TOWN OF PEMBROKE, NEW HAMPSHIRE

Financial Statements

December 31, 2012

and

Independent Auditor's Report

TOWN OF PEMBROKE, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2012

TABLE OF CONTENTS

	Page(s)
INDEPENDENT AUDITOR'S REPORT	
MANAGEMENT'S DISCUSSION AND ANALYSIS	i-viii
BASIC FINANCIAL STATEMENTS	
EXHIBITS:	
A Statement of Net Position	1
B Statement of Activities	2
C Balance Sheet – Governmental Funds	3
D Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
E Statement of Net Position – Proprietary Funds	5
F Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	6
G Statement of Cash Flows – Proprietary Funds	7
H Statement of Fiduciary Net Position – Fiduciary Funds	8
NOTES TO BASIC FINANCIAL STATEMENTS	9-28
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE:	
1 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund	29
2 Schedule of Funding Progress for Other Post-Employment Benefits	30
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	31
SUPPLEMENTAL SCHEDULES	
SCHEDULES:	
A Combining Balance Sheet – Governmental Funds - All Nonmajor Funds	32
A-1 Combining Balance Sheet – Governmental Funds - All Nonmajor Special Revenue Funds	33

TOWN OF PEMBROKE, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2012

TABLE OF CONTENTS (CONTINUED)

SUPPLEMENTAL SCHEDULES (CONTINUED)

SCHEDULES:		Page(s)
B	Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds - All Nonmajor Funds	34
B-1	Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds - All Nonmajor Special Revenue Funds	35
C	Combining Statement of Fiduciary Net Position - Fiduciary Funds - All Agency Funds	36

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INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Pembroke, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pembroke, New Hampshire as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Pembroke, New Hampshire, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Vachon Clukay & Company PC

Manchester, New Hampshire
January 2, 2014

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2012

Presented herewith please find the Management Discussion & Analysis Report for the Town of Pembroke for the year ending December 31, 2012. The responsibility for accuracy of the data, the completeness and fairness of this documentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein is accurate in material aspects. This report and its content have been designed to fairly present the Town's financial position, including the result of operations of all the funds of the Town. All the disclosures necessary to enable and to assist the reader in acquiring an accurate understanding of the Town's financial activities have been included.

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

Overview of the Financial Statements

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

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

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

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

Notes to the Basic Financial Statements

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2012

Government-Wide Financial Analysis

Governmental Activities

Statement of Net Position

Net position of the Town of Pembroke's governmental activities as of December 31, 2012 and 2011 are as follows:

	2012	2011
Current and Other Assets:		
Capital assets	$ 9,330,644	$ 9,255,342
Other assets	11,799,450	10,597,925
Total Assets	21,130,094	19,853,267
Deferred Outflows of Resources		
Long-term and Other Liabilities:		
Long-term obligations	1,529,457	1,929,869
Other liabilities	5,794,312	5,214,795
Total Liabilities	7,323,769	7,144,664
Deferred Inflows of Resources	196,596	1,055
Net Position:		
Net investment in capital assets	7,636,458	7,155,342
Restricted	162,171	296,286
Unrestricted	5,811,100	5,255,920
Total Net Position	$ 13,609,729	$ 12,707,548

The Town's net position totaled $13,609,729 at December 31, 2012, an increase of $902,181 when compared to the end of 2011.

Approximately 56% of the Town's net position reflects the investment in capital assets such as land, buildings, infrastructure, and equipment less the outstanding debt used to acquire those assets. Another 1% of the net position is restricted in regard to how it may be used. For the Town of Pembroke, those restrictions include those related to permanent funds and capital projects funds. The remaining unrestricted portion represents the part of net position available to finance day-to-day operations.

Statement of Activities

Changes in net position of the Town's governmental activities for the years ending December 31, 2012 and 2011 are as follows:

	2012	2011
Program revenues:		
Charges for services	$ 214,976	$ 270,365
Operating grants and contributions	157,792	201,340
Capital grants and contributions	256,193	289,500
Total program revenues	628,961	761,205
General revenues:		
Property and other taxes	3,422,584	3,597,341
Licenses and permits	1,210,348	1,150,090
Intergovernmental revenue	316,997	317,819
Interest and investment earnings	21,925	40,137
Miscellaneous	57,889	62,713
Total general revenues	5,029,743	5,168,100
Total revenues	5,658,704	5,929,305
Program expenses:		
General government	1,325,371	1,285,541
Public safety	1,607,339	1,690,746
Highways and streets	1,188,332	1,119,875
Sanitation	223,371	432,756
Health and welfare	87,140	100,257
Culture and recreation	270,415	274,518
Interest and fiscal charges	54,555	66,237
Total expenses	4,756,523	4,969,930
Excess (Deficiency) before transfers	902,181	959,375
Transfers		(124,051)
Change in net position	902,181	835,324
Net position - beginning of year	12,707,548	11,872,224
Net position - ending of year	$ 13,609,729	$ 12,707,548

As shown in the above statement the Town's governmental activities experienced a favorable increase in financial position of $902,181 on the full accrual basis of accounting.

Business-Type Activities

Statement of Net Position

Net position of the business-type activities as of December 31, 2012 and 2011 are as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2012

	2012	2011
Current and Other Assets:		
Capital assets	$ 4,515,594	$ 4,567,927
Other assets	1,460,659	1,428,551
Total Assets	5,976,253	5,996,478
Deferred Outflows of Resources		
Long-term and Other Liabilities:		
Long-term obligations	523,473	576,027
Other liabilities	69,493	72,407
Total Liabilities	592,966	648,434
Deferred Inflows of Resources	810	804
Net Position:		
Net investment in capital assets	3,945,564	3,947,144
Unrestricted	1,436,913	1,400,096
Total Net Position	$ 5,382,477	$ 5,347,240

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

Statement of Activities

Changes in net position of the Town's business-type activities for the years ending December 31, 2012 and 2011 are as follows:

	2012	2011
Program revenues:		
Charges for services	$ 1,546,003	$ 1,528,471
Capital grants and contributions		1,627
Total program revenues	1,546,003	1,530,098
General revenues:		
Interest and investment earnings	437	1,100
Miscellaneous	35,759	18,151
Total general revenues	36,196	19,251
Total revenues	1,582,199	1,549,349

Program expenses:		
Water distribution and treatment	706,145	764,001
Sanitation	790,603	815,614
Total expenses	1,496,748	1,579,615
Excess (Deficiency) before transfers	85,451	(30,266)
Transfers		124,051
Change in net position	85,451	93,785
Net position - beginning of year, as restated	5,297,026	5,203,241
Net position - ending of year	$ 5,382,477	$ 5,297,026

The main funding source for business-type activities is charges for services, which provided 103% and 97% of expenses in 2012 and 2011, respectively. Net position increased by $85,451 in 2012 largely due to revenues exceeding expenses in the water fund.

