

August 19, 2016

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, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 11, 2016. 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. As described in Note 1 to the basic financial statements, the Town adopted and implemented GASB Statement #68 – *Accounting and Financial Reporting for Pensions* during the year ended December 31, 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year has been reported in the financial statements and is described in Note 17 to the basic financial statements. We noted no transactions entered into by the Town of Pembroke, New Hampshire during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Management's estimates of the useful lives of depreciable capital assets and the other post-employment benefits obligation are based on historical utilization of assets and actuarial valuations, respectively. We evaluated the key factors and assumptions used to develop the useful lives of depreciable capital assets and the other post-employment benefits obligation 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 costs which are based on plan audited financial statements. We evaluated the assumptions used in the plan audited financial statements 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 August 19, 2016.

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 12/31/15
Material Audit Adjustments

The following is a listing of the Material Audit Adjustments made for the year ended 12/31/15:

Road Improvements Fund:

- To record retainage payable of \$72,052.

Water Fund:

- To record current year depreciation on capital assets in the amount of \$131,408.
- To record retainage payable of \$25,634.

Sewer Fund:

- To record the addition of capital assets in the amount of \$40,896.
- To record current year depreciation on capital assets in the amount of \$133,325.
- To record a restatement for the implementation of GASB #68 in the amount of \$156,570.

Aggregate Remaining Information:

- To restore the prior year net receivables in the Ambulance Fund in the amount of \$31,450.
- To increase the net accounts receivable at year end in the Ambulance Fund by \$54,918.
- To increase the investment balance of the school agency funds in the amount of \$347,648.

GCX-23: AUDIT DIFