

**TOWN OF PEMBROKE, NEW HAMPSHIRE**

**Financial Statements**

**December 31, 2017**

**and**

**Independent Auditor's Report**

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**FINANCIAL STATEMENTS**  
**December 31, 2017**

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**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**FINANCIAL STATEMENTS**  
**December 31, 2017**

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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, 2017, 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, 2017, 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*

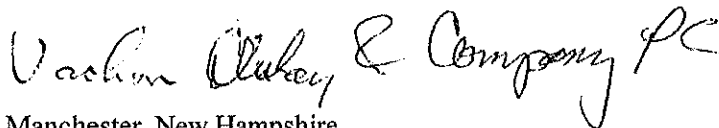
### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress for other post-employment benefits, schedule of changes in the Town's proportionate share of the net pension liability, and the schedule of Town contributions on pages i-viii and 37-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

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

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



Manchester, New Hampshire  
October 31, 2018

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ending December 31, 2017

Presented herewith please find the Management Discussion & Analysis Report for the Town of Pembroke for the year ending December 31, 2017. 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 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 fiscal 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:

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ending December 31, 2017

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 and the TIF District Fund, which are considered major funds. Other governmental funds are aggregated as nonmajor funds.

The Town adopts an annual appropriation 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 the Town. 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 own 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, 2017

**Required Supplementary Information**

The basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for the Town's major governmental funds and includes a reconciliation between the reported activity of the revenues, expenditures and transfers for budgetary purposes (Schedule 1) and the activity as presented in the governmental fund financial statements (Exhibit D). The Town's only major governmental fund with an adopted budget is the General Fund.

This section also includes a schedule of funding progress for other post-employment benefits from actuarial valuations, a schedule of changes in the Town's proportionate share of the net pension liability, and a schedule of Town contributions to the New Hampshire Retirement System.

**Other Supplementary Information**

Other supplementary information includes combining financial statements for nonmajor governmental funds and the fiduciary funds.

**Government-Wide Financial Analysis**

**Governmental Activities**

The table below provides a summary of the Town's net position of its governmental activities as of December 31, 2017 compared with 2016.

	<u>2017</u>	<u>2016</u>
Current and Other Assets:		
Capital assets	\$ 15,221,282	\$ 13,454,025
Other assets	17,524,756	16,946,076
Total Assets	<u>32,746,038</u>	<u>30,400,101</u>
Deferred Outflows of Resources	<u>735,287</u>	<u>997,344</u>
Long-term and Other Liabilities:		
Long-term obligations	7,926,255	5,099,414
Other liabilities	7,559,693	9,897,399
Total Liabilities	<u>15,485,948</u>	<u>14,996,813</u>
Deferred Inflows of Resources	<u>142,270</u>	<u>76,248</u>
Net Position:		
Net investment in capital assets	12,894,748	10,823,531
Restricted	262,423	1,292,272
Unrestricted	4,695,936	4,208,581
Total Net Position	<u>\$ 17,853,107</u>	<u>\$ 16,324,384</u>

The Town's net position totaled \$17,853,107 at December 31, 2017, an increase of \$1,528,723 when compared to the end of 2016.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ending December 31, 2017

Approximately 72% of the Town's net position reflects its investment in capital assets such as land, buildings, and equipment less any related outstanding debt used to acquire those assets. Another 1% of the Town's 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. The remaining unrestricted portion represents the part of net position of the Town of Pembroke that can be used to finance day-to-day operations.

Changes in net position for governmental activities for the year ending December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Program revenues:		
Charges for services	\$ 832,993	\$ 597,192
Operating grants and contributions	506,667	379,025
Capital grants and contributions	<u>17,817</u>	<u>167,165</u>
Total program revenues	<u>1,357,477</u>	<u>1,143,382</u>
General revenues:		
Property and other taxes	4,524,068	4,299,557
Licenses and permits	1,578,436	1,487,527
Intergovernmental revenue	364,542	366,517
Interest and investment earnings	34,136	21,525
Miscellaneous	34,659	32,399
Gain on sale of capital assets	<u>20,500</u>	<u></u>
Total general revenues and gain on sale of capital assets	<u>6,556,341</u>	<u>6,207,525</u>
Total revenues	<u>7,913,818</u>	<u>7,350,907</u>
Program expenses:		
General government	1,307,693	1,453,354
Public safety	2,816,464	2,415,118
Highways and streets	1,539,863	1,379,119
Sanitation	225,065	207,400
Health and welfare	66,355	66,135
Culture and recreation	315,329	316,311
Interest and fiscal charges	<u>114,326</u>	<u>47,364</u>
Total expenses	<u>6,385,095</u>	<u>5,884,801</u>
Change in net position	1,528,723	1,466,106
Net position - beginning of year	<u>16,324,384</u>	<u>14,858,278</u>
Net position - ending of year	<u>\$ 17,853,107</u>	<u>\$ 16,324,384</u>

As shown in the above statement the Town experienced an improvement in financial position of \$1,528,723 on the full accrual basis of accounting.

**Business-type Activities**

The table below provides a summary of the Town's net position of its business-type activities as of December 31, 2017 compared with 2016.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ending December 31, 2017

	<u>2017</u>	<u>2016</u>
Current and Other Assets:		
Capital assets	\$ 5,280,647	\$ 4,944,092
Other assets	<u>2,239,248</u>	<u>1,949,636</u>
Total Assets	<u>7,519,895</u>	<u>6,893,728</u>
Deferred Outflows of Resources	<u>19,591</u>	<u>59,001</u>
Long-term and Other Liabilities:		
Long-term obligations	1,300,999	958,595
Other liabilities	<u>117,147</u>	<u>109,126</u>
Total Liabilities	<u>1,418,146</u>	<u>1,067,721</u>
Deferred Inflows of Resources	<u>3,159</u>	<u>4,511</u>
Net Position:		
Net investment in capital assets	3,989,005	4,118,997
Unrestricted	<u>2,129,176</u>	<u>1,761,500</u>
Total Net Position	<u>\$ 6,118,181</u>	<u>\$ 5,880,497</u>

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

Changes in net position for the business-type activities for the year ending December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Program revenues:		
Charges for services	\$ 1,910,273	\$ 2,035,259
Total program revenues	<u>1,910,273</u>	<u>2,035,259</u>
General revenues:		
Interest and investment earnings	601	439
Gain on sale of capital assets	<u>17,102</u>	<u>          </u>
Total general revenues and gain on sale of capital assets	<u>17,703</u>	<u>439</u>
Total revenues	<u>1,927,976</u>	<u>2,035,698</u>
Program expenses:		
Water distribution and treatment	715,111	739,347
Sanitation	<u>975,181</u>	<u>1,087,898</u>
Total expenses	<u>1,690,292</u>	<u>1,827,245</u>
Change in net position	237,684	208,453
Net position - beginning of year	<u>5,880,497</u>	<u>5,672,044</u>
Net position - ending of year	<u>\$ 6,118,181</u>	<u>\$ 5,880,497</u>

The main funding source for business-type activities is the charges for services. Net position increased by \$237,684 in 2016 due to revenues exceeding expenses in the water and sewer funds.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ending December 31, 2017

**Financial Analysis of the Town's Funds**

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

**Governmental Funds**

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

**General Fund**

The General Fund is the main operating fund of the Town. At the end of the current fiscal year, the General Fund had a total fund balance of \$7,063,704. The fund balance components at year end are detailed on page 34 of the Notes to the Basic Financial Statements.

The General Fund balance increased by \$869,124 from December 31, 2016.

**TIF District Fund**

The TIF District Fund accounts for the financial transactions related to improvements to the Soucook River Tax Increment Financing District. Total proceeds from the issuance of tax increment financing bonds and the bond premium of \$3,500,000 were used to pay off the bond anticipation notes borrowed in the prior year. The restricted fund balance as of December 31, 2017 is \$2,048,646.

**Other Governmental Funds**

The total fund balance of \$1,065,906 in the other governmental funds is designated for the purposes of the individually established fund. The largest portion of this total represents the balance in the Ambulance Fund (\$664,472 or 62.3%) and the Conservation Commission Fund (\$247,738 or 23.2%). Fund balance of the other governmental funds decreased by \$3,405 from December 31, 2016.

**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 \$2,129,176 at December 31, 2017, which is an increase of \$367,676 (or 20.87%) from December 31, 2016. The net investment in capital assets decreased by \$129,992 (or 3.16%) from December 31, 2016.

**TOWN OF PEMBROKE, NEW HAMPSHIRE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ending December 31, 2017**

**Capital Assets and Long-Term Obligations**

**Capital Assets**

The Town considers a capital asset to be an asset whose costs exceeds \$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.

The Town's investment in capital assets for its governmental activities and business-type activities as of December 31, 2017 amounts to \$15,221,282 and \$5,280,647, respectively. This investment in capital assets includes infrastructure, buildings and improvements, vehicles and equipment. See Note 6 in the Notes to the Basic Financial Statements for a summary of all capital assets.

**Long-Term Obligations**

During 2017, the Town had a reduction in general obligation bonds in governmental activities of \$395,732 from payments made during the year and amortization of the bond premium. In addition, the bond anticipation note of \$3,500,000 was paid off from the proceeds of tax increment financing bonds and a bond premium.

The balance of the notes payable in the business-type activities decreased by \$79,422 during 2017 from payments made during the year. Other long-term obligations of \$778,465 at year end represents funds drawn down from a State Revolving Loan program to finance the replacement of the Bow Lane pumping station. Subsequent to year end, the remaining funds were drawn down and a debt repayment schedule was finalized.

The Town also reports a net pension liability. This unfunded liability as of December 31, 2017 is \$3,939,762.

See Notes 8, 9, 10 and 11 in the Notes to the Basic Financial Statements for a summary of all outstanding long-term obligations.

**General Fund Budgetary Highlights**

Budgetary information for the General Fund (a major governmental fund) is included in the Required Supplementary Information section.

During the year, the original estimated revenues increased by \$102,528, which represents grants accepted in accordance with the provisions of RSA 31:95b of \$141,063 less estimated revenue of \$38,535 carried forward to 2018. Also, the original budgeted appropriations decreased by \$97,418. This decrease is the net result of the unanticipated income of \$141,063 accepted under RSA 31:95b less approved appropriations of \$238,481 carried forward to 2018.