Financial Analysis of the Town's Funds

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

Governmental Funds

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

General Fund

The General Fund is the main operating fund of the Town. At the end of the current fiscal year, the general fund had a fund balance of $4,313,792, an increase of $246,684. There was a budgeted use of fund balance to help offset the current year tax rate in the amount of $400,000. The increase in fund balance is primarily due to conservative spending.

Other Governmental Funds

The total fund balance of $1,169,221 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 ($561,261 or 48.0%) and the TIF District Fund ($410,008 or 35.1%).

Proprietary Funds

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

The Town's proprietary funds had unrestricted net position of $1,436,913 at December 31, 2012, which is an increase of $36,817 (or 2.63%) from December 31, 2011. There was also a decrease in the net investment in capital assets of $1,580 (or -0.04%) from December 31, 2011.

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 2012 the Town had a reduction in general obligation bonds in governmental and business-type activities of $389,000 and $50,753, 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.

Actual revenues and transfers in on the budgetary basis exceeded the budgeted amount by $26,710. This is primarily due to receiving additional revenues from the following budgeted sources: $119,348 in licenses and permits, $39,508 in charges for services, and $24,729 in miscellaneous. These additional revenue sources offset the taxes which were less than the estimated amount by $144,069.

The Town underexpended its appropriations by $521,830 or 9.87%. There were savings within all Town departments with the largest savings within general government, public safety, highways and streets, sanitation and capital outlay of $79,784, $232,940, $54,765, $69,504 and $60,730, respectively.

Economic Conditions

The Town of Pembroke continues to review and update our capital investment plan (CIP) to accommodate and anticipate the needs of the community and its continued operation based on continued growth. By doing so, we have been able to set aside the necessary funds over the years to modernize our services to the community at a savings to the residents. The 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 $42,380 in 2012 and a total of $120,744 since its inception in 2010 by recycling as opposed to sending it to the incinerator. Though Pembroke is considered mostly a bedroom community, we have been able over the years with proper planning to stabilize the Town portion of the tax rate with little or no tax increase.

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2012

Contacting the Town of Pembroke's Financial Management

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

EXHIBIT A

TOWN OF PEMBROKE, NEW HAMPSHIRE

Statement of Net Position

December 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 8,555,464	$ 340,590	$ 8,896,054
Investments	2,544,475	29,120	2,573,595
Taxes receivable, net	1,213,873		1,213,873
Accounts receivable	4,796	521,249	526,045
Due from other governments	2,950		2,950
Prepaid expenses	14,301	2,331	16,632
Inventory		30,960	30,960
Internal balance	(536,409)	536,409	-
Total Current Assets	11,799,450	1,460,659	13,260,109
Noncurrent Assets:			
Non-depreciable capital assets	2,549,962	110,181	2,660,143
Depreciable capital assets, net	6,780,682	4,405,413	11,186,095
Total Noncurrent Assets	9,330,644	4,515,594	13,846,238
Total Assets	21,130,094	5,976,253	27,106,347
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	-	-	-
LIABILITIES			
Current Liabilities:			
Accounts payable	96,890	18,412	115,302
Accrued expenses	117,021	1,084	118,105
Due to other governments	5,172,241		5,172,241
Deposits payable		1,000	1,000
Current portion of bonds payable	402,243		402,243
Current portion of notes payable		48,997	48,997
Current portion of compensated absences payable	917		917
Current portion of estimated liability for landfill post-closure care costs	5,000		5,000
Total Current Liabilities	5,794,312	69,493	5,863,805
Noncurrent Liabilities:			
Bonds payable	1,291,943		1,291,943
Notes payable		521,033	521,033
Compensated absences payable	26,632		26,632
Other post-employment benefits payable	65,882	2,440	68,322
Estimated liability for landfill post-closure care costs	145,000		145,000
Total Noncurrent Liabilities	1,529,457	523,473	2,052,930
Total Liabilities	7,323,769	592,966	7,916,735
DEFERRED INFLOWS OF RESOURCES			
Unearned grant revenue	191,054		191,054
Unearned other revenue	5,542		5,542
Unearned user fees		810	810
Total Deferred Inflows of Resources	196,596	810	197,406
NET POSITION			
Net investment in capital assets	7,636,458	3,945,564	11,582,022
Restricted	162,171		162,171
Unrestricted	5,811,100	1,436,913	7,248,013
Total Net Position	$ 13,609,729	$ 5,382,477	$ 18,992,206

See accompanying notes to the basic financial statements

EXHIBIT B

TOWN OF PEMBROKE, NEW HAMPSHIRE

Statement of Activities

For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-type Activities	Total
Governmental Activities:							
General government	$ 1,325,371	$ 16,944			$ (1,308,427)		$ (1,308,427)
Public safety	1,607,339	55,195	$ 8,163	$ 194,891	(1,349,090)		(1,349,090)
Highways and streets	1,188,332	870	149,629	8,802	(1,029,031)		(1,029,031)
Sanitation	223,371	126,372			(96,999)		(96,999)
Health and welfare	87,140				(87,140)		(87,140)
Culture and recreation	270,415	15,595		52,500	(202,320)		(202,320)
Interest and fiscal charges	54,555				(54,555)		(54,555)
Total governmental activities	4,756,523	214,976	157,792	256,193	(4,127,562)	$ -	(4,127,562)
Business-type activities:							
Water Department	706,145	741,708				35,563	35,563
Sewer Department	810,403	824,095				13,692	13,692
Total business-type activities	1,516,548	1,565,803	-	-	-	49,255	49,255
Total primary government	$ 6,273,071	$ 1,780,779	$ 157,792	$ 256,193	(4,127,562)	49,255	(4,078,307)
General revenues:							
Property and other taxes					3,422,584		3,422,584
Licenses and permits					1,210,348		1,210,348
Grants and contributions:							
Rooms and meals tax distribution					316,997		316,997
Interest and investment earnings					21,925	437	22,362
Miscellaneous					57,889	35,759	93,648
Total general revenues					5,029,743	36,196	5,065,939
Change in net position					902,181	85,451	987,632
Net position - beginning, as restated					12,707,548	5,297,026	18,004,574
Net position - ending					$ 13,609,729	$ 5,382,477	$ 18,992,206

