</u>	<u>2,615,281</u>	<u>5,253,455</u>
Total net assets at end of year	<u>\$ 2,644,569</u>	<u>\$ 2,702,671</u>	<u>\$ 5,347,240</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, 2011

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 744,383	\$ 754,935	\$ 1,499,318
Cash paid to suppliers	(386,610)	(582,813)	(969,423)
Cash paid to employees	(244,991)	(92,728)	(337,719)
Net cash provided by operating activities	<u>112,782</u>	<u>79,394</u>	<u>192,176</u>
Cash flows from noncapital financing activities:			
Transfer to other funds		(15,112)	(15,112)
Net cash used for noncapital financing activities	<u>-</u>	<u>(15,112)</u>	<u>(15,112)</u>
Cash flows from capital and related financing activities:			
Capital contributions		43,267	43,267
Transfer from other funds		139,163	139,163
Purchases of capital assets	(503,686)	(6,040)	(509,726)
Proceeds of note payable	450,000		450,000
Principal paid on long-term debt	(32,522)	(210,397)	(242,919)
Interest paid on long-term debt	(19,635)	(8,221)	(27,856)
Net cash used for capital and related financing activities	<u>(105,843)</u>	<u>(42,228)</u>	<u>(148,071)</u>
Cash flows from investing activities:			
Purchase of investments	(630)		(630)
Interest on investments	805	295	1,100
Net cash provided by investing activities	<u>175</u>	<u>295</u>	<u>470</u>
Net increase in cash and cash equivalents	7,114	22,349	29,463
Cash and cash equivalents at beginning of year	347,196	424,682	771,878
Cash and cash equivalents at end of year	<u>\$ 354,310</u>	<u>\$ 447,031</u>	<u>\$ 801,341</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 25,225	\$ (33,125)	\$ (7,900)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	120,245	128,686	248,931
Changes in assets and liabilities:			
Accounts receivable	(25,208)	(22,096)	(47,304)
Prepaid expenses	3,621		3,621
Inventory	(13,266)		(13,266)
Accounts payable	2,165	5,115	7,280
Other post-employment benefits payable		814	814
Net cash provided by operating activities	<u>\$ 112,782</u>	<u>\$ 79,394</u>	<u>\$ 192,176</u>

See accompanying notes to the basic financial statements

EXHIBIT H
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2011

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 816,685
Investments	678,017
Due from other funds	<u>1,460</u>
Total assets	<u>\$ 1,496,162</u>
LIABILITIES	
Accounts payable	\$ 880
Deposits	23,162
Due to other governments	1,470,660
Due to others	<u>1,460</u>
Total liabilities	<u>\$ 1,496,162</u>

See accompanying notes to the basic financial statements

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

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

Basis of Presentation

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

1. Government-Wide Financial Statements:

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

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

2. Fund Financial Statements:

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Fund Accounting

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

1. Governmental Funds:

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

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

The *Roads Capital Projects Fund* accounts for the financial transactions related to the roadway improvement and reconstruction project of several town streets.

2. Proprietary Funds:

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

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

3. Fiduciary Funds:

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

Measurement Focus

1. Government-Wide Financial Statements:

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

2. Fund Financial Statements:

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

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

1. Revenues – Exchange and Non-exchange Transactions:

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

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (see Note 2). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Town must provide local resources to be used for a specified purpose; and expenditure requirements,

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

2. Deferred Revenue:

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

3. Expenses/Expenditures:

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

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

Budgetary Data

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

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

Encumbrance Accounting

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

Cash and Cash Equivalents

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

	Water <u>Fund</u>	Sewer <u>Fund</u>	<u>Totals</u>
Cash and cash equivalents	\$ 89,736	\$ 144,988	\$ 234,724
Due from other funds	264,574	302,043	566,617
Total cash and cash equivalents	<u>\$ 354,310</u>	<u>\$ 447,031</u>	<u>\$ 801,341</u>

Investments

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

Taxes Receivable

Taxes levied during the current year and prior and uncollected at December 31, 2011 are recorded as receivables net of reserves for estimated uncollectibles of \$80,000.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2011 are recorded as prepaid items.