Actual revenues and transfers in on the budgetary basis exceeded the budgeted amount by \$474,404. This is primarily due to receiving additional revenues of \$275,703 from licenses and permits and \$113,065 from charges for services.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ending December 31, 2017

The Town underexpended its budget by \$451,731 or 6.6% of the total appropriations. Significant savings were within general government (\$166,755), public safety (\$91,189) and highways and streets (\$114,761).

**Economic Conditions**

The Town of Pembroke is a small bedroom community which abuts the communities of Concord, Allenstown, Epsom and Chichester. A large number of residents still exist from the days of the woven and textile mills, while most others commute to the City for employment. Pembroke is also the home of Associated Grocers of New England, which is the largest taxpayer employing well over 300 people from all of the surrounding areas. In 2017, the Town after a successful vote of the residents, finalized upgrading the infrastructure in their Tax Increment Financing District with the hope to increase its tax base by attracting more commercial business to help maintain and stabilize the tax rate.

Each year the Town updates and reviews its Capital Improvement program. By updating and monitoring future capital expenditures, the Town has been able to stabilize the tax rate and at the same time complete some large scale road projects. Throughout the year, the Town is always looking at ways to streamline operations to be more efficient with an eye towards savings.

**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, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 17,453,965	\$ 742,173	\$ 18,196,138
Investments	77,826	30,223	108,049
Taxes receivable, net	782,609		782,609
Accounts receivable, net	139,787	506,197	645,984
Due from other governments	6,000		6,000
Prepaid expenses	261		261
Inventory		24,963	24,963
Internal balance	(935,692)	935,692	
Total Current Assets	<u>17,524,756</u>	<u>2,239,248</u>	<u>19,764,004</u>
Noncurrent Assets:			
Non-depreciable capital assets	6,302,305	865,493	7,167,798
Depreciable capital assets, net	8,918,977	4,415,154	13,334,131
Total Noncurrent Assets	<u>15,221,282</u>	<u>5,280,647</u>	<u>20,501,929</u>
Total Assets	<u>32,746,038</u>	<u>7,519,895</u>	<u>40,265,933</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources attributable to net pension liability	735,287	19,591	754,878
Total Deferred Outflows of Resources	<u>735,287</u>	<u>19,591</u>	<u>754,878</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	572,815	14,286	587,101
Retainage payable	4,000	12,673	16,673
Accrued expenses	268,679	7,638	276,317
Due to other governments	6,134,663		6,134,663
Deposits payable	1,536		1,536
Current portion of bonds payable	370,000		370,000
Current portion of tax increment financing bonds payable	201,000		201,000
Current portion of notes payable		82,550	82,550
Current portion of estimated liability for landfill post-closure care costs	7,000		7,000
Total Current Liabilities	<u>7,559,693</u>	<u>117,147</u>	<u>7,676,840</u>
Noncurrent Liabilities:			
Bonds payable	505,180		505,180
Tax increment financing bonds payable	3,299,000		3,299,000
Notes payable		417,954	417,954
Other long-term obligations		778,465	778,465
Compensated absences payable	40,227		40,227
Other post-employment benefits obligation	76,352	2,314	78,666
Estimated liability for landfill post-closure care costs	168,000		168,000
Net pension liability	3,837,496	102,266	3,939,762
Total Noncurrent Liabilities	<u>7,926,255</u>	<u>1,300,999</u>	<u>9,227,254</u>
Total Liabilities	<u>15,485,948</u>	<u>1,418,146</u>	<u>16,904,094</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes collected in advance	23,720		23,720
Deferred inflows of resources attributable to net pension liability	118,550	3,159	121,709
Total Deferred Inflows of Resources	<u>142,270</u>	<u>3,159</u>	<u>145,429</u>
<b>NET POSITION</b>			
Net investment in capital assets	12,894,748	3,989,005	16,883,753
Restricted	262,423		262,423
Unrestricted	4,695,936	2,129,176	6,825,112
Total Net Position	<u>\$ 17,853,107</u>	<u>\$ 6,118,181</u>	<u>\$ 23,971,288</u>

See accompanying notes to the basic financial statements

EXHIBIT B  
TOWN OF PEMBROKE, NEW HAMPSHIRE  
Statement of Activities  
For the Year Ended December 31, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental Activities:						
General government	\$ 1,307,693	\$ 31,071			\$ (1,276,622)	\$ (1,276,622)
Public safety	2,816,464	583,709	\$ 196,205	\$ 17,817	(2,018,733)	(2,018,733)
Highways and streets	1,539,863	2,093	306,462		(1,231,308)	(1,231,308)
Sanitation	225,065	166,199	4,000		(54,866)	(54,866)
Health and welfare	66,355	1,725			(64,630)	(64,630)
Culture and recreation	315,329	48,196			(267,133)	(267,133)
Interest and fiscal charges	114,326				(114,326)	(114,326)
Total governmental activities	6,385,095	832,993	506,667	17,817	(5,027,618)	(5,027,618)
Business-type activities:						
Water Department	715,111	834,488				119,377
Sewer Department	975,181	1,075,785				100,604
Total business-type activities	1,690,292	1,910,273	-	-		219,981
Total primary government	\$ 8,075,387	\$ 2,743,266	\$ 506,667	\$ 17,817	(5,027,618)	(4,807,637)
General revenues:						
Property and other taxes					4,524,068	4,524,068
Licenses and permits					1,578,436	1,578,436
Grants and contributions:						
Rooms and meals tax distribution					364,542	364,542
Interest and investment earnings					34,136	34,737
Miscellaneous					34,659	34,659
Gain on sale of capital assets					20,500	37,602
Total general revenues and gain on sale of capital assets					6,556,341	6,574,044
Change in net position					1,528,723	1,766,407
Net position - beginning					16,324,384	22,204,881
Net position - ending					\$ 17,853,107	\$ 23,971,288

See accompanying notes to the basic financial statements

EXHIBIT C  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Balance Sheet**  
**Governmental Funds**  
December 31, 2017

	General Fund	TIF District Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 14,915,844	\$ 2,503,406	\$ 34,715	\$ 17,453,965
Investments			77,826	77,826
Taxes receivable, net	778,809		3,800	782,609
Accounts receivable, net	6,245		133,542	139,787
Due from other governments			6,000	6,000
Due from other funds		44,092	849,925	894,017
Prepaid expenses	261			261
Total Assets	<u>15,701,159</u>	<u>2,547,498</u>	<u>1,105,808</u>	<u>19,354,465</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 15,701,159</u>	<u>\$ 2,547,498</u>	<u>\$ 1,105,808</u>	<u>\$ 19,354,465</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 66,254	\$ 494,852	\$ 11,709	\$ 572,815
Retainage payable		4,000		4,000
Accrued expenses	155,440		28,193	183,633
Due to other governments	6,134,663			6,134,663
Deposits payable	1,536			1,536
Due to other funds	1,829,709			1,829,709
Total Liabilities	<u>8,187,602</u>	<u>498,852</u>	<u>39,902</u>	<u>8,726,356</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Uncollected property taxes	426,133			426,133
Property taxes collected in advance	23,720			23,720
Total Deferred Inflows of Resources	<u>449,853</u>	<u>-</u>	<u>-</u>	<u>449,853</u>
<b>FUND BALANCES</b>				
Nonspendable	261		44,201	44,462
Restricted	164,233	2,048,646	53,989	2,266,868
Committed	1,987,895		943,749	2,931,644
Assigned	268,047		23,967	292,014
Unassigned	4,643,268			4,643,268
Total Fund Balances	<u>7,063,704</u>	<u>2,048,646</u>	<u>1,065,906</u>	<u>10,178,256</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 15,701,159</u>	<u>\$ 2,547,498</u>	<u>\$ 1,105,808</u>	<u>\$ 19,354,465</u>

See accompanying notes to the basic financial statements

EXHIBIT C-1  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
December 31, 2017

Total Fund Balances - Governmental Funds (Exhibit C)	\$ 10,178,256
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.	15,221,282
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis	426,133
Deferred outflows of resources and deferred inflows of resources that do not require or provide the use of current financial resources are not reported within the funds:	
Deferred outflows of resources attributable to net pension liability	735,287
Deferred inflows of resources attributable to net pension liability	(118,550)
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	(875,180)
Tax increment financing bonds payable	(3,500,000)
Accrued interest on long-term obligations	(85,046)
Compensated absences payable	(40,227)
Other post-employment benefits obligation	(76,352)
Estimated liability for landfill post-closure care costs	(175,000)
Net pension liability	<u>(3,837,496)</u>
Net Position of Governmental Activities (Exhibit A)	<u>\$ 17,853,107</u>

*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, 2017

	General Fund	TIF District Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 4,124,656	\$ 379,387	\$ 13,500	\$ 4,517,543
Licenses and permits	1,578,436			1,578,436
Intergovernmental	696,427		192,599	889,026
Charges for services	257,367		552,836	810,203
Interest and investment income	27,563	3,406	3,167	34,136
Miscellaneous	35,159		22,790	57,949
Total Revenues	<u>6,719,608</u>	<u>382,793</u>	<u>784,892</u>	<u>7,887,293</u>
<b>Expenditures:</b>				
<b>Current operations:</b>				
General government	1,211,088			1,211,088
Public safety	1,778,340		928,949	2,707,289
Highways and streets	1,096,692			1,096,692
Sanitation	232,065			232,065
Health and welfare	62,986		3,500	66,486
Culture and recreation	266,884		44,875	311,759
Capital outlay	580,017	1,593,423	1,275	2,174,715
<b>Debt service:</b>				
Principal retirement	380,000	3,500,000		3,880,000
Interest and fiscal charges	52,110	29,050		81,160
Total Expenditures	<u>5,660,182</u>	<u>5,122,473</u>	<u>978,599</u>	<u>11,761,254</u>
Excess of revenues over (under) expenditures	<u>1,059,426</u>	<u>(4,739,680)</u>	<u>(193,707)</u>	<u>(3,873,961)</u>
<b>Other financing sources (uses):</b>				
Proceeds from bond issuance		3,001,000		3,001,000
Bond premium		499,000		499,000
Transfers in	36,330		226,632	262,962
Transfers out	(226,632)		(36,330)	(262,962)
Total other financing sources (uses)	<u>(190,302)</u>	<u>3,500,000</u>	<u>190,302</u>	<u>3,500,000</u>
Net change in fund balances	869,124	(1,239,680)	(3,405)	(373,961)
Fund balances at beginning of year	<u>6,194,580</u>	<u>3,288,326</u>	<u>1,069,311</u>	<u>10,552,217</u>
Fund balances at end of year	<u>\$ 7,063,704</u>	<u>\$ 2,048,646</u>	<u>\$ 1,065,906</u>	<u>\$ 10,178,256</u>