See accompanying notes to the basic financial statements

EXHIBIT C
TOWN OF PEMBROKE, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 8,479,780	$ 75,684	$ 8,555,464
Investments	1,983,214	561,261	2,544,475
Taxes receivable, net	1,213,873		1,213,873
Accounts receivable	4,256	540	4,796
Due from other governments		2,950	2,950
Due from other funds		721,223	721,223
Prepaid expenses	14,301		14,301
Total Assets	11,695,424	1,361,658	13,057,082
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflows of Resources	$ 11,695,424	$ 1,361,658	$ 13,057,082
LIABILITIES			
Accounts payable	$ 94,578	$ 1,383	$ 95,961
Accrued expenses	87,088		87,088
Due to other governments	5,172,241		5,172,241
Due to other funds	1,258,561		1,258,561
Total Liabilities	6,612,468	1,383	6,613,851
DEFERRED INFLOWS OF RESOURCES			
Unearned property taxes	763,622		763,622
Unearned grant revenue		191,054	191,054
Unearned other revenue	5,542		5,542
Total Deferred Inflows of Resources	769,164	191,054	960,218
FUND BALANCES			
Nonspendable	14,301	40,937	55,238
Restricted		121,234	121,234
Committed	2,114,374	993,748	3,108,122
Assigned	49,378	13,302	62,680
Unassigned	2,135,739		2,135,739
Total Fund Balances	4,313,792	1,169,221	5,483,013
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 11,695,424	$ 1,361,658	

Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	9,330,644
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis	763,622
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:	
Bonds payable	(1,694,186)
Accrued interest on long-term obligations	(29,933)
Compensated absences payable	(27,549)
Other post-employment benefits payable	(65,882)
Estimated liability for landfill post-closure care costs	(150,000)
Net position of governmental activities	$ 13,609,729

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, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	$ 3,184,702	$ 65,880	$ 3,250,582
Licenses and permits	1,210,348		1,210,348
Intergovernmental	471,773	197,907	669,680
Charges for services	179,508	35,468	214,976
Interest and investment income	18,737	3,188	21,925
Miscellaneous	45,992	14,757	60,749
Total Revenues	5,111,060	317,200	5,428,260
Expenditures:			
Current operations:			
General government	1,058,021	6,644	1,064,665
Public safety	1,416,048	26,829	1,442,877
Highways and streets	925,773		925,773
Sanitation	275,540		275,540
Health and welfare	85,550	1,633	87,183
Culture and recreation	249,246	14,356	263,602
Capital outlay	388,203	318,237	706,440
Debt service:			
Principal retirement	389,000		389,000
Interest and fiscal charges	78,705		78,705
Total Expenditures	4,866,086	367,699	5,233,785
Excess of revenues over (under) expenditures	244,974	(50,499)	194,475
Other financing sources (uses):			
Transfers in	1,710		1,710
Transfers out		(1,710)	(1,710)
Total other financing sources (uses)	1,710	(1,710)	-
Net change in fund balances	246,684	(52,209)	194,475
Fund balances at beginning of year	4,067,108	1,221,430	5,288,538
Fund balances at end of year	$ 4,313,792	$ 1,169,221	$ 5,483,013

See accompanying notes to the basic financial statements

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, 2012

Net Change in Fund Balances - Total Governmental Funds	$ 194,475
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.	24,663
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	233,304
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	389,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	7,336
Some expense reported in the statement of activities, such as compensated absences, other post-employment benefits, and the estimated liability for landfill post-closure care costs, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	47,252
Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are unearned and amortized in the statement of activities.	16,814
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.	(10,663)
Change in net position of governmental activities	$ 902,181

EXHIBIT E

TOWN OF PEMBROKE, NEW HAMPSHIRE

Statement of Net Position

Proprietary Funds

December 31, 2012

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 106,460	$ 234,130	$ 340,590
Investments	29,120		29,120
Accounts receivable, net	210,427	310,822	521,249
Due from other funds	264,677	271,732	536,409
Prepaid expenses	2,331		2,331
Inventory	30,960		30,960
Total Current Assets	643,975	816,684	1,460,659
Noncurrent Assets:			
Non-depreciable capital assets	97,381	12,800	110,181
Depreciable capital assets, net	2,562,624	1,842,789	4,405,413
Total Noncurrent Assets	2,660,005	1,855,589	4,515,594
Total Assets	3,303,980	2,672,273	5,976,253
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	-	-	-
LIABILITIES			
Current Liabilities:			
Accounts payable	16,832	1,580	18,412
Accrued expenses	1,084		1,084
Deposits payable	1,000		1,000
Current portion of note payable	48,997		48,997
Total Current Liabilities	67,913	1,580	69,493
Noncurrent Liabilities:			
Note payable	521,033		521,033
Other post-employment benefits payable		2,440	2,440
Total Noncurrent Liabilities	521,033	2,440	523,473
Total Liabilities	588,946	4,020	592,966
DEFERRED INFLOWS OF RESOURCES			
Unearned user fees		810	810
Total Deferred Inflows of Resources	-	810	810
NET POSITION			
Net investment in capital assets	2,089,975	1,855,589	3,945,564
Unrestricted	625,059	811,854	1,436,913
Total Net Position	$ 2,715,034	$ 2,667,443	$ 5,382,477