Inventory

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

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

Capital Assets

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

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 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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

January 1, 2004 and are included in these financial statements. During the year ended December 31, 2011, the Town implemented the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

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>
Infrastructure	40
Buildings and improvements	40
Vehicles and equipment	10-25

Compensated Absences

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

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

Deferred Bond Premium

The issuance of general obligation bonds resulted in a difference between the bond proceeds and the actual principal to be repaid. This difference, reported in the accompanying financial statements as deferred bond premium, is being amortized as a component of interest expense over the remaining life of the debt. The balance of the deferred bond premium as of December 31, 2011 is \$36,000.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they are due for payment during the current year. General obligation bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Net Assets

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

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

Fund Balance Policy

During the year ended December 31, 2011, the Town implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 established new fund balance classifications and changes the definition of governmental fund types. Under Statement 54, the Town has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. These 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 should be reduced first, followed by assigned amounts then unassigned amounts.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

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:

- 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

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds 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 taxes 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 (\$613,130,810 as of April 1, 2011) and are due in two installments on July 2, 2011 and December 19, 2011. 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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

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 \$11,019,188 and \$1,580,811 for the Pembroke School District and Merrimack County, respectively. These taxes are not recognized as revenues in these financial statements. The Town bears responsibility for uncollected taxes.

NOTE 3—RISK MANAGEMENT

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2011, the Town was a member of the Local Government Center (LGC). The Town currently reports all of its risk management activities in its General Fund. The Trust is classified as a "Risk Pool" in accordance with accounting principles generally accepted in the United States of America.

The Trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at December 31, 2011.

Property and Liability Insurance

The LGC provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the LGC, the Town shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. For the year ended December 31, 2011, the Trust retained \$500,000 of each loss, 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 LGC provides statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. The Trust is self-sustaining through annual member premiums and provides coverage for the statutorily required workers' compensation benefits and employer's liability coverage up to \$2,000,000. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

NOTE 4—DEPOSITS AND INVESTMENTS

Deposits and investments as of December 31, 2011 are classified in the accompanying financial statements as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Statement of Net Assets:	
Cash and cash equivalents	\$ 7,780,411
Investments	2,558,794
Statement of Fiduciary Net Assets:	
Cash and cash equivalents	816,685
Investments	678,017
Total deposits and investments	<u>\$ 11,833,907</u>

Deposits and investments as of December 31, 2011 consist of the following:

Cash on hand	\$ 1,272
Deposits with financial institutions	11,154,618
Investments	678,017
Total deposits and investments	<u>\$ 11,833,907</u>

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

Credit Risk

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

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

<u>Investment Type</u>	<u>Not rated</u>
Money market mutual funds	\$ 23,180
Mutual funds	84,622
	<u>\$ 107,802</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, 2011

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, \$8,809,619 was collateralized by securities held by the bank in the bank's name, and \$-0- was uninsured and uncollateralized.

As of December 31, 2011, 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	\$ 570,215
Money market mutual funds	23,180
Mutual funds	84,622
	<u>\$ 678,017</u>