See accompanying notes to the basic financial statements

EXHIBIT D-1  
**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, 2017**

Net Change in Fund Balances--Total Governmental Funds \$ (373,961)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. 1,747,257

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 gain of disposed capital assets reduced by the actual proceeds received from the disposal. 20,000

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenue sources are from property taxes. 6,525

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Repayments in the current year are as follows:

Bond principal paid 380,000  
Bond anticipation note principal paid 3,500,000

Proceeds from bond issuances are an other financing source in the funds, but increases long-term liabilities in the statement of net position. (3,001,000)

Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are amortized in the statement of activities over the life of the related debt. The current year activity is as follows:

Proceeds of bond issuance premium (499,000)  
Amortization of bond issuance premium 15,732

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (48,898)

Governmental funds report pension contributions as expenditures. However, in the statement of activities, pension expense reflects the changes in the net pension liability and related deferred outflows and inflows of resources, and does not require the use of current financial resources. This is the amount by which pension expense exceeded pension contributions in the current period. (223,242)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These expenses are from the following activities:

Compensated absences (3,815)  
Other post-employment benefits 2,125  
Estimated liability for landfill post-closure care costs 7,000

Change in Net Position of Governmental Activities (Exhibit B) \$ 1,528,723

*See accompanying notes to the basic financial statements*

EXHIBIT E  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Statement of Net Position**  
**Proprietary Funds**  
December 31, 2017

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 54,628	\$ 687,545	\$ 742,173
Investments	30,223		30,223
Accounts receivable, net	188,203	317,994	506,197
Due from other funds	422,114	513,578	935,692
Inventory	24,963		24,963
Total Current Assets	<u>720,131</u>	<u>1,519,117</u>	<u>2,239,248</u>
Noncurrent Assets:			
Non-depreciable capital assets	31,935	833,558	865,493
Depreciable capital assets, net	<u>3,202,458</u>	<u>1,212,696</u>	<u>4,415,154</u>
Total Noncurrent Assets	<u>3,234,393</u>	<u>2,046,254</u>	<u>5,280,647</u>
Total Assets	<u>3,954,524</u>	<u>3,565,371</u>	<u>7,519,895</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources attributable to net pension liability		19,591	19,591
Total Deferred Outflows of Resources	<u>-</u>	<u>19,591</u>	<u>19,591</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	4,466	9,820	14,286
Retainage payable		12,673	12,673
Accrued expenses	1,206	6,432	7,638
Current portion of note payable	<u>82,550</u>		<u>82,550</u>
Total Current Liabilities	<u>88,222</u>	<u>28,925</u>	<u>117,147</u>
Noncurrent Liabilities:			
Note payable	417,954		417,954
Other long-term obligations		778,465	778,465
Other post-employment benefits obligation		2,314	2,314
Net pension liability		<u>102,266</u>	<u>102,266</u>
Total Noncurrent Liabilities	<u>417,954</u>	<u>883,045</u>	<u>1,300,999</u>
Total Liabilities	<u>506,176</u>	<u>911,970</u>	<u>1,418,146</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources attributable to net pension liability		3,159	3,159
Total Deferred Inflows of Resources	<u>-</u>	<u>3,159</u>	<u>3,159</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,733,889	1,255,116	3,989,005
Unrestricted	<u>714,459</u>	<u>1,414,717</u>	<u>2,129,176</u>
Total Net Position	<u>\$ 3,448,348</u>	<u>\$ 2,669,833</u>	<u>\$ 6,118,181</u>

See accompanying notes to the basic financial statements

EXHIBIT F  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
For the Year Ended December 31, 2017

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Operating revenues:			
Charges for services, net	\$ 832,031	\$ 1,072,920	\$ 1,904,951
Miscellaneous revenues	2,457	2,865	5,322
Total operating revenues	<u>834,488</u>	<u>1,075,785</u>	<u>1,910,273</u>
Operating expenses:			
Personnel services	289,060	39,366	328,426
Contractual services	41,666	667,156	708,822
Materials and supplies	88,087	2,812	90,899
Maintenance and repairs	8,350	91,069	99,419
Utilities	74,550	18,525	93,075
Depreciation	155,567	130,485	286,052
Miscellaneous expenses	37,497	19,859	57,356
Total operating expenses	<u>694,777</u>	<u>969,272</u>	<u>1,664,049</u>
Operating income	<u>139,711</u>	<u>106,513</u>	<u>246,224</u>
Non-operating revenues (expenses):			
Gain (loss) on disposal of assets	17,102	(5,909)	11,193
Interest revenue	230	371	601
Interest expense	(20,334)		(20,334)
Net non-operating revenues (expenses)	<u>(3,002)</u>	<u>(5,538)</u>	<u>(8,540)</u>
Change in net position	136,709	100,975	237,684
Total net position at beginning of year	<u>3,311,639</u>	<u>2,568,858</u>	<u>5,880,497</u>
Total net position at end of year	<u>\$ 3,448,348</u>	<u>\$ 2,669,833</u>	<u>\$ 6,118,181</u>

*See accompanying notes to the basic financial statements*

EXHIBIT G  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Statement of Cash Flows**  
**Proprietary Funds**  
For the Year Ended December 31, 2017

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 844,556	\$ 1,077,026	\$ 1,921,582
Cash paid to suppliers	(319,277)	(834,673)	(1,153,950)
Cash paid to employees	(220,818)	(87,725)	(308,543)
Net cash provided by operating activities	<u>304,461</u>	<u>154,628</u>	<u>459,089</u>
Cash flows from capital and related financing activities:			
Proceeds from sale of capital assets	23,000	10,380	33,380
Purchases of capital assets	(195,084)	(452,272)	(647,356)
Proceeds of other long-term obligations		554,963	554,963
Principal paid on long-term debt	(79,422)		(79,422)
Interest paid on long-term debt	(20,334)		(20,334)
Net cash provided (used) for capital and related financing activities	<u>(271,840)</u>	<u>113,071</u>	<u>(158,769)</u>
Cash flows from investing activities:			
Purchase of investments	(196)		(196)
Interest on investments	230	371	601
Net cash provided by investing activities	<u>34</u>	<u>371</u>	<u>405</u>
Net increase in cash and cash equivalents	32,655	268,070	300,725
Cash and cash equivalents at beginning of year	444,087	933,053	1,377,140
Cash and cash equivalents at end of year	<u>\$ 476,742</u>	<u>\$ 1,201,123</u>	<u>\$ 1,677,865</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 139,711	\$ 106,513	\$ 246,224
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	155,567	130,485	286,052
Change in deferred outflows related to pension		39,410	39,410
Change in deferred inflows related to pension		(1,352)	(1,352)
Changes in assets and liabilities:			
Accounts receivable	10,068	1,241	11,309
Accounts payable	(422)	8,393	7,971
Accrued expenses	(463)		(463)
Other post-employment benefits obligation		(489)	(489)
Net pension liability		(129,573)	(129,573)
Net cash provided by operating activities	<u>\$ 304,461</u>	<u>\$ 154,628</u>	<u>\$ 459,089</u>
Non-cash transactions affecting financial position:			
Capital asset additions included in year end liabilities		\$ 12,673	\$ 12,673
Capitalized interest during construction		6,432	6,432
	<u>\$ -</u>	<u>\$ 19,105</u>	<u>\$ 19,105</u>

*See accompanying notes to the basic financial statements*

EXHIBIT H  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
December 31, 2017

	Agency Funds
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,051,343
Investments	<u>988,126</u>
Total Assets	<u>\$ 2,039,469</u>
<b>LIABILITIES</b>	
Deposits	\$ 35,769
Due to other governments	<u>2,003,700</u>
Total Liabilities	<u>\$ 2,039,469</u>

*See accompanying notes to the basic financial statements*

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Financial Reporting Entity***

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

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

***Basis of Presentation***

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

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

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

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

**2. Fund Financial Statements:**

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

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 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 funds:

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

The *TIF District Fund* accounts for the financial transactions related to improvements to the Soucook River Tax Increment Financing District.

**2. Proprietary Funds:**

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

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

**3. Fiduciary Funds:**

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

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

***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 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 12). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

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, charges for services and interest on investments.

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

Grants and entitlements received before the eligibility requirements are met are recorded as advances from grantors. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources.

**2. 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, 2017, the Town applied \$450,000 of its unassigned fund balance to reduce taxes.

***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.

***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

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

***Capital Assets***

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

All capital assets including infrastructure and intangible assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated acquisition 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:

<u>Description</u>	<u>Years</u>
Intangible assets	10
Infrastructure	40
Buildings and improvements	40
Vehicles and equipment	5-30

***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. Upon voluntary termination or retirement, an employee will be compensated for a maximum of 40 unused sick leave hours at the current rate of pay. No payment for unused sick leave is made upon involuntary termination. Town employees earn vacation at 80-200 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.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

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.