See accompanying notes to the basic financial statements

EXHIBIT F

TOWN OF PEMBROKE, NEW HAMPSHIRE

Statement of Revenues, Expenses and Changes in Net Position

Proprietary Funds

For the Year Ended December 31, 2012

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Operating revenues:			
Charges for services	$ 741,708	$ 824,095	$ 1,565,803
Miscellaneous revenues	34,576	1,183	35,759
Total operating revenues	776,284	825,278	1,601,562
Operating expenses:			
Personnel services	266,623	130,553	397,176
Contractual services	48,912	460,500	509,412
Materials and supplies	106,090	3,961	110,051
Maintenance and repairs	12,260	29,038	41,298
Utilities	80,986	18,457	99,443
Depreciation	121,585	133,634	255,219
Miscellaneous expenses	45,450	14,460	59,910
Bad debt expense		19,800	19,800
Total operating expenses	681,906	810,403	1,492,309
Operating income (loss)	94,378	14,875	109,253
Non-operating revenues (expenses):			
Interest revenue	326	111	437
Interest expense	(24,239)		(24,239)
Net non-operating revenues (expenses)	(23,913)	111	(23,802)
Change in net position	70,465	14,986	85,451
Total net position at beginning of year, as restated	2,644,569	2,652,457	5,297,026
Total net position at end of year	$ 2,715,034	$ 2,667,443	$ 5,382,477

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, 2012

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Cash flows from operating activities:			
Cash received from customers	$ 763,703	$ 808,082	$ 1,571,785
Cash paid to suppliers	(320,389)	(566,531)	(886,920)
Cash paid to employees	(228,143)	(97,181)	(325,324)
Net cash provided by operating activities	215,171	144,370	359,541
Cash flows from capital and related financing activities:			
Purchases of capital assets	(124,545)	(85,650)	(210,195)
Principal paid on long-term debt	(50,753)		(50,753)
Interest paid on long-term debt	(23,155)		(23,155)
Net cash used for capital and related financing activities	(198,453)	(85,650)	(284,103)
Cash flows from investing activities:			
Interest on investments	109	111	220
Net cash provided by investing activities	109	111	220
Net increase in cash and cash equivalents	16,827	58,831	75,658
Cash and cash equivalents at beginning of year	354,310	447,031	801,341
Cash and cash equivalents at end of year	$ 371,137	$ 505,862	$ 876,999
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 94,378	$ 14,875	$ 109,253
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	121,585	133,634	255,219
Bad debt expense		19,800	19,800
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:			
Accounts receivable	(12,581)	(17,202)	(29,783)
Prepaid expenses	959		959
Inventory	2,577		2,577
Accounts payable	8,253	(7,556)	697
Unearned user fees		6	6
Other post-employment benefits payable		813	813
Net cash provided by operating activities	$ 215,171	$ 144,370	$ 359,541
Non-cash transactions affecting financial position:			
Capital asset additions included in year end liabilities	$ 1,182		$ 1,182

See accompanying notes to the basic financial statements

EXHIBIT H

TOWN OF PEMBROKE, NEW HAMPSHIRE

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2012

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 963,199
Investments	717,927
Due from other funds	929
Total Assets	$ 1,682,055
LIABILITIES	
Deposits	$ 30,819
Due to other governments	1,650,307
Due to others	929
Total Liabilities	$ 1,682,055

See accompanying notes to the basic financial statements

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

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

Basis of Presentation

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

During the year ended December 31, 2012, the Town implemented GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* Under Statement 63, the Town has segregated previously reported assets and liabilities as deferred outflows of resources and deferred inflows of resources, respectively. This statement also identifies net position as the residual of all other elements presented in the statement of financial position. Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources.

1. **Government-Wide Financial Statements:**

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

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

2. **Fund Financial Statements:**

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

Fund Accounting

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

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

2. **Proprietary Funds:**

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

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

3. **Fiduciary Funds:**

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

Measurement Focus

1. **Government-Wide Financial Statements:**

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

2. **Fund Financial Statements:**

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

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

Basis of Accounting

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

1. **Revenues – Exchange and Non-exchange Transactions:**

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

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

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

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

2. **Unearned Revenue:**

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

3. **Expenses/Expenditures:**

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

Budgetary Data

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

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended December 31, 2012, the Town applied $400,000 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:

	Water Fund	Sewer Fund	Totals
Cash and cash equivalents	$ 106,460	$ 234,130	$ 340,590
Due from other funds	264,677	271,732	536,409
Total cash and cash equivalents	$ 371,137	$ 505,862	$ 876,999

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, 2012 are recorded as receivables net of reserves for estimated uncollectibles of $123,855.

Accounts Receivable

Accounts receivable are recorded net of reserves for estimated uncollectibles of $70,014 in the sewer fund.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2012 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 estimated fair values as of the date received. The Town maintains a capitalization threshold of $10,000. The Town's infrastructure consists of roads, water purification and distribution system, sewer collection and treatment system, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction phase of capital assets of business-type activities is also capitalized.

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

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:

Description	Years
Infrastructure	5-67
Buildings and improvements	40
Vehicles and equipment	5-25

Bond Premium

Bond premiums are amortized as a component of interest expense over the life of the related bond using the effective interest rate method. Bonds payable are reported in the accompanying financial statements gross of any applicable unamortized bond premium. The balance of the unamortized bond premium as of December 31, 2012 is $19,186.

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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

Fund Balance Policy

The Town has implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* Statement 54 established new fund balance classifications and changed 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 amounts should be reduced first, followed by assigned amounts and then unassigned amounts.

Minimum Level of Unassigned Fund Balance

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

- Retention of 8% to 17% of regular General Fund operating revenues or no less than 2 months of 4General Fund operating expenditures. This is calculated by adding the municipality's General Fund operating appropriations, the state education tax amount, the local school net tax commitment, and the county appropriation.