NOTE 5—CAPITAL ASSETS

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

	<u>Balance 01/01/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/11</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 1,723,612			\$ 1,723,612
Easements	-	\$ 608,579		608,579
Construction in progress	-	1,267,974		1,267,974
Total capital assets not being depreciated	<u>1,723,612</u>	<u>1,876,553</u>	<u>\$ -</u>	<u>3,600,165</u>
Other capital assets:				
Infrastructure	2,636,080			2,636,080
Buildings and improvements	3,843,700			3,843,700
Vehicles and equipment	4,791,075	56,185	(46,600)	4,800,660
Total other capital assets at historical cost	<u>11,270,855</u>	<u>56,185</u>	<u>(46,600)</u>	<u>11,280,440</u>
Less accumulated depreciation for:				
Infrastructure	(201,863)	(65,902)		(267,765)
Buildings and improvements	(2,401,325)	(86,587)		(2,487,912)
Vehicles and equipment	(2,576,776)	(328,610)	35,800	(2,869,586)
Total accumulated depreciation	<u>(5,179,964)</u>	<u>(481,099)</u>	<u>35,800</u>	<u>(5,625,263)</u>
Total other capital assets, net	<u>6,090,891</u>	<u>(424,914)</u>	<u>(10,800)</u>	<u>5,655,177</u>
Total capital assets, net	<u>\$ 7,814,503</u>	<u>\$ 1,451,639</u>	<u>\$ (10,800)</u>	<u>\$ 9,255,342</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 245,335
Public safety	62,843
Highways and streets	172,921
Total governmental activities depreciation expense	<u>\$ 481,099</u>

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

	Balance 01/01/11	Additions	Reductions	Balance 12/31/11
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 31,935			\$ 31,935
Construction in progress	95,989		\$ (95,989)	-
Total capital assets not being depreciated	127,924	\$ -	(95,989)	31,935
Other capital assets:				
Building and improvements	272,333			272,333
Water infrastructure	2,159,916			2,159,916
Sewer infrastructure	3,286,193	95,989		3,382,182
Machinery, vehicles, and equipment	2,340,974	512,177		2,853,151
Other	29,865			29,865
Total other capital assets at historical cost	8,089,281	608,166	-	8,697,447
Less accumulated depreciation for:				
Building and improvements	(181,781)	(7,637)		(189,418)
Water infrastructure	(764,340)	(48,570)		(812,910)
Sewer infrastructure	(1,501,671)	(112,739)		(1,614,410)
Machinery, vehicles, and equipment	(1,434,867)	(79,985)		(1,514,852)
Other	(29,865)			(29,865)
Total accumulated depreciation	(3,912,524)	(248,931)	-	(4,161,455)
Total other capital assets, net	4,176,757	359,235	-	4,535,992
Total capital assets, net	\$ 4,304,681	\$ 359,235	\$ (95,989)	\$ 4,567,927

Depreciation expense was charged to the proprietary funds as follows:

Water Fund	\$ 120,245
Sewer Fund	128,686
Total business-type activities depreciation expense	<u>\$ 248,931</u>

NOTE 6—DUE TO OTHER GOVERNMENTS

In accordance with State law, the Town collects taxes for the Pembroke School District and Merrimack County, both independent governmental units, which are remitted to them as required by law. At December 31, 2011, the balance of the property tax appropriation due to the Pembroke School District is \$4,519,188.

Also, the Town collects motor vehicle fees for the State of New Hampshire, at December 31, 2011; the balance owed to the State of New Hampshire for these fees is \$3,764.

NOTE 7—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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

Funding Policy

Covered public safety employees are required to contribute 9.3% of their covered salary, whereas general employees are required to contribute 5.0% of their covered salary, through June 30, 2011, and 11.55% and 7%, respectively, thereafter. 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 14.63% and 9.16%, respectively through June 30, 2011, 25.57% and 11.09%, respectively in July 2011, and 19.95% and 8.8%, respectively, thereafter. The Town contributes 75% of the employer cost for public safety officers employed by the Town, and the State contributes the remaining 25% of the employer cost, through June 30, 2011 and the Town contributes 100% thereafter. The Town contributes 100% of the employer cost for general employees of the Town. In accordance with accounting principles generally accepted in the United States of America (GASB Statement #24), on-behalf fringe benefits contributed by the State of New Hampshire of \$14,829 have been reported as a revenue and expenditure in the General Fund in these financial statements.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The Town's contributions to the NHRS for the years ending December 31, 2011, 2010 and 2009 were \$200,826, \$180,442, and \$160,934, respectively, equal to the required contributions for each year.

NOTE 8—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, 2010, the actuarial valuation date, participants of the postretirement plan that meet eligibility requirements are comprised of 6 retirees and 28 active employees with 7 currently eligible to retire. The plan does not issue a separate financial report.