***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.

***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.

***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Hampshire Retirement System (NHRS) and additions to/deductions from NHRS's fiduciary net position have been determined on the same basis as they are reported by NHRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

***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 position are available.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

***Fund Balance Policy***

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

- *Nonspendable Fund Balance*: Amounts that are not in a spendable form (such as inventory or prepaid expenses) or are required to be maintained intact (such as principal of an endowment fund).
- *Restricted Fund Balance*: Amounts that can only be spent for specific purposes, such as grant, library, income balance of permanent funds, and capital project funds that cannot change purpose. Restrictions may be changed or lifted only upon the consent of the external resource provider or enabling legislation.
- *Committed Fund Balance*: Amounts that can only be used for specific purposes pursuant to a formal vote at Town Meetings; such as expendable trust funds, non-lapsing 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 General Fund operating expenditures. This is calculated by adding the municipality's General Fund operating appropriations, the state education tax amount, the local school net tax commitment, and the county appropriation.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

***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.

**NOTE 2—DEPOSITS AND INVESTMENTS**

Deposits and investments as of December 31, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 18,196,138
Investments	108,049
Statement of Fiduciary Net Position:	
Cash and cash equivalents	1,051,343
Investments	988,126
Total deposits and investments	<u>\$ 20,343,656</u>

Deposits and investments as of December 31, 2017 consist of the following:

Cash on hand	\$ 1,198
Deposits with financial institutions	19,276,506
Investments	1,065,952
Total deposits and investments	<u>\$ 20,343,656</u>

The Town limits its investments to United States Treasury securities maturing in less than one year, fully insured or collateralized certificates of deposits in either local or national banks and overnight repurchase agreements in accordance with New Hampshire State law (RSA 41:29) or the New Hampshire Public

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
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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 un-expendable portion of trust funds in high grade equity investments, common stock, and mutual funds. The following is the actual rating at year end for each investment type:

<u>Investment Type</u>	<u>Not rated</u>
Open end mutual funds	\$ 77,456
Closed end mutual funds	8,721
Money market mutual funds	66,108
	<u>\$ 152,285</u>

***Custodial Credit Risk***

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

The Town's policy for its governmental and proprietary funds addresses custodial credit risk by stating that all deposits are to be fully collateralized. The investment policy of the Trustees of Trust Funds 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, \$17,873,540 was collateralized by securities held by the bank in the bank's name, and \$30,835 was uninsured and uncollateralized.

As of December 31, 2017, Town investments in the following investment types were held by the same counterparty that was used to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Equity securities	\$ 913,667
Closed end mutual funds	8,721
	<u>\$ 922,388</u>

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

***Fair Value***

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following recurring fair value measurements as of December 31, 2017:

<u>Description</u>	<u>Fair Value Measurements Using:</u>		
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:			
Equity securities	\$ 913,667	\$ 913,667	
Closed end mutual funds	8,721	8,721	
	<u>\$ 922,388</u>	<u>\$ 922,388</u>	<u>\$ -</u>

**NOTE 3—CASH AND CASH EQUIVALENTS**

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

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
Cash and cash equivalents	\$ 54,628	\$ 687,545	\$ 742,173
Due from other funds	422,114	513,578	935,692
Total cash and cash equivalents	<u>\$ 476,742</u>	<u>\$ 1,201,123</u>	<u>\$ 1,677,865</u>

**NOTE 4—TAXES RECEIVABLE**

Taxes levied during the current year and prior and uncollected at December 31, 2017 are recorded as receivables net of reserves for estimated uncollectibles of \$87,000.

**NOTE 5—ACCOUNTS RECEIVABLE**

Accounts receivable are recorded net of reserves for estimated uncollectibles of \$416,848 in the ambulance fund (a nonmajor governmental fund) and \$36,516 in the sewer fund.

**NOTE 6—CAPITAL ASSETS**

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

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

	<u>Balance</u> <u>01/01/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/17</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 2,602,925			\$ 2,602,925
Easements	608,579			608,579
Construction in progress	2,920,560	\$ 1,667,992	\$ (1,497,751)	3,090,801
Total capital assets not being depreciated	<u>6,132,064</u>	<u>1,667,992</u>	<u>(1,497,751)</u>	<u>6,302,305</u>
Other capital assets:				
Intangible assets	60,960			60,960
Infrastructure	4,843,835	1,360,820		6,204,655
Buildings and improvements	3,884,886			3,884,886
Vehicles and equipment	6,113,358	719,348	(153,055)	6,679,651
Total other capital assets at historical cost	<u>14,903,039</u>	<u>2,080,168</u>	<u>(153,055)</u>	<u>16,830,152</u>
Less accumulated depreciation for:				
Intangible assets	(24,384)	(6,096)		(30,480)
Infrastructure	(838,196)	(155,116)		(993,312)
Buildings and improvements	(2,925,760)	(46,030)		(2,971,790)
Vehicles and equipment	(3,792,738)	(275,910)	153,055	(3,915,593)
Total accumulated depreciation	<u>(7,581,078)</u>	<u>(483,152)</u>	<u>153,055</u>	<u>(7,911,175)</u>
Total other capital assets, net	<u>7,321,961</u>	<u>1,597,016</u>	<u>-</u>	<u>8,918,977</u>
Total capital assets, net	<u>\$ 13,454,025</u>	<u>\$ 3,265,008</u>	<u>\$ (1,497,751)</u>	<u>\$ 15,221,282</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 44,407
Public safety	131,016
Highways and streets	306,514
Culture and recreation	1,215
Total governmental activities depreciation expense	<u>\$ 483,152</u>

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

	<u>Balance</u> <u>01/01/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/17</u>
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 72,831			\$ 72,831
Construction in progress	342,952	\$ 449,710		792,662
Total capital assets not being depreciated	<u>415,783</u>	<u>449,710</u>	<u>\$ -</u>	<u>865,493</u>
Other capital assets:				
Intangible assets	41,900			41,900
Building and improvements	272,333			272,333
Water infrastructure	2,907,639	87,235	(129,406)	2,865,468
Sewer infrastructure	3,417,224			3,417,224
Machinery, vehicles, and equipment	3,323,459	107,849	(191,237)	3,240,071
Other	29,865			29,865
Total other capital assets at historical cost	<u>9,992,420</u>	<u>195,084</u>	<u>(320,643)</u>	<u>9,866,861</u>

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

	<u>Balance</u> <u>01/01/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/17</u>
Less accumulated depreciation for:				
Intangible assets	(14,180)	(4,190)		(18,370)
Building and improvements	(220,217)	(5,790)		(226,007)
Water infrastructure	(1,061,281)	(65,334)	123,508	(1,003,107)
Sewer infrastructure	(2,183,947)	(113,908)		(2,297,855)
Machinery, vehicles, and equipment	(1,954,621)	(96,830)	174,948	(1,876,503)
Other	(29,865)			(29,865)
Total accumulated depreciation	<u>(5,464,111)</u>	<u>(286,052)</u>	<u>298,456</u>	<u>(5,451,707)</u>
Total other capital assets, net	<u>4,528,309</u>	<u>(90,968)</u>	<u>(22,187)</u>	<u>4,415,154</u>
Total capital assets, net	<u>\$ 4,944,092</u>	<u>\$ 358,742</u>	<u>\$ (22,187)</u>	<u>\$ 5,280,647</u>

Depreciation expense was charged to the proprietary funds as follows:

Water Fund	\$ 155,567
Sewer Fund	130,485
Total business-type activities depreciation expense	<u>\$ 286,052</u>

**NOTE 7—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, 2017 are as follows:

	<u>General</u> <u>Fund</u>	<u>Due from</u> <u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Totals</u>
General Fund		\$ 1,829,709	\$ 1,829,709
TIF District Fund	\$ 44,092		44,092
Nonmajor Governmental Funds	849,925		849,925
Water Fund	422,114		422,114
Sewer Fund	513,578		513,578
	<u>\$ 1,829,709</u>	<u>\$ 1,829,709</u>	<u>\$ 3,659,418</u>

During the year, several interfund transactions occurred between funds. The transfer out of the General Fund was made in accordance with budgetary authorizations. During the year ended December 31, 2017, the Road Improvements Capital Projects Fund (a nonmajor governmental fund) was closed and the unexpended balance of \$36,330 was transferred to the General Fund. Transfers during the year ended December 31, 2017 are as follows:

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

	General Fund	Transfer from Nonmajor Governmental Funds		Totals
General Fund		\$ 36,330		\$ 36,330
Nonmajor Governmental Funds	\$ 226,632			226,632
	<u>\$ 226,632</u>	<u>\$ 36,330</u>		<u>\$ 262,962</u>

**NOTE 8—LONG-TERM OBLIGATIONS**

***Changes in Long-Term Obligations***

The changes in the Town's long-term obligations for the year ended December 31, 2017 are as follows:

	Balance 01/01/17	Additions	Reductions	Balance 12/31/17	Due Within One Year
<i>Governmental activities:</i>					
Bonds payable	\$ 1,250,000		\$ (380,000)	\$ 870,000	\$ 370,000
Unamortized bond premium	20,912		(15,732)	5,180	
Total bonds payable	<u>1,270,912</u>	<u>\$ -</u>	<u>(395,732)</u>	<u>875,180</u>	<u>370,000</u>
Tax increment financing bonds payable		3,001,000		3,001,000	201,000
Unamortized bond premium		499,000		499,000	
Total tax increment financing bonds payable	<u>-</u>	<u>3,500,000</u>	<u>-</u>	<u>3,500,000</u>	<u>201,000</u>
Bond anticipation notes payable	3,500,000		(3,500,000)	-	
Compensated absences payable	36,412	7,732	(3,917)	40,227	
Total governmental activities	<u>\$ 4,807,324</u>	<u>\$ 3,507,732</u>	<u>\$ (3,899,649)</u>	<u>\$ 4,415,407</u>	<u>\$ 571,000</u>
<i>Business-type activities:</i>					
Notes payable	\$ 579,926		\$ (79,422)	\$ 500,504	\$ 82,550
Other long-term obligations	223,502	\$ 554,963		778,465	
Total business-type activities	<u>\$ 803,428</u>	<u>\$ 554,963</u>	<u>\$ (79,422)</u>	<u>\$ 1,278,969</u>	<u>\$ 82,550</u>

Payments on the general obligation bonds and bond anticipation notes of the governmental activities are paid out of the General Fund and the TIF District Fund, respectively. Payments on the notes payable of the business-type activities are paid out of the Water Fund. Compensated absences payable will be paid from the fund where the employee's salary is paid.