Interfund Activity

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

Operating Revenues and Expenses

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. Significant estimates include depreciation expense, the allowance for uncollectible 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 ($618,782,568 as of April 1, 2012) and are due in two installments on July 2, 2012 and December 18, 2012. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

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

In accordance with State law, the Town collects taxes for the Pembroke School District and Merrimack County, both independent governmental units, which are remitted to them as required by law. The Town also collects State of New Hampshire education taxes, which are remitted directly to the school district. Total taxes appropriated during the year were $11,422,241 and $1,546,618 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, 2012, 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, 2012.

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, 2012, 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, 2012 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	$ 8,896,054
Investments	2,573,595
Statement of Fiduciary Net Position:	
Cash and cash equivalents	963,199
Investments	717,927
Total deposits and investments	$ 13,150,775

Deposits and investments as of December 31, 2012 consist of the following:

Cash on hand	$ 1,462
Deposits with financial institutions	12,431,386
Investments	717,927
Total deposits and investments	$ 13,150,775

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:

Investment Type	Not rated
Money market funds	$ 18,548
Mutual funds	101,508
	$ 120,056

Custodial Credit Risk

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

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

Of the Town's deposits at year end, $8,287,449 was collateralized by securities held by the bank in the bank's name, and $1,119,050 was uninsured and uncollateralized.

As of December 31, 2012, Town investments in the following investment types were held by the same counterparty that was used to buy the securities.

Investment Type	Reported Amount
Equity securities	$ 597,871
Mutual funds	10,782
	$ 608,653

NOTE 5—CAPITAL ASSETS

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

	Balance 01/01/12	Additions	Reductions	Balance 12/31/12
Governmental activities:				
Capital assets not depreciated:				
Land	$ 1,723,612	$ 212,771		$ 1,936,383
Easements	608,579			608,579
Construction in progress	1,267,974	5,000	$(1,267,974)	5,000
Total capital assets not being depreciated	3,600,165	217,771	(1,267,974)	2,549,962
Other capital assets:				
Infrastructure	2,636,080	1,558,989		4,195,069
Buildings and improvements	3,843,700			3,843,700
Vehicles and equipment	4,800,660	127,977	(97,487)	4,831,150
Total other capital assets at historical cost	11,280,440	1,686,966	(97,487)	12,869,919
Less accumulated depreciation for:				
Infrastructure	(267,765)	(104,877)		(372,642)
Buildings and improvements	(2,487,912)	(86,588)		(2,574,500)
Vehicles and equipment	(2,869,586)	(351,135)	78,626	(3,142,095)
Total accumulated depreciation	(5,625,263)	(542,600)	78,626	(6,089,237)
Total other capital assets, net	5,655,177	1,144,366	(18,861)	6,780,682
Total capital assets, net	$ 9,255,342	$ 1,362,137	$(1,286,835)	$ 9,330,644

Depreciation expense was charged to governmental functions as follows:

General government	$ 242,735
Public safety	79,988
Highways and streets	218,661
Culture and recreation	1,216
Total governmental activities depreciation expense	$ 542,600

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

	Balance 01/01/12	Additions	Reductions	Balance 12/31/12
Business-type activities:				
Capital assets not depreciated:				
Land	$ 31,935			$ 31,935
Construction in progress		$ 78,246		78,246
Total capital assets not being depreciated	31,935	78,246	$ -	110,181
Other capital assets:				
Building and improvements	272,333			272,333
Water infrastructure	2,159,916			2,159,916
Sewer infrastructure	3,382,182	35,042		3,417,224
Machinery, vehicles, and equipment	2,853,152	89,598		2,942,750
Other	29,865			29,865
Total other capital assets at historical cost	8,697,448	124,640	-	8,822,088
Less accumulated depreciation for:				
Building and improvements	(189,418)	(7,636)		(197,054)
Water infrastructure	(812,910)	(46,150)		(859,060)
Sewer infrastructure	(1,614,410)	(113,907)		(1,728,317)
Machinery, vehicles, and equipment	(1,514,853)	(87,526)		(1,602,379)
Other	(29,865)			(29,865)
Total accumulated depreciation	(4,161,456)	(255,219)	-	(4,416,675)
Total other capital assets, net	4,535,992	(130,579)	-	4,405,413
Total capital assets, net	$ 4,567,927	$ (52,333)	$ -	$ 4,515,594

Depreciation expense was charged to the proprietary funds as follows:

Water Fund	$ 121,585
Sewer Fund	133,634
Total business-type activities depreciation expense	$ 255,219

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, 2012, the balance of the property tax appropriation due to the Pembroke School District is $5,172,241.

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 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 police officers are required to contribute 11.55% of their covered salary, whereas general employees are required to contribute 7.0% of their covered salary. The Town is required to contribute at an actuarially determined rate. The Town's contribution rates for the covered payroll of police officers and general employees were 19.95% and 8.8%, respectively. The Town contributed 100% of the employer cost for public safety and general employees of the Town.

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, 2012, 2011 and 2010 were $195,224, $200,826, and $180,442, 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 2012 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, 2012 including the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2010 is as follows:

Annual required contribution	$ 68,922
Interest on net OPEB obligation	1,822
NOO amortization adjustment to ARC	(1,810)
Annual OPEB cost	68,934
Contributions made	(46,154)
Increase in net OPEB obligation	22,780
Net OPEB obligation - beginning of year	45,542
Net OPEB obligation - end of year	$ 68,322

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, 2012, 2011 and 2010 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	$ 68,922	67.0%	$ 68,322
12/31/2011	$ 68,922	67.0%	$ 45,542
12/31/2010	$ 68,922	67.0%	$ 22,768

The Town's net OPEB obligation as of December 31, 2012 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)	$ 833,515
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	$ 1,205,567
UAAL as a percentage of covered payroll	69.1%

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

Actuarial Methods and Assumptions for OPEB

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

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

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, 2012 are as follows:

	Balance 01/01/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Governmental activities:					
Bonds payable	$ 2,064,000		$ (389,000)	$ 1,675,000	$ 390,000
Unamortized bond premium	36,000		(16,814)	19,186	12,243
Compensated absences payable	46,768	$ 2,068	(21,287)	27,549	917
Total governmental activities	$ 2,146,768	$ 2,068	$ (427,101)	$ 1,721,735	$ 403,160
Business-type activities:					
Notes payable	$ 620,783		$ (50,753)	$ 570,030	$ 48,997
Total business-type activities	$ 620,783	$ -	$ (50,753)	$ 570,030	$ 48,997