Annual OPEB Costs

The Town's fiscal 2011 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, 2011 including the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2010 is as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Annual required contribution	\$ 68,922
Interest on net OPEB obligation	911
NOO amortization adjustment to ARC	<u>(905)</u>
Annual OPEB cost	68,928
Contributions made	<u>(46,154)</u>
Increase in net OPEB obligation	22,774
Net OPEB obligation - beginning of year	22,768
Net OPEB obligation - end of year	<u>\$ 45,542</u>

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, 2011 and 2010 are as follows:

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/2010	\$ 68,922	67.0%	\$ 22,768
12/31/2011	\$ 68,922	67.0%	\$ 45,542

The Town's net OPEB obligation as of December 31, 2011 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, 2010, the date of the most recent actuarial valuation is as follows:

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

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, when available.

Actuarial Methods and Assumptions for OPEB

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

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

NOTE 9—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the Town's long-term obligations for the year ended December 31, 2011 are as follows:

	Balance 01/01/11	Additions	Reductions	Balance 12/31/11	Due Within One Year
<i>Governmental activities:</i>					
Bonds payable	\$ 1,300,000	\$ 864,000	\$ (100,000)	\$ 2,064,000	\$ 389,000
Estimated liability for landfill closure and postclosure care costs	244,000	86,401	(130,401)	200,000	55,000
Compensated absences payable	42,322	9,411	(4,965)	46,768	
Total governmental activities	<u>\$ 1,586,322</u>	<u>\$ 959,812</u>	<u>\$ (235,366)</u>	<u>\$ 2,310,768</u>	<u>\$ 444,000</u>
<i>Business-type activities:</i>					
Bonds payable	\$ 210,397		\$ (210,397)	\$ -	
Note payable	203,305	\$ 450,000	(32,522)	620,783	\$ 46,383
Total business-type activities	<u>\$ 413,702</u>	<u>\$ 450,000</u>	<u>\$ (242,919)</u>	<u>\$ 620,783</u>	<u>\$ 46,383</u>

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

Governmental Activities

Bonds payable at December 31, 2011 is comprised of the following individual issues:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

\$2,560,000, 2003 Safety complex and refunding, due in annual installments of \$100,000 through July 2023, interest at 3.25-4.6% \$ 1,200,000

\$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%
864,000
\$ 2,064,000

Debt service requirements to retire general obligation bonds outstanding for governmental activities at December 31, 2011 are as follows:

Year Ending December 31,	Principal	Interest	Totals
2012	\$ 389,000	\$ 78,705	\$ 467,705
2013	390,000	67,450	457,450
2014	385,000	54,750	439,750
2015	100,000	39,350	139,350
2016	100,000	35,350	135,350
2017-2021	500,000	112,550	612,550
2022-2023	200,000	13,750	213,750
	<u>\$ 2,064,000</u>	<u>\$ 401,905</u>	<u>\$ 2,465,905</u>

As included on the Statement of Activities (Exhibit B), interest expense for the year ended December 31, 2011 was \$66,237 on general obligation debt for governmental activities.

Business-type Activities

Note payable

The note payable at December 31, 2011 is comprised of the following individual issues:

\$450,000, 2011 Water line construction note, due in monthly installments of \$4,556, including interest at 4.00%, through April 2021 \$ 425,265

\$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
195,518
\$ 620,783

Debt service requirements to retire the note payable for business-type activities at December 31, 2011 are as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 46,383	\$ 23,987	\$ 70,370
2013	48,273	22,097	70,370
2014	50,240	20,130	70,370
2015	52,287	18,083	70,370
2016	54,417	15,953	70,370
2017-2021	369,183	32,443	401,626
	<u>\$ 620,783</u>	<u>\$ 132,693</u>	<u>\$ 753,476</u>

As included on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds (Exhibit F), interest expense for the year ended December 31, 2011 was \$19,635 and \$5,458 on general obligation debt in the Water Fund and Sewer Fund, respectively.