**Governmental Activities**

***Bonds payable***

Bonds payable at December 31, 2017 are comprised of the following individual issues:

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

\$2,560,000, 2003 Safety complex and refunding, due in annual installments of \$100,000 through July 2023; interest at 3.25-4.6%	\$ 600,000
\$832,000, 2014 Roadway Improvement bonds, due in varying annual installments of \$270,000 - \$282,000 through February 2018; interest at 5.10%	<u>270,000</u>
	870,000
Add: Unamortized bond premium	<u>5,180</u>
	<u>\$ 875,180</u>

Debt service requirements to retire general obligation bonds outstanding for governmental activities at December 31, 2017 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 370,000	\$ 33,835	\$ 403,835
2019	100,000	22,600	122,600
2020	100,000	18,150	118,150
2021	100,000	13,650	113,650
2022	100,000	9,150	109,150
2023	<u>100,000</u>	<u>4,600</u>	<u>104,600</u>
Total	870,000	101,985	971,985
Add: <i>Bond Premium</i>	<u>5,180</u>		<u>5,180</u>
	<u>\$ 875,180</u>	<u>\$ 101,985</u>	<u>\$ 977,165</u>

***Tax increment financing bonds payable***

The Town has pledged a portion of future tax increment financing revenues to repay \$3,001,000 in tax increment bonds issued in July 2017 to finance the construction of Loop Road. The bonds are payable solely from the tax increment financing taxes. Incremental taxes were projected to produce in excess of 100% of the debt service requirements over the life of the bonds. For the current year, principal and interest paid and total tax increment finance revenues were \$29,050 and \$379,387, respectively.

Tax increment financing bonds payable at December 31, 2017 is comprised of the following individual issue:

\$3,001,000, 2017 Tax increment financing bonds, due in an annual installment of \$201,000 in August 2018 and annual installments of \$200,000 thereafter until August 2032; interest at 4.10-5.10%	\$ 3,001,000
Add: Unamortized bond premium	<u>499,000</u>
	<u>\$ 3,500,000</u>

Debt service requirements to retire tax increment financing bonds outstanding for governmental activities at December 31, 2017 are as follows:

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 201,000	\$ 157,944	\$ 358,944
2019	200,000	134,800	334,800
2020	200,000	124,600	324,600
2021	200,000	114,400	314,400
2022	200,000	104,200	304,200
2023-2027	1,000,000	368,000	1,368,000
2028-2032	1,000,000	125,000	1,125,000
Total	3,001,000	1,128,944	4,129,944
Add: <i>Bond Premium</i>	499,000		499,000
	<u>\$ 3,500,000</u>	<u>\$ 1,128,944</u>	<u>\$ 4,628,944</u>

**Business-type Activities**

***Notes payable***

The notes payable at December 31, 2017 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	\$ 170,625
\$250,000, 2015 Water line construction note, due in monthly installments of \$2,449, including interest at 3.30%, through May 2025	193,143
\$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	136,736
	<u>\$ 500,504</u>

Debt service requirements to retire the notes payable for business-type activities at December 31, 2017 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 82,550	\$ 17,206	\$ 99,756
2019	201,218	10,411	211,629
2020	77,777	6,281	84,058
2021	44,078	3,736	47,814
2022	26,657	2,728	29,385
2023-2025	68,224	2,822	71,046
	<u>\$ 500,504</u>	<u>\$ 43,184</u>	<u>\$ 543,688</u>

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

***Other Long-Term Obligations***

The Town has drawn \$778,465 of approximately \$800,000 in funds under the State of New Hampshire Water Pollution Control Revolving Loan Fund Program for the Bow Lane Pump Station Upgrade and Asset Management Plan. The Town shall be provided financial assistance, contingent upon the availability of funds, whereby up to 5% of the total disbursements for wastewater related portions, not to exceed \$40,000, will be forgiven upon the initial repayment of the loan. An additional \$30,000 in principal forgiveness, contingent upon the availability of funds, will be applied to the loan upon the initial repayment if the Town has in place an asset management plan for the wastewater system that meets the State's guidelines.

Payments are not scheduled to commence until the first day of the month following the first anniversary of the substantial completion date of the project or the first anniversary of the scheduled completion date of the project, whichever is earlier. The scheduled completion date is August 2, 2018. Interest is accrued at 1% during the construction period of the project and is to be paid upon completion of the construction project within the following year.

***Authorized and Unissued Debt***

As of December 31, 2017, the Town had the following debt authorized and unissued:

<u>Description</u>	<u>Amount</u>
Loop Road construction	\$ 999,000
Roadway improvement and reconstruction	904,000
Bow Lane pumping station	800,000
Water line improvements	50,000
	<u>\$ 2,753,000</u>

**NOTE 9—LANDFILL POST-CLOSURE CARE COSTS**

State and federal laws and regulations require that the Town place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The Town's landfill was closed during 2012. An estimated liability has been recorded based on the future post-closure care costs that will be incurred. The estimated liability for landfill post-closure care costs has a balance of \$175,000 as of December 31, 2017. 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, 2017. However, the actual cost of post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The following is a summary of changes in the estimated liability for post-closure care cost for the year ended December 31, 2017:

Balance - January 1, 2017	\$ 182,000
Change in estimated liability	(5,321)
Expenditures recognized in General Fund	<u>(1,679)</u>
Balance - December 31, 2017	<u>\$ 175,000</u>

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

**NOTE 10—DEFINED BENEFIT PENSION PLAN**

***Plan Description***

The Town contributes to the New Hampshire Retirement System (NHRS), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The New Hampshire Retirement System is a public employee retirement system that administers a cost-sharing multiple-employer defined benefit pension plan. 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, or from their website at [www.nhrs.org](http://www.nhrs.org).

Substantially all full-time state and local employees, public school teachers, permanent firefighters and permanent police officers within the State are eligible and required to participate in the Pension Plan.

The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and are available to pay retirement benefits to all members.

***Benefits Provided***

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is  $1/60$  or  $1.667\%$  of average final compensation (AFC), multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at  $1/66$  or  $1.515\%$  of AFC multiplied by years of creditable service.

Group II members vested by January 1, 2012, who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of  $2.5\%$  of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have not attained status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to  $2\%$  of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the benefit commencement date precedes the month after which the member attains 52.5 years of age by  $\frac{1}{4}$  of  $1\%$ . For Group II members who commenced service prior to July 1, 2011, who have not attained vested status prior to January 1, 2012, benefits are calculated depending on age and years of creditable service as follows:

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

Years of Creditable Service as of <u>January 1, 2012</u>	<u>Minimum Age</u>	<u>Minimum Service</u>	<u>Benefit Multiplier</u>
At least 3 but less than 10 years	46	21	2.4%
At least 6 but less than 8 years	47	22	2.3%
At least 4 but less than 6 years	48	23	2.2%
Less than 4 years	49	24	2.1%

Members may qualify for vested deferred allowances, disability allowances and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

***Funding Policy***

Covered police officers and firefighters are required to contribute 11.55% and 11.80%, respectively 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 pension contribution rates for the covered payroll of police officers, firefighters, and general employees were 22.54%, 25.32%, and 10.86%, respectively through June 30, 2017, and 25.33%, 27.79%, and 11.08%, respectively thereafter. 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 pension contributions to the NHRS were \$316,952 for the year ending December 31, 2017.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At December 31, 2017, the Town reported a liability of \$3,939,762 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by a roll forward of the actuarial valuation from June 30, 2016. The Town's proportion of the net pension liability was based on actual contributions by the Town during the relevant fiscal year relative to the actual contributions of all participating plan members, excluding contributions to separately finance specific liabilities of individual employers or NHRS. At June 30, 2017, the Town's proportion was approximately 0.0801 percent, which was an increase of 0.0021 percentage points from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Town recognized pension expense of \$480,755. At December 31, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,933	\$ 50,142
Net difference between projected and actual earnings on pension plan investments		50,175
Changes of assumptions	395,602	
Changes in proportion and differences between Town contributions and share of contributions	179,701	21,392
Town contributions subsequent to the measurement date	170,642	
Totals	<u>\$ 754,878</u>	<u>\$ 121,709</u>

The net amount of deferred outflows of resources and deferred inflows of resources related to pension is reflected as an increase to unrestricted net position in the amount of \$633,169. The Town reported \$170,642 as deferred outflows of resources related to pension resulting from Town contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the measurement periods as follows:

<u>June 30,</u>	
2018	\$ 135,362
2019	223,509
2020	150,835
2021	(47,179)
	<u>\$ 462,527</u>

***Actuarial Assumptions***

The total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2016, using the following actuarial assumptions:

Inflation	2.5 percent
Wage inflation	3.25 percent
Salary increases	5.6 percent, average, including inflation
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study. Retirement rates were based on a table of rates that are specific to the type of eligibility condition, last updated in 2015 pursuant to an experience study of the period July 1, 2010 – June 30, 2015.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of weighted average long-term expected real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Net of inflation assumption of 3.25%)</u>
Fixed income	25%	(0.25)-2.11%
Domestic equity	30%	4.25-4.50%
International equity	20%	4.75-6.25%
Real estate	10%	3.25%
Private equity	5%	6.25%
Private debt	5%	4.75%
Opportunistic	5%	2.84%
Total	<u>100%</u>	

***Discount Rate***

The discount rate used to measure the collective pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the collective pension liability.

***Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the single discount rate:

	<u>1% Decrease (6.25%)</u>	<u>Discount rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability	\$ 5,190,412	\$ 3,939,742	\$ 2,914,867

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

**NOTE 11—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 hired prior to July 1, 2011 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 requirement to qualify for this benefit. General employees hired after July 1, 2011 must reach age 65 with no service requirement or reach age 60 with 30 years of service to qualify for this benefit. Public safety employees hired prior to July 1, 2011 are required to reach age 45 with 20 years of service or reach age 60 with no service requirement to qualify for this benefit. Public safety employees hired after July 1, 2011 are required to reach age 50 with 25 years of service, reach age 52.5 with 25 years of service, or reach age 60 with no service requirement 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, 2016, the actuarial valuation date, participants of the postretirement plan that meet eligibility requirements are comprised of 4 retirees and 34 active employees with 11 currently eligible to retire. The plan does not issue a separate financial report.