Payments on the general obligation bonds of the governmental activities are paid out of the General 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, 2012 is comprised of the following individual issues:

$2,560,000, 2003 Safety complex and refunding, due in annual installments of $100,000 through July 2023, interest at 3.25-4.6%	$ 1,100,000
$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%	575,000
	1,675,000
Add: Unamortized bond premium	19,186
	$ 1,694,186

Debt service requirements to retire general obligation bonds outstanding for governmental activities at December 31, 2012 are as follows:

Year Ending December 31,	Principal	Interest	Totals
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	100,000	35,350	135,350
2018-2022	500,000	90,500	590,500
2023	100,000	4,600	104,600
Total	1,675,000	327,350	2,002,350
Add: *Bond Premium*	19,186		19,186
	$ 1,694,186	$ 327,350	$ 2,021,536

As included on the Statement of Activities (Exhibit B), interest expense for the year ended December 31, 2012 was $54,555 on general obligation debt for governmental activities.

Business-type Activities

Notes payable

The notes payable at December 31, 2012 are 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	$ 387,016
$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	183,014
	$ 570,030

Debt service requirements to retire the notes payable for business-type activities at December 31, 2012 are as follows:

Year Ending December 31,	Principal	Interest	Totals
2013	$ 48,997	$ 21,373	$ 70,370
2014	50,447	19,923	70,370
2015	52,503	17,869	70,372
2016	54,642	15,729	70,371
2017	56,868	13,502	70,370
2018-2021	306,573	18,354	324,927
	$ 570,030	$ 106,750	$ 676,780

As included on the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (Exhibit F), interest expense for the year ended December 31, 2012 was $19,635 on general obligation debt for business-type activities.

Authorized and Unissued Debt

As of December 31, 2012, the Town had the following debt authorized and unissued:

Description	Amount
Roadway improvement and reconstruction	$ 536,000

NOTE 10—LANDFILL POST-CLOSURE CARE COSTS

State and federal laws and regulations require that the Town place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The Town's landfill was closed during 2012. An estimated liability has been recorded based on the future closure and postclosure care costs that will be incurred. The estimated liability for landfill post-closure care costs has a balance of $150,000 as of December 31, 2012. The estimated total current cost of the post-closure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfill were acquired as of December 31, 2012. However, the actual cost of post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The following is a summary of changes in the estimated liability for closure and postclosure care cost for the year ended December 31, 2012:

Balance - January 1, 2012	$ 200,000
Change in estimated liability	(43,693)
Expenditures recognized in General Fund	(6,307)
Balance - December 31, 2012	$ 150,000

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, 2012 are as follows:

		Due from General Fund
Due to	Nonmajor Governmental Funds	$ 721,223
	Water Fund	264,677
	Sewer Fund	271,732
	Fiduciary Funds	929
		$ 1,258,561

During the year ended December 31, 2012, the Nonmajor Governmental Funds transferred $1,710 to the General Fund.

NOTE 12—RESTRICTED NET POSITION

Net assets are restricted for specific purposes as follows:

	Governmental Activities
Permanent Funds - Endowments	$ 40,937
Permanent Funds - Income	31,488
Capital Projects Fund	86,430
Town Donation Fund	485
Christmas Donation Fund	57
Police Grants Fund	2,774
	$ 162,171

NOTE 13—COMPONENTS OF FUND BALANCE

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

Fund Balances	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Permanent Funds - Endowments		$ 40,937	$ 40,937
Prepaid expenses	$ 14,301		14,301
Restricted for:			
Permanent Funds - Income		31,488	31,488
Capital Projects Fund		86,430	86,430
Town Donation Fund		485	485
Police Grants Fund		2,774	2,774
Christmas Donation Fund		57	57
Committed for:			
Police Details Fund		22,479	22,479
Conservation Commission		561,261	561,261
TIF District		410,008	410,008
Expendable Trust Funds	1,994,234		1,994,234
Encumbrances	120,140		120,140

Assigned for:			
Recreation Fund		13,295	13,295
Town Clock Fund		7	7
Library operations	5,082		5,082
Encumbrances	44,296		44,296
Unassigned:			
Unassigned - General operations	2,135,739		2,135,739
	$ 4,313,792	$ 1,169,221	$ 5,483,013

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, 2012 amounted to $94,481.

NOTE 16—RESTATEMENT OF EQUITY

Government-Wide Statements

During the year ended December, 31, 2012, it was determined that the allowance for doubtful accounts of the business-type activities was understated.

Net Position of the business-type activities as of January 1, 2012 has been restated as follows:

	Business-type Activities
Net position - January 1, 2012 (as previously reported)	$ 5,347,240
Amount of restatement due to:	
Understatement of allowance for doubtful accounts	(50,214)
Net position - January 1, 2012 (as restated)	$ 5,297,026

Proprietary Fund Statements

As noted above, during the year ended December 31, 2012, it was determined that the allowance for doubtful accounts of the Sewer Proprietary Fund was understated.

The impact of this restatement on the Sewer Proprietary Fund as of January 1, 2012 is as follows:

	Sewer Fund
Net position - January 1, 2012 (as previously reported)	$ 2,702,671
Amount of restatement due to:	
Understatement of allowance for doubtful accounts	(50,214)
Net position - January 1, 2012 (as restated)	$ 2,652,457