Authorized and Unissued Debt

As of December 31, 2011, the Town had the following debt authorized and unissued:

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

NOTE 10—LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the Town place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. An estimated liability has been recorded based on the future closure and postclosure care costs that will be incurred. The estimated liability for landfill closure and postclosure care costs has a balance of \$200,000 as of December 31, 2011, which is based on the remaining closure costs and required monitoring of the landfill. The estimated total current cost of the landfill closure and postclosure care of \$200,000 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfill were acquired as of December 31, 2011. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The Town's landfill, which has ceased operations, is expected to be closed during the year ended December 31, 2012. The remaining closure and postclosure care costs are expected to be financed through general taxation.

The following is a summary of changes in the estimated liability for closure and postclosure care cost for the year ended December 31, 2011:

Balance - January 1, 2011	\$ 244,000
Expenditures recognized in General Fund	(5,599)
Expenditures recognized in Capital Projects Fund	(124,802)
Net change in estimated liability for closure and postclosure care costs	<u>86,401</u>
Balance - December 31, 2011	<u>\$ 200,000</u>

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

NOTE 11—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, 2011 are as follows:

		Due from	
		General	Fund
Due to	Roads Capital Projects Fund	\$	237,990
	Nonmajor Governmental Funds		377,771
	Water Fund		264,574
	Sewer Fund		302,043
	Fiduciary Funds		1,460
			<u>\$ 1,183,838</u>

During the year, several interfund transactions occurred between funds. The various transfers were made in accordance with budgetary authorizations. Interfund transfers for the year ended December 31, 2011 are as follows:

	General	Transfer from	
		Sewer	Totals
Transfer to	Fund	Fund	
	General Fund	\$ 15,112	\$ 15,112
	Sewer Fund	<u>\$ 139,163</u>	<u>139,163</u>
		<u>\$ 15,112</u>	<u>\$ 154,275</u>

NOTE 12—RESTRICTED NET ASSETS

Net assets are restricted for specific purposes as follows:

	Governmental
	Activities
Permanent Funds - Endowments	\$ 40,937
Permanent Funds - Income	31,460
Capital Projects Fund	212,590
Library Fund	8,412
Town Donation Fund	485
Police Grants Fund	2,402
	<u>\$ 296,286</u>

NOTE 13—COMPONENTS OF FUND BALANCE

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

<u>Fund Balances</u>	<u>General Fund</u>	<u>Roads Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Permanent Funds - Endowments			\$ 40,937	\$ 40,937
Prepaid expenses	\$ 16,665			16,665
Restricted for:				
Permanent Funds - Income			31,460	31,460
Capital Projects Fund		\$ 212,590		212,590
Library Fund	8,412			8,412
Town Donation Fund			485	485
Police Grants Fund			2,402	2,402
Committed for:				
Police Details Fund			21,896	21,896
Conservation Commission			558,239	558,239
TIF District			344,128	344,128
Expendable Trust Funds	1,839,521			1,839,521
Assigned for:				
Recreation Fund			7,646	7,646
Town Clock Fund			1,647	1,647
Encumbrances	45,673			45,673
Unassigned for:				
General Fund operations	2,156,837			2,156,837
	<u>\$ 4,067,108</u>	<u>\$ 212,590</u>	<u>\$ 1,008,840</u>	<u>\$ 5,288,538</u>

NOTE 14—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 15—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, 2011 amounted to \$90,028.

A member of the Board of Water Commissioners is employed as the water superintendent. Total payroll expenses to this individual during the year ending December 31, 2011 amounted to \$55,734.

NOTE 16—RESTATEMENT OF EQUITY

Governmental Funds

Effective January 1, 2011, the Town retroactively changed its method of financial reporting to conform to a recent pronouncement of the Governmental Accounting Standards Board (Statement No. 54). This new standard changes how fund balance is reported for governmental fund types. As a result, the Town's

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

previously reported Expendable Trust Funds and Library Fund have been reclassified into the General Fund for reporting purposes.