***Annual OPEB Costs***

The Town's fiscal 2017 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, 2017 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, 2016 is as follows:

Annual required contribution	\$ 67,532
Interest on net OPEB obligation	3,251
NOO amortization adjustment to ARC	(3,230)
Annual OPEB cost	67,553
Contributions made	(70,167)
Increase in net OPEB obligation	(2,614)
Net OPEB obligation - beginning of year	81,280
Net OPEB obligation - end of year	\$ 78,666

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, 2017, 2016 and 2015 are as follows:

<u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/2017	\$ 67,553	103.8%	\$ 78,666
12/31/2016	\$ 67,553	95.3%	\$ 81,280
12/31/2015	\$ 64,573	107.3%	\$ 78,100

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

The Town's net OPEB obligation as of December 31, 2017 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, 2016, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 868,754
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 868,754</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 2,040,660
UAAL as a percentage of covered payroll	42.6%

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 RPH-2015 Total Dataset Mortality Table fully generational using Scale MP-2015. The assumption on health care trends was provided by an independent company that assisted the Town in the preparation of the alternative measurement method for GASB 45. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, when available.

***Actuarial Methods and Assumptions for OPEB***

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

In the January 1, 2016 actuarial valuation, the Projected Unit Credit cost method with linear proration to decrement was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an annual healthcare cost trend rate of 9.0% initially, and then reduced by 0.5% decrements to an ultimate rate of 5.0% after 9 years. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level percentage of payroll for a period of thirty years on an open group basis. This has been calculated assuming the amortization payment increases at a rate of 3.0% per year.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

**NOTE 12—PROPERTY TAXES**

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$660,599,483 as of April 1, 2017) and are due in two installments on July 5, 2017 and December 27, 2017. 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 \$13,131,372 and \$1,891,367 for the Pembroke School District and Merrimack County, respectively. These taxes are not recognized as revenues in these financial statements. At December 31, 2017, the balance of the property tax appropriation due to the Pembroke School District is \$6,131,372. The Town bears responsibility for uncollected taxes.

**NOTE 13—RESTRICTED NET POSITION**

Net position is restricted for specific purposes as follows:

	Governmental Activities
Permanent Funds - Principal	\$ 44,201
Permanent Funds - Income	38,307
Tax Increment Financing District	2,048,646
State of NH SB 38 - Highway Block Grant funding	141,063
K-9 Donations	14,935
Christmas Donations Fund	242
Police Grants Fund	7,849
Grants Fund	7,591
Library Fund	8,235
	<u>2,311,069</u>
Less unexpended bond proceeds	<u>(2,048,646)</u>
	<u>\$ 262,423</u>

**NOTE 14—COMPONENTS OF FUND BALANCE**

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

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

<u>Fund Balances</u>	<u>General Fund</u>	<u>TIF District Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Nonspendable:</b>				
Permanent Funds - Principal			\$ 44,201	\$ 44,201
Prepaid expenses	\$ 261			261
<b>Restricted for:</b>				
Permanent Funds - Income			38,307	38,307
State of NH SB 38 - Highway Block				
Grant funding	141,063			141,063
K-9 Donations	14,935			14,935
Tax Increment Financing District		\$ 2,048,646		2,048,646
Christmas Donations Fund			242	242
Police Grants Fund			7,849	7,849
Grants Fund			7,591	7,591
Library operations	8,235			8,235
<b>Committed for:</b>				
Police Details Fund			31,539	31,539
Conservation Commission			247,738	247,738
Ambulance Fund			664,472	664,472
Expendable Trust Funds	1,652,895			1,652,895
Encumbrances	335,000			335,000
<b>Assigned for:</b>				
Recreation Fund			23,872	23,872
Town Clock Fund			95	95
Carryforward appropriations	58,883			58,883
Encumbrances	209,164			209,164
<b>Unassigned:</b>				
Unassigned - General operations	4,643,268			4,643,268
	<u>\$ 7,063,704</u>	<u>\$ 2,048,646</u>	<u>\$ 1,065,906</u>	<u>\$ 10,178,256</u>

**NOTE 15—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, 2017, the Town was a member of and participated in a public entity risk pool (Trust) for property and liability insurance and worker's compensation coverage. Coverage has not been significantly reduced from the prior year and settled claims have not exceeded coverage in any of the past three years.

The Trust agreements permit the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at December 31, 2017.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

***Property and Liability Insurance***

The Trust provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the Trust, the Town shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self-Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000, up to an aggregate of \$5,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

***Worker's Compensation***

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

**NOTE 16—CONTINGENCIES**

***Litigation***

The Town's management 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 17—SUBSEQUENT EVENTS**

***Tax Increment Financing District***

Per the March 2018 annual Town meeting, the Soucook River tax increment financing district was authorized to be discontinued. The annual debt service payments on the \$3,001,000 tax increment bonds issued during July 2017 will become a general obligation of the Town and paid by the General Fund from annual appropriations.

***Bond Authorization and Issuance***

Per Article #3 from the March 2018 annual Town meeting, \$1,200,000 was authorized to be issued in general obligational debt for purposes of roadway improvements. During May 2018, the Town issued general obligation bonds in the amount of \$900,000. These bonds have an interest rate of 2.45% and mature May 2021.

***Other Long-Term Obligations***

During April 2018, the Town has drawn down an additional \$20,557 on its existing Water Pollution Control Revolving Loan Fund Program. The total amount drawn down through April 2018 is \$799,022.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2017**

***Notes Payable***

Subsequent to year end, the Town converted its outstanding long-term obligation of \$799,022 from the Water Pollution Control Revolving Loan Fund Program into long-term debt. The Town will receive a principal forgiveness subsidy of \$69,951 in June 2018. The balance of \$729,071 is to be repaid in annual installments through June 2027 at 2.0%.

**NOTE 18— IMPLEMENTATION OF FUTURE ACCOUNTING STANDARDS**

The Government Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which the Town is required to implement in the year ending December 31, 2018. Management believes that this pronouncement will have a potentially significant impact on the Town's government-wide financial statements. The Town will have to report its proportional share of the New Hampshire Retirement System's unfunded OPEB liability in the financial statements for the calendar year beginning after June 15, 2017. Additionally, Statement No. 75 modifies the allowable methods, recognition and measurement criteria related to how the Town accounts for and reports its single employer OPEB plan, currently disclosed in Note 11.

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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	Final Budget - Favorable (Unfavorable)
Revenues:				
Taxes	\$ 4,073,485	\$ 4,073,485	\$ 4,131,181	\$ 57,696
Licenses and permits	1,302,733	1,302,733	1,578,436	275,703
Intergovernmental	574,839	691,402	696,427	5,025
Charges for services	144,302	144,302	257,367	113,065
Interest and investment income	15,000	15,000	27,407	12,407
Miscellaneous	24,001	24,001	32,159	8,158
Total Revenues	<u>6,134,360</u>	<u>6,250,923</u>	<u>6,722,977</u>	<u>472,054</u>
Expenditures:				
Current:				
General government	1,391,924	1,391,924	1,225,169	166,755
Public safety	1,858,552	1,858,552	1,767,363	91,189
Highways and streets	1,224,973	1,224,973	1,110,212	114,761
Sanitation	269,300	269,300	232,065	37,235
Health and welfare	111,388	111,388	62,986	48,402
Culture and recreation	41,202	41,202	35,880	5,322
Economic development	355	355	-	355
Capital outlay	728,649	631,231	643,520	(12,289)
Debt service:				
Principal retirement	380,000	380,000	380,000	-
Interest and fiscal charges	52,111	52,111	52,110	1
Total Expenditures	<u>6,058,454</u>	<u>5,961,036</u>	<u>5,509,305</u>	<u>451,731</u>
Excess of revenues over expenditures	<u>75,906</u>	<u>289,887</u>	<u>1,213,672</u>	<u>923,785</u>
Other financing sources (uses):				
Transfers in	395,176	381,141	383,491	2,350
Transfers out	(921,082)	(921,082)	(921,082)	-
Total other financing sources (uses)	<u>(525,906)</u>	<u>(539,941)</u>	<u>(537,591)</u>	<u>2,350</u>
Net change in fund balance	(450,000)	(250,054)	676,081	926,135
Fund balance at beginning of year				
- Budgetary Basis	<u>4,608,462</u>	<u>4,608,462</u>	<u>4,608,462</u>	-
Fund balance at end of year				
- Budgetary Basis	<u>\$ 4,158,462</u>	<u>\$ 4,358,408</u>	<u>\$ 5,284,543</u>	<u>\$ 926,135</u>

See accompanying notes to the required supplementary information

## SCHEDULE 2

**TOWN OF PEMBROKE, NEW HAMPSHIRE****Schedule of Funding Progress for Other Post-Employment Benefits**

For the Year Ended December 31, 2017

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Projected Unit Credit</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/2016	\$ -	\$ 868,754	\$ 868,754	0%	\$ 2,040,660	42.6%
1/1/2013	\$ -	\$ 860,755	\$ 860,755	0%	\$ 1,384,167	62.2%
1/1/2010	\$ -	\$ 833,515	\$ 833,515	0%	\$ 1,205,567	69.1%

*See accompanying notes to the required supplementary information*

**SCHEDULE 3****TOWN OF PEMBROKE, NEW HAMPSHIRE****Schedule of Changes in the Town's Proportionate Share of the Net Pension Liability**

For the Year Ended December 31, 2017

<u>Measurement Period Ended</u>	<u>Town's Proportion of the Net Pension Liability</u>	<u>Town's Proportionate Share of the Net Pension Liability</u>	<u>Town's Covered Payroll</u>	<u>Town's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2017	0.08010873%	\$ 3,939,742	\$ 2,006,861	196.31%	62.66%
June 30, 2016	0.07805092%	\$ 4,150,432	\$ 1,928,151	215.25%	58.30%
June 30, 2015	0.07890077%	\$ 3,125,675	\$ 1,883,624	165.94%	65.47%
June 30, 2014	0.07492695%	\$ 2,812,447	\$ 1,737,816	161.84%	66.32%
June 30, 2013	0.07225856%	\$ 3,109,853	\$ 1,626,500	191.20%	59.81%