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, 2012

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Favorable (Unfavorable)
Revenues:				
Taxes	$ 3,500,773	$ 3,500,773	$ 3,356,704	$ (144,069)
Licenses and permits	1,091,000	1,091,000	1,210,348	119,348
Intergovernmental	465,068	465,068	471,773	6,705
Charges for services	140,000	140,000	179,508	39,508
Interest and investment income	15,700	15,700	18,012	2,312
Miscellaneous	13,600	13,600	38,329	24,729
Total Revenues	5,226,141	5,226,141	5,274,674	48,533
Expenditures:				
Current:				
General government	1,138,755	1,138,755	1,058,971	79,784
Public safety	1,673,947	1,673,947	1,441,007	232,940
Highways and streets	993,709	993,709	938,944	54,765
Sanitation	345,044	345,044	275,540	69,504
Health and welfare	106,561	106,561	85,550	21,011
Culture and recreation	36,001	36,001	35,498	503
Economic development	2,591	2,591	-	2,591
Capital outlay	524,616	524,616	463,886	60,730
Debt service:				
Principal retirement	389,000	389,000	389,000	-
Interest and fiscal charges	78,707	78,707	78,705	2
Total Expenditures	5,288,931	5,288,931	4,767,101	521,830
Excess of revenues over (under) expenditures	(62,790)	(62,790)	507,573	570,363
Other financing sources (uses):				
Transfers in	226,721	226,721	204,898	(21,823)
Transfers out	(563,931)	(563,931)	(563,931)	-
Total other financing sources (uses)	(337,210)	(337,210)	(359,033)	(21,823)
Net change in fund balance	(400,000)	(400,000)	148,540	548,540
Fund balance at beginning of year - Budgetary Basis	2,765,122	2,765,122	2,765,122	-
Fund balance at end of year - Budgetary Basis	$ 2,365,122	$ 2,365,122	$ 2,913,662	$ 548,540

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, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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, 2012

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 revenues and other financing sources and expenditures and other financing uses were adjusted for encumbrances, non-budgetary revenues and expenditures, non-budgetary transfers in and budgetary transfers in and out as follows:

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Per Exhibit D	$ 5,112,770	$ 4,866,086
Difference in property taxes meeting susceptible to accrual criteria	172,002	
Encumbrances - December 31, 2012		164,436
Encumbrances - December 31, 2011		(45,673)
Non-budgetary revenues and expenditures	(8,388)	(217,748)
Non-budgetary transfers in	(1,710)	
Budgetary transfers in and out	204,898	563,931
Per Schedule 1	$ 5,479,572	$ 5,331,032

NOTE 2—BUDGETARY FUND BALANCES

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

Nonspendable:	
Prepaid expenses	$ 14,301
Unassigned:	
Unassigned - General operations	2,899,361
	$ 2,913,662

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, 2012

	Total Special Revenue Funds	Roads Capital Projects Fund	Permanent Funds	Total Nonmajor Funds
ASSETS				
Cash and cash equivalents	$ 3,259		$ 72,425	$ 75,684
Investments	561,261			561,261
Accounts receivable	540			540
Due from other governments	2,950			2,950
Due from other funds	634,793	$ 86,430		721,223
Total Assets	1,202,803	86,430	72,425	1,361,658
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	$ 1,202,803	$ 86,430	$ 72,425	$ 1,361,658
LIABILITIES				
Accounts payable	$ 1,383			$ 1,383
Total Liabilities	1,383	$ -	$ -	1,383
DEFERRED INFLOWS OF RESOURCES				
Unearned grant revenue	191,054			191,054
Total Deferred Inflows of Resources	191,054	-	-	191,054
FUND BALANCES				
Nonspendable			40,937	40,937
Restricted	3,316	86,430	31,488	121,234
Committed	993,748			993,748
Assigned	13,302			13,302
Total Fund Balances	1,010,366	86,430	72,425	1,169,221
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 1,202,803	$ 86,430	$ 72,425	$ 1,361,658

SCHEDULE A-1
TOWN OF PEMBROKE, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Special Revenue Funds
December 31, 2012

	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					$ 2,774				$ 3,259
Investments							$ 561,261			561,261
Accounts receivable			$ 540							540
Due from other governments								$ 2,950		2,950
Due from other funds		$ 13,295	21,939	$ 1,440	$ 7			188,104	$ 410,008	634,793
Total Assets	485	13,295	22,479	1,440	7	2,774	561,261	191,054	410,008	1,202,803
DEFERRED OUTFLOWS OF RESOURCES										
Total Deferred Outflows of Resources	-	-	-	-	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	$ 485	$ 13,295	$ 22,479	$ 1,440	$ 7	$ 2,774	$ 561,261	$ 191,054	$ 410,008	$ 1,202,803
LIABILITIES										
Accounts payable				$ 1,383						$ 1,383
Total Liabilities	$ -	$ -	$ -	1,383	$ -	$ -	$ -	-	$ -	1,383
DEFERRED INFLOWS OF RESOURCES										
Unearned grant revenue								$ 191,054		191,054
Total Deferred Inflows of Resources	-	-	-	-	-	-	-	191,054	-	191,054
FUND BALANCES										
Restricted	485			57		2,774				3,316
Committed			22,479				561,261		410,008	993,748
Assigned		13,295			7					13,302
Total Fund Balances	485	13,295	22,479	57	7	2,774	561,261	-	410,008	1,010,366
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 485	$ 13,295	$ 22,479	$ 1,440	$ 7	$ 2,774	$ 561,261	$ 191,054	$ 410,008	$ 1,202,803

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, 2012

	Total Special Revenue Funds	Roads Capital Projects Fund	Permanent Funds	Total Nonmajor Funds
Revenues:				
Taxes	$ 65,880			$ 65,880
Intergovernmental revenue	197,907			197,907
Charges for services	35,468			35,468
Interest and investment income	3,024	$ 136	$ 28	3,188
Miscellaneous	14,757			14,757
Total Revenues	317,036	136	28	317,200
Expenditures:				
Current operations:				
General government	6,644			6,644
Public safety	26,829			26,829
Health and welfare	1,633			1,633
Culture and recreation	14,356			14,356
Capital outlay	191,941	126,296		318,237
Total Expenditures	241,403	126,296	-	367,699
Excess of revenues over (under) expenditures	75,633	(126,160)	28	(50,499)
Other financing sources (uses):				
Transfers out	(1,710)			(1,710)
Total other financing sources (uses)	(1,710)	-	-	(1,710)
Net change in fund balances	73,923	(126,160)	28	(50,499)
Fund balances at beginning of year	936,443	212,590	72,397	1,221,430
Fund balances at end of year	$ 1,010,366	$ 86,430	$ 72,425	$ 1,170,931