The impact of the restatement on the governmental funds is as follows:

	General Fund	Expendable Trust Funds	Nonmajor Governmental Funds
Fund Balance - January 1, 2011 (as previously reported)	\$ 1,792,524	\$ 1,570,246	\$ 1,395,663
Amount of restatement due to conversion to GASB Statement No. 54:			
Expendable Trust Funds	1,570,246	(1,570,246)	
Library Fund	12,046		(12,046)
Fund Balance - January 1, 2011, as restated	<u>\$ 3,374,816</u>	<u>\$ -</u>	<u>\$ 1,383,617</u>

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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 3,490,660	\$ 3,490,660	\$ 3,531,223	\$ 40,563
Licenses and permits	1,094,852	1,094,852	1,150,090	55,238
Intergovernmental	538,531	546,848	499,739	(47,109)
Charges for services	140,000	140,000	242,500	102,500
Interest and investment income	25,000	25,000	32,213	7,213
Miscellaneous	14,250	14,250	51,330	37,080
Total Revenues	<u>5,303,293</u>	<u>5,311,610</u>	<u>5,507,095</u>	<u>195,485</u>
Expenditures:				
Current:				
General government	1,097,115	1,097,115	1,002,401	94,714
Public safety	1,578,233	1,578,233	1,519,270	58,963
Highways and streets	976,375	984,692	938,895	45,797
Sanitation	334,080	334,080	308,708	25,372
Health and welfare	105,295	105,295	99,026	6,269
Culture and recreation	36,656	36,656	34,150	2,506
Economic development	2,591	2,591	-	2,591
Capital outlay	767,795	765,795	629,144	136,651
Debt service:				
Principal retirement	100,000	100,000	100,000	-
Interest and fiscal charges	54,602	54,602	54,600	2
Total Expenditures	<u>5,052,742</u>	<u>5,059,059</u>	<u>4,686,194</u>	<u>372,865</u>
Excess of revenues over (under) expenditures	<u>250,551</u>	<u>252,551</u>	<u>820,901</u>	<u>568,350</u>
Other financing sources (uses):				
Transfers in	117,648	115,648	125,363	9,715
Transfers out	(772,199)	(772,199)	(736,011)	36,188
Total other financing sources (uses)	<u>(654,551)</u>	<u>(656,551)</u>	<u>(610,648)</u>	<u>45,903</u>
Net change in fund balance	(404,000)	(404,000)	210,253	614,253
Fund balance at beginning of year				
- Budgetary Basis	<u>2,554,869</u>	<u>2,554,869</u>	<u>2,554,869</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 2,150,869</u>	<u>\$ 2,150,869</u>	<u>\$ 2,765,122</u>	<u>\$ 614,253</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, 2011

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

See accompanying notes to the required supplementary information

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2011

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 on-behalf payments for fringe benefits, budgetary transfers, and non-budgetary revenues and expenditures as follows:

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 5,890,759	\$ 5,198,467
Difference in property taxes meeting susceptible to accrual criteria	(341,577)	
Encumbrances - December 31, 2011		45,673
Encumbrances - December 31, 2010		(170,852)
On-behalf fringe benefits	(14,829)	(14,829)
Budgetary transfers	707,099	707,099
Non-budgetary activity	(608,994)	(343,353)
Per Schedule 1	<u>\$ 5,632,458</u>	<u>\$ 5,422,205</u>

NOTE 2—BUDGETARY FUND BALANCES

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

Nonspendable:	
Prepaid expenses	\$ 16,665
Assigned for:	
Encumbrances	45,673
Unassigned	<u>2,702,784</u>
	<u>\$ 2,765,122</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 most recent actuarial valuation report. Additional disclosures will be made as the information becomes available.