*See accompanying notes to the required supplementary information*

**SCHEDULE 4**  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Schedule of Town Contributions**  
For the Year Ended December 31, 2017

<u>Year Ended</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Town's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
December 31, 2017	\$ 316,952	\$ (316,952)	\$ -	\$ 2,029,574	15.62%
December 31, 2016	\$ 288,064	\$ (288,064)	\$ -	\$ 1,987,834	14.49%
December 31, 2015	\$ 274,113	\$ (274,113)	\$ -	\$ 1,905,664	14.38%
December 31, 2014	\$ 252,319	\$ (252,319)	\$ -	\$ 1,812,810	13.92%
December 31, 2013	\$ 210,019	\$ (210,019)	\$ -	\$ 1,683,999	12.47%

*See accompanying notes to the required supplementary information*

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2017**

**NOTE 1—BUDGET TO ACTUAL RECONCILIATION**

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

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 6,755,938	\$ 5,886,814
Difference in property taxes meeting susceptible to accrual criteria	6,525	
Encumbrances - December 31, 2017		544,164
Encumbrances - December 31, 2016		(434,464)
Non-budgetary revenues and expenditures	(3,156)	(260,577)
Budgetary transfers	347,161	694,450
Per Schedule 1	<u>\$ 7,106,468</u>	<u>\$ 6,430,387</u>

**NOTE 2—BUDGETARY FUND BALANCES**

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

<b>Nonspendable:</b>	
Prepaid expenses	\$ 261
<b>Restricted for:</b>	
State of NH SB 38 - Highway Block Grant funding	141,063
K-9 Donations	14,935
<b>Assigned for:</b>	
Carryforward appropriations	58,883
<b>Unassigned:</b>	
Unassigned - General operations	5,069,401
	<u>\$ 5,284,543</u>

**NOTE 3— SCHEDULE OF CHANGES IN THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF TOWN CONTRIBUTIONS**

In accordance with GASB Statement #68, *Accounting and Financial Reporting for Pensions*, the Town is required to disclose historical information for each of the prior ten years within a schedule of changes in the Town's proportionate share of the net pension liability and schedule of Town contributions.

**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**  
**December 31, 2017**

The Town implemented the provisions of GASB Statement #68 during the year ended December 31, 2015. Accordingly, the historic information has only been presented for those years which information was readily available. Additional disclosures will be made in future years as the information becomes available.

**NOTE 4—CHANGES OF ACTUARIAL ASSUMPTIONS**

For the measurement period ending June 30, 2016, the New Hampshire Retirement System's actuarial valuation included changes in the valuation and economic assumptions used in previous measurement periods. The investment rate of return was reduced from 7.75% to 7.25%. The price inflation was decreased from 3.0% to 2.5%. The wage inflation was decreased from 3.75% to 3.25%. The salary increases were decreased from 5.8% to 5.6%. In addition, the expectation of retired life mortality was previously based on the RP-2000 Mortality Tables projected to 2020 with Scale AA. Amounts reported in the June 30, 2016 measurement period are based on the RP-2014 employee generational mortality table for males and females, adjusted for mortality improvements using Scale MP-2015.

SCHEDULE A  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Combining Balance Sheet**  
**Governmental Funds - All Nonmajor Funds**  
December 31, 2017

	Total Special Revenue Funds	Permanent Funds	Total Nonmajor Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 30,033	\$ 4,682	\$ 34,715
Investments		77,826	77,826
Taxes receivable, net	3,800		3,800
Accounts receivable, net	133,542		133,542
Due from other governments	6,000		6,000
Due from other funds	849,925		849,925
Total Assets	<u>1,023,300</u>	<u>82,508</u>	<u>1,105,808</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,023,300</u>	<u>\$ 82,508</u>	<u>\$ 1,105,808</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 11,709		\$ 11,709
Accrued expenses	28,193		28,193
Total Liabilities	<u>39,902</u>	<u>\$ -</u>	<u>39,902</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>			
Nonspendable		44,201	44,201
Restricted	15,682	38,307	53,989
Committed	943,749		943,749
Assigned	23,967		23,967
Total Fund Balances	<u>983,398</u>	<u>82,508</u>	<u>1,065,906</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,023,300</u>	<u>\$ 82,508</u>	<u>\$ 1,105,808</u>

SCHEDULE A-1  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
Combining Balance Sheet  
**Governmental Funds - All Nonmajor Special Revenue Funds**  
December 31, 2017

	Recreation Fund	Police Details Fund	Christmas Donations Fund	Town Clock Fund	Police Grants Fund	Conservation Commission Fund	Grants Fund	Ambulance Fund	Total Special Revenue Funds
<b>ASSETS</b>									
Cash and cash equivalents						\$ 3,800		\$ 30,033	\$ 30,033
Taxes receivable, net		\$ 2,700							3,800
Accounts receivable, net								130,842	133,542
Due from other governments					\$ 7,849	243,938	\$ 7,591	6,000	6,000
Due from other funds	\$ 23,957	28,839	\$ 242	\$ 95	\$ 7,849		\$ 7,591	537,414	849,925
Total Assets	<u>23,957</u>	<u>31,539</u>	<u>242</u>	<u>95</u>	<u>7,849</u>	<u>247,738</u>	<u>7,591</u>	<u>704,289</u>	<u>1,023,300</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>									
Total Deferred Outflows of Resources	-	-	-	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 23,957</u>	<u>\$ 31,539</u>	<u>\$ 242</u>	<u>\$ 95</u>	<u>\$ 7,849</u>	<u>\$ 247,738</u>	<u>\$ 7,591</u>	<u>\$ 704,289</u>	<u>\$ 1,023,300</u>
<b>LIABILITIES</b>									
Accounts payable	\$ 85							\$ 11,624	\$ 11,709
Accrued expenses								28,193	28,193
Total Liabilities	<u>85</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>39,817</u>	<u>39,902</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>									
Total Deferred Inflows of Resources	-	-	-	-	-	-	-	-	-
<b>FUND BALANCES</b>									
Restricted			242		7,849	247,738	7,591		15,682
Committed		31,539						664,472	943,749
Assigned				95					23,967
Total Fund Balances	<u>23,872</u>	<u>31,539</u>	<u>242</u>	<u>95</u>	<u>7,849</u>	<u>247,738</u>	<u>7,591</u>	<u>664,472</u>	<u>983,398</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 23,957</u>	<u>\$ 31,539</u>	<u>\$ 242</u>	<u>\$ 95</u>	<u>\$ 7,849</u>	<u>\$ 247,738</u>	<u>\$ 7,591</u>	<u>\$ 704,289</u>	<u>\$ 1,023,300</u>

## SCHEDULE B

## TOWN OF PEMBROKE, NEW HAMPSHIRE

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

## Governmental Funds - All Nonmajor Funds

For the Year Ended December 31, 2017

	Total Special Revenue Funds	Road Improvements Capital Projects Fund	Permanent Funds	Total Nonmajor Funds
Revenues:				
Taxes	\$ 13,500			\$ 13,500
Intergovernmental revenue	192,599			192,599
Charges for services	552,836			552,836
Interest and investment income	33	\$ 350	\$ 2,784	3,167
Miscellaneous	22,790			22,790
Total Revenues	<u>781,758</u>	<u>350</u>	<u>2,784</u>	<u>784,892</u>
Expenditures:				
Current operations:				
Public safety	928,949			928,949
Health and welfare	3,500			3,500
Culture and recreation	44,875			44,875
Capital outlay		1,275		1,275
Total Expenditures	<u>977,324</u>	<u>1,275</u>	<u>-</u>	<u>978,599</u>
Excess of revenues over (under) expenditures	<u>(195,566)</u>	<u>(925)</u>	<u>2,784</u>	<u>(193,707)</u>
Other financing sources (uses):				
Transfers in	226,632			226,632
Transfers out		(36,330)		(36,330)
Total other financing sources (uses)	<u>226,632</u>	<u>(36,330)</u>	<u>-</u>	<u>190,302</u>
Net change in fund balances	31,066	(37,255)	2,784	(3,405)
Fund balances at beginning of year	<u>952,332</u>	<u>37,255</u>	<u>79,724</u>	<u>1,069,311</u>
Fund balances at end of year	<u>\$ 983,398</u>	<u>\$ -</u>	<u>\$ 82,508</u>	<u>\$ 1,065,906</u>

SCHEDULE B -1

TOWN OF PEMBROKE, NEW HAMPSHIRE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds - All Nonmajor Special Revenue Funds

For the Year Ended December 31, 2017

	Recreation Fund	Police Details Fund	Christmas Donations Fund	Town Clock Fund	Police Grants Fund	Conservation Commission Fund	Grants Fund	Ambulance Fund	Total Special Revenue Funds
Revenues:									
Taxes						\$ 13,500		\$ 190,739	\$ 13,500
Intergovernmental revenue		\$ 1,860							192,599
Charges for services	\$ 40,716	52,913						459,207	552,836
Interest and investment income								33	33
Miscellaneous	6,530	720	\$ 1,725					13,815	22,790
Total Revenues	47,246	55,493	1,725	\$ -	\$ -	13,500	\$ -	663,794	781,758
Expenditures:									
Current operations:									
Public safety		51,186			1,190			876,573	928,949
Health and welfare			3,500						3,500
Culture and recreation	44,875								44,875
Total Expenditures	44,875	51,186	3,500	-	1,190	-	-	876,573	977,324
Excess of revenues over (under) expenditures	2,371	4,307	(1,775)	-	(1,190)	13,500	-	(212,779)	(195,566)
Other financing sources:									
Transfers in								226,632	226,632
Total other financing sources	-	-	-	-	-	-	-	226,632	226,632
Net change in fund balances	2,371	4,307	(1,775)	-	(1,190)	13,500	-	13,853	31,066
Fund balances at beginning of year	21,501	27,232	2,017	95	9,039	234,238	7,591	650,619	952,332
Fund balances at end of year	\$ 23,872	\$ 31,539	\$ 242	\$ 95	\$ 7,849	\$ 247,738	\$ 7,591	\$ 664,472	\$ 983,398