SCHEDULE B - I

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, 2012

	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									$ 65,880	$ 65,880
Intergovernmental revenue			$ 3,016					$ 194,891		197,907
Charges for services		$ 14,595	20,873							35,468
Interest and investment income						$ 2	$ 3,022			3,024
Miscellaneous		5,410		$ 1,690	$ 70	2,003		5,584		14,757
Total Revenues	$ -	20,005	23,889	1,690	70	2,005	3,022	200,475	65,880	317,036
Expenditures:										
Current operations:										
General government								6,644		6,644
Public safety			23,306			1,633		1,890		26,829
Health and welfare				1,633						1,633
Culture and recreation		14,356								14,356
Capital outlay								191,941		191,941
Total Expenditures	-	14,356	23,306	1,633	-	1,633	-	200,475	-	241,403
Excess of revenues over (under) expenditures	-	5,649	583	57	70	372	3,022	-	65,880	75,633
Other financing sources:										
Transfers out					(1,710)					(1,710)
Total other financing sources	-	-	-	-	(1,710)	-	-	-	-	(1,710)
Net change in fund balances	-	5,649	583	57	(1,640)	372	3,022	-	65,880	73,923
Fund balances at beginning of year	485	7,646	21,896	-	1,647	2,402	558,239	-	344,128	936,443
Fund balances at end of year	$ 485	$ 13,295	$ 22,479	$ 57	$ 7	$ 2,774	$ 561,261	$ -	$ 410,008	$ 1,010,366

SCHEDULE C

TOWN OF PEMBROKE, NEW HAMPSHIRE

Combining Statement of Fiduciary Net Position

Fiduciary Funds - All Agency Funds

December 31, 2012

	School Agency Fund	M & M Fund	Performance Bond Agency Fund	Total Agency Funds
ASSETS				
Cash and cash equivalents	$ 932,380		$ 30,819	$ 963,199
Investments	717,927			717,927
Due from other funds		$ 929		929
Total Assets	$ 1,650,307	$ 929	$ 30,819	$ 1,682,055
LIABILITIES				
Deposits			$ 30,819	$ 30,819
Due to other governments	$ 1,650,307			1,650,307
Due to others		$ 929		929
Total Liabilities	$ 1,650,307	$ 929	$ 30,819	$ 1,682,055

VACHON CLUKAY
& COMPANY PC

CERTIFIED PUBLIC ACCOUNTANTS
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January 2, 2014

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 for the year ended December 31, 2012, we considered the Town's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the Town's internal control structure in our report dated January 2, 2014. This letter does not affect that report or our report on the basic financial statements dated January 2, 2014.

We have already discussed these comments and suggestions with various Town personnel, and we will be pleased to discuss them in further detail at your convenience, to perform additional study of these matters, or to assist you in implementing the recommendations.

The purpose of this letter is to provide constructive and meaningful recommendations to you.

Sincerely,

Vachon Clukay & Company PC

Vachon Clukay & Company PC

SEWER RECEIVABLES

Observation

As of December 31, 2012, the Sewer Fund has uncollected user fees in the amount of approximately $279,000, of which $146,000 is applicable to "period 3". Subsequent to year end, the sewer department's personnel recreated a spreadsheet to identify the amounts included within "period 3". This spreadsheet identified that a majority of this balance was applicable to usage that was billed between the years 2003 and 2012. During the spring of 2013, the uncollected amounts billed during 2012 were committed to the Town's tax collector who promptly started the tax lien notification process.

Implication

Recorded accounts receivable in the Sewer Fund's general ledger are overstated as amounts are not current and may not be collected in the future. The cash flows of the Sewer Fund are also impaired as the amounts billed to the users of the system are not being collected and therefore unavailable to pay the operating costs necessary to run and maintain the sewer system.

Recommendation

We recommend that the Sewer Commissioners consider centralizing the collection process of the utility billings with the Town's tax collector's office. Although tax liens were placed on the various properties with delinquent 2012 sewer receivables, the collectability of the delinquent sewer receivables from 2003 through 2011 remains indeterminable.

Client Response

The Sewer Commission will be sending the yearly uncollected amounts to the Tax Collector in mid-January as well as in all future years. For the YE 2013, billed amounts from January to November 2013 that are uncollected and in January 2015 the amounts from December 2013-November 2014, as well as all following years. The Commission is very hopeful that the uncollected amounts from 2003-2011 will be resolved with definitive answers from their Attorney in 2014.

WATER ABATEMENTS

Observation

During the year ended December 31, 2012, we noted that a significant adjustment was made within the Water Fund to reduce receivables resulting from an incorrect billing. However, we noted that this $48,500 adjustment was not approved by the Board of Commissioners.

Implication

The controls over receivables are weakened. The employee posting cash receipts in the general ledger should not be allowed to record abatements against utility billings without a formal written authorization approved by the Board of Commissioners.

Recommendation

We recommend that the Water Commissioners adopt an abatement policy to address the procedures that are to be followed when billing adjustments are deemed to be necessary.

Client Response

The abatement made was to reverse a rollover reading that incorrectly added $48,505 to Lonsdale Properties, LLC's billing by Softwater. The customer called the office after receiving the bill noting that their typical water bill ranges from approximately $160 - $180 per month and that there was an obvious error on their most recent invoice. A second reading was performed which resulted in a water bill totaling $162.82. It was determined that the water meter was faulty and it was subsequently replaced.

A process has since been put in place implementing a journal entry approval form for abatements in excess of $________, as voted on by the board. The approval form will require review and signature approval by the board prior to being posted to the general ledger. After being posted, the approved journal entry will be printed from QuickBooks and will be attached to the approval form, along with any applicable supporting documents.

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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, 2012, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be 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 entity'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 the Sewer Department. The financial records of the Town's sewer operation are maintained separately from the town's finance department. Presently, a single individual in the department 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 the Sewer Fund. This separately maintained fund is exposed to an increased risk that funds could be lost or misplaced. To the extent possible, all of the financial responsibilities should not be assigned to one individual.

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

Recommendation

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

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

Vachon Clukay & Company PC

Manchester, New Hampshire
January 2, 2014