SCHEDULE A
TOWN OF PEMBROKE, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Funds
December 31, 2011

	Total Special Revenue Funds	Solid Waste Capital Projects Fund	Permanent Funds	Total Nonmajor Funds
Assets:				
Cash and cash equivalents	\$ 2,887		\$ 72,397	\$ 75,284
Investments	558,239			558,239
Accounts receivable	1,544			1,544
Due from other funds	375,343	\$ 2,428		377,771
Total assets	<u>\$ 938,013</u>	<u>\$ 2,428</u>	<u>\$ 72,397</u>	<u>\$ 1,012,838</u>
Liabilities:				
Accounts payable	\$ 1,070			\$ 1,070
Retainage payable		\$ 2,428		2,428
Deferred revenue	500			500
Total liabilities	<u>1,570</u>	<u>2,428</u>	<u>\$ -</u>	<u>3,998</u>
Fund balances:				
Nonspendable			40,937	40,937
Restricted	2,887		31,460	34,347
Committed	924,263			924,263
Assigned	9,293			9,293
Total fund balances	<u>936,443</u>	<u>-</u>	<u>72,397</u>	<u>1,008,840</u>
Total liabilities and fund balances	<u>\$ 938,013</u>	<u>\$ 2,428</u>	<u>\$ 72,397</u>	<u>\$ 1,012,838</u>

SCHEDULE A-1

TOWN OF PEMBROKE, NEW HAMPSHIRE

Combining Balance Sheet

Governmental Funds - All Nonmajor Special Revenue Funds

December 31, 2011

	Town Donation Fund	Recreation Fund	Police Details Fund	Christmas Donations Fund	Town Clock Fund	Police Grants Fund	Conservation Commission Fund	Grants Fund	TIF District Fund	Total Special Revenue Funds
Assets:										
Cash and cash equivalents	\$ 485					\$ 2,402	\$ 558,239			\$ 2,887
Investments										558,239
Accounts receivable		\$ 1,100	\$ 444	\$ 1,070	\$ 1,647			\$ 500	\$ 344,128	1,544
Due from other funds		6,546	21,452	\$ 1,070	\$ 1,647			\$ 500	\$ 344,128	375,343
Total assets	\$ 485	\$ 7,646	\$ 21,896	\$ 1,070	\$ 1,647	\$ 2,402	\$ 558,239	\$ 500	\$ 344,128	\$ 938,013
Liabilities:										
Accounts payable				\$ 1,070						\$ 1,070
Deferred revenue										500
Total liabilities	\$ -	\$ -	\$ -	\$ 1,070	\$ -	\$ -	\$ -		\$ -	\$ 1,570
Fund balances:										
Restricted	485					2,402				2,887
Committed							558,239		344,128	924,263
Assigned		7,646	21,896		1,647					9,293
Total fund balances	485	7,646	21,896	-	1,647	2,402	558,239	-	344,128	936,443
Total liabilities and fund balances	\$ 485	\$ 7,646	\$ 21,896	\$ 1,070	\$ 1,647	\$ 2,402	\$ 558,239	\$ 500	\$ 344,128	\$ 938,013

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, 2011

	Total Special Revenue <u>Funds</u>	Solid Waste Capital Projects <u>Fund</u>	Permanent <u>Funds</u>	Total Nonmajor <u>Funds</u>
Revenues:				
Taxes	\$ 66,118			\$ 66,118
Intergovernmental revenue	4,591			4,591
Charges for services	19,742			19,742
Interest and investment income	6,552		\$ 46	6,598
Miscellaneous	11,917			11,917
Total Revenues	<u>108,920</u>	<u>\$ -</u>	<u>46</u>	<u>108,966</u>
Expenditures:				
Current operations:				
General government	3,000			3,000
Public safety	19,726			19,726
Sanitation		124,802		124,802
Health and welfare	1,070			1,070
Culture and recreation	16,066			16,066
Capital outlay	319,079			319,079
Total Expenditures	<u>358,941</u>	<u>124,802</u>	<u>-</u>	<u>483,743</u>
Net change in fund balances	(250,021)	(124,802)	46	(374,777)
Fund balances at beginning of year	<u>1,186,464</u>	<u>124,802</u>	<u>72,351</u>	<u>1,383,617</u>
Fund balances at end of year	<u>\$ 936,443</u>	<u>\$ -</u>	<u>\$ 72,397</u>	<u>\$ 1,008,840</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, 2011