SCHEDULE C  
**TOWN OF PEMBROKE, NEW HAMPSHIRE**  
**Combining Statement of Fiduciary Net Position**  
**Fiduciary Funds - All Agency Funds**  
December 31, 2017

	School Agency <u>Fund</u>	Performance Bond Agency <u>Fund</u>	Total Agency <u>Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,015,574	\$ 35,769	\$ 1,051,343
Investments	<u>988,126</u>		<u>988,126</u>
Total Assets	<u>\$ 2,003,700</u>	<u>\$ 35,769</u>	<u>\$ 2,039,469</u>
<b>LIABILITIES</b>			
Deposits		\$ 35,769	\$ 35,769
Due to other governments	<u>\$ 2,003,700</u>		<u>2,003,700</u>
Total Liabilities	<u>\$ 2,003,700</u>	<u>\$ 35,769</u>	<u>\$ 2,039,469</u>

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

To the Board of Selectmen  
Town of Pembroke, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pembroke, New Hampshire (the "Town") as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Manchester, New Hampshire  
October 31, 2018

October 31, 2018

To the Board of Selectmen  
Town of Pembroke, New Hampshire

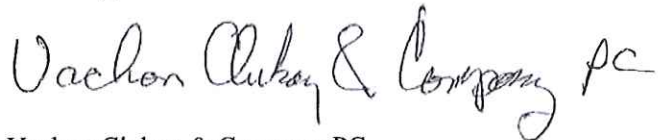
In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pembroke, New Hampshire for the year ended December 31, 2017, we considered the Town's internal control 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 a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. We previously reported on the Town's internal control structure in our report dated October 31, 2018. This letter does not affect that report or our report on the basic financial statements dated October 31, 2018.

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

## **CREDIT CARD DISBURSEMENTS**

### ***Observation***

As part of every audit engagement, our firm examines credit card purchases for proper documentation and propriety of expenditures. We noted that purchase receipts for credit card charges applicable to the library are not being consistently retained for documentation.

### ***Implication***

The controls over library expenditures are weakened. Improper expenditures may be made using the Town's credit card which may go undetected without adequate controls.

### ***Recommendation***

We recommend that the Library Trustees adopt a formal credit card policy. We also recommend that the library director be instructed to attach the detailed purchase to monthly credit card statements. The supporting documentation should indicate what was purchased and that the purchase was approved by the proper officials.

October 31, 2018

To the Board of Selectmen  
Town of Pembroke, New Hampshire

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pembroke, New Hampshire for the year ended December 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 2, 2018. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town of Pembroke, New Hampshire are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the Town of Pembroke, New Hampshire during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Management's estimates of the useful lives of capital assets are based upon historical records of utilization, necessary improvements and replacements. We evaluated the key factors and assumptions used to develop the depreciable useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant estimates also include actuarial assumptions used in determining pension and other post-employment benefits costs which are based on plan audited financial statements and a plan actuarial valuation report, respectively. We evaluated the

assumptions used in the plan audited financial statements and the plan actuarial valuation report to determine that they are reasonable in relation to the financial statements as a whole.

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

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

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

#### ***Difficulties Encountered in Performing the Audit***

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

#### ***Corrected and Uncorrected Misstatements***

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

#### ***Disagreements with Management***

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

#### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 31, 2018.

#### ***Management Consultations with Other Independent Accountants***

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

### ***Other Audit Findings or Issues***

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

### **Other Matters**

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

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

### **Restriction on Use**

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

Very truly yours,

*Vachon Clukay & Company PC*

Town of Pembroke, New Hampshire  
For the year ended 12/31/17  
Material Audit Adjustments

The following is a listing of the Material Audit Adjustments made for the year ended 12/31/17:

**TIF District Fund:**

- To restore the beginning fund balance by \$119,121
- To reduce retainage payable and expenditures by \$115,121.

**Sewer Fund:**

- To restore the beginning net position figure by \$601,996.
- To record the addition of capital assets in the amount of \$443,278.
- To record current year depreciation on capital assets in the amount of \$130,485.
- To adjust the deferred outflows of resources and net pension liability at year end by \$39,410 and \$129,573, respectively.
- To adjust for the drawdowns on the State Revolving Loan of \$554,963 and report as a liability.

**Aggregate Remaining Information:**

- To increase the investment balance of the school agency funds in the amount of \$492,598.
- To restore the beginning fund balance in the Ambulance Fund by \$30,000.
- To restore the beginning fund balance in the Road Capital Projects Fund by \$80,864.
- To record a transfer out of \$80,864 in the Road Capital Projects Fund to the General Fund.

**GCX-23: AUDIT DIFFERENCE EVALUATION FORM**

Governmental Unit: Town of Pembroke

Balance Sheet Date: December 31, 2017

Opinion Unit: Government-Wide  
Statements:  
Governmental Activities

Financial Statements Effect—Amount of Over (Under) Statement of:

Description (Nature) of Audit Difference	Total Assets and Deferred Outflows of Resources	Total Liabilities and Deferred Inflows of Resources	Net Position	Revenues	Expenses
Unrecorded accrued payroll		(5,567)			(5,567)
Total from cont. page(s)					
Total	-	(5,567)	-	-	(5,567)
Less Audit adjustments subsequently booked					
Net unadjusted audit differences—this year	-	(5,567)	-	-	(5,567)
Effect of unadjusted audit differences—prior years					12,697
Net audit differences	-	(5,567)	-	-	7,130
Financial statement caption totals	33,481,325	15,628,218	17,853,107	7,913,818	6,385,095
Net audit differences as % of F/S captions	0.00%	-0.04%	0.00%	0.00%	0.11%

**GCX-23: AUDIT DIFFERENCE EVALUATION FORM**

Governmental Unit: Town of Pembroke

Opinion Unit: Government-Wide Statements: Business-type activities

Balance Sheet Date: December 31, 2017

Financial Statements Effect—Amount of Over (Under) Statement of:

Description (Nature) of Audit Difference	Total		Total		Net Position	Revenues	Expenses
	Total Assets and Deferred Outflows of Resources	Total Liabilities and Deferred Inflows of Resources					
Unrecorded compensated absence:		(3,130)					(3,130)
Unrecorded accrued payroll		(3,368)					(3,368)
Total from cont. page(s)							
Total	-	(6,498)	-	-	-	-	(6,498)
Less Audit adjustments subsequently booked							
Net unadjusted audit differences—this year	-	(6,498)	-	-	-	-	(6,498)
Effect of unadjusted audit differences—prior years							10,458
Net audit differences	-	(6,498)	-	-	-	-	3,960
Financial statement caption totals	7,539,486	1,421,305	6,118,181	6,118,181	1,927,976	1,690,292	
Net audit differences as % of F/S captions	0.00%	-0.46%	0.00%	0.00%	0.00%	0.23%	

GCX-23: AUDIT DIFFERENCE EVALUATION FORM

Governmental Unit:

Town of Pembroke

Balance Sheet Date: December 31, 2017

Opinion Unit:

General Fund

Financial Statements Effect—Amount of Over (Under) Statement of:

Description (Nature) of Audit Difference	Total		Total		Fund Balance	Revenues	Expenditures
	Assets and Deferred Outflows of Resources	Liabilities and Deferred Inflows of Resources	Assets and Deferred Outflows of Resources	Liabilities and Deferred Inflows of Resources			
Unrecorded accrued payroll applicable to the		(5,567)					(5,567)
Total from cont. page(s)							
Total	-	(5,567)			-	-	(5,567)
Less Audit adjustments subsequently booked							
Net unadjusted audit differences—this year	-	(5,567)			-	-	(5,567)
Effect of unadjusted audit differences—prior years							
Net audit differences	-	(5,567)			-	-	5,788
Financial statement caption totals	15,701,159	8,637,455			7,063,704	6,755,938	5,886,814
Net audit differences as % of F/S captions	0.00%	-0.06%			0.00%	0.00%	0.00%

**GCX-23: AUDIT DIFFERENCE EVALUATION FORM**

Governmental Unit:

**Town of Pembroke**

Balance Sheet Date: **December 31, 2017**

Opinion Unit:

**Sewer - Major  
Proprietary Fund**

Financial Statements Effect—Amount of Over (Under) Statement of:

Description (Nature) of Audit Difference	Total		Total		Position	Revenues	Expenses
	Total Assets and Deferred Outflows of Resources	Liabilities and Deferred Inflows of Resources	Total Assets and Deferred Outflows of Resources	Liabilities and Deferred Inflows of Resources			
Unrecorded compensated absences			(3,130)				(3,130)
Unrecorded accrued payroll			(3,368)				(3,368)
Total from cont. page(s)							
Total	-	(6,498)	-	-	-	-	(6,498)
Less Audit adjustments subsequently booked							
Net unadjusted audit differences—this year	-	(6,498)	-	-	-	-	(6,498)
Effect of unadjusted audit differences—prior years							10,458
Net audit differences	-	(6,498)	-	-	-	-	3,960
Financial statement caption totals	3,584,962	915,129	2,669,833	1,076,156			975,181
Net audit differences as % of F/S captions	0.00%	-0.71%	0.00%	0.00%			0.41%

GCX-23: AUDIT DIFFERENCE EVALUATION FORM

Governmental Unit:

Town of Pembroke

Balance Sheet Date:

December 31, 2017

Opinion Unit:

Aggregate remaining  
information

Financial Statements Effect—Amount of Over (Under) Statement of:

Description (Nature) of Audit Difference	Total Assets and Liabilities and		Fund Balance	Revenues	Expenditures
	Deferred Outflows of Resources	Deferred Inflows of Resources			
none for 2017					
Total from cont. page(s)					
Total	-	-	-	-	-
Less Audit adjustments subsequently booked					
Net unadjusted audit differences—this year					
Effect of unadjusted audit differences—prior years					
Net audit differences	-	-	-	-	6,909
Financial statement caption totals	1,105,808	39,902	1,065,906	1,011,524	1,014,929
Net audit differences as % of F/S captions	0.00%	0.00%	0.00%	0.00%	0.68%