	Town Donation Fund	Recreation Fund	Police Details Fund	Christmas Donations Fund	Town Clock Fund	Police Grants Fund	Conservation Commission Fund	Grants Fund	TIF District Fund	Total Special Revenue Funds
Revenues:										
Taxes										
Intergovernmental revenue			\$ 4,591				\$ 226		\$ 65,892	\$ 66,118
Charges for services		\$ 11,197	8,545							4,591
Interest and investment income	\$ 1					\$ 4	6,547			19,742
Miscellaneous		780		\$ 1,045	\$ 10	1,082	1,000	\$ 8,000		6,552
Total Revenues	1	11,977	13,136	1,045	10	1,086	7,773	8,000	65,892	11,917
										108,920
Expenditures:										
Current operations:										
General government										3,000
Public safety			12,198	1,070		2,528				19,726
Health and welfare										1,070
Culture and recreation		16,066								16,066
Capital outlay		16,066	12,198	1,070		2,528	319,079			319,079
Total Expenditures	-	16,066	12,198	1,070		2,528	319,079	8,000		358,941
Excess of revenues over (under) expenditures	1	(4,089)	938	(25)	10	(1,442)	(311,306)	-	65,892	(250,021)
Net change in fund balances	1	(4,089)	938	(25)	10	(1,442)	(311,306)	-	65,892	(250,021)
Fund balances at beginning of year	484	11,735	20,958	25	1,637	3,844	869,545	-	278,236	1,186,464
Fund balances at end of year	485	7,646	21,896	-	1,647	2,402	558,239	-	344,128	936,443

SCHEDULE C
TOWN OF PEMBROKE, NEW HAMPSHIRE
Combining Statement of Fiduciary Net Assets
Fiduciary Funds - All Agency Funds
December 31, 2011

	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	\$ 792,643		\$ 24,042	\$ 816,685
Investments	678,017			678,017
Due from other funds		\$ 1,460		1,460
Total assets	<u>\$ 1,470,660</u>	<u>\$ 1,460</u>	<u>\$ 24,042</u>	<u>\$ 1,496,162</u>
LIABILITIES				
Accounts payable			\$ 880	\$ 880
Deposits			23,162	23,162
Due to other governments	\$ 1,470,660			1,470,660
Due to others		\$ 1,460		1,460
Total liabilities	<u>\$ 1,470,660</u>	<u>\$ 1,460</u>	<u>\$ 24,042</u>	<u>\$ 1,496,162</u>

**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, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiency in the Town's internal control to be a material weakness:

LACK OF SEGREGATION OF DUTIES

Observation

During the audit we noted that there continues to be a lack of segregation of duties in both the Water Department and the Sewer Department. The financial records of the Town's water and sewer operations are maintained separately from the town's finance department. Presently, a single individual within each of these departments prepares the utility billings, receives payments, posts payments against the individual billings, prepares and makes the deposits, reconciles the bank accounts, and maintains the general ledger.

Implication

The internal controls over cash are weakened in both the Water Fund and the Sewer Fund. These separately maintained funds are 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. Among

the proposed audit adjustments in the water department was an entry to reverse a posting for an unidentified cash variance in excess of \$60,000.

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 Water Commissioners and the Board of Sewer Commissioners review their current procedures regarding the billing and collection of user fees and the maintenance of each 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 each of these departments, the two Boards of Commissioners could consider utilizing the services of other individuals within the water and 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 or a similar person within the town's operations. Most communities have centralized revenue collections in this manner to improve efficiencies. If it is decided to maintain the current operating practices, the Commissioners of both organizations 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 the Water and Sewer Commissioners and is not intended to be and should not be used by anyone other than these specified parties.

Vachon Clukay & Company PC

October 23, 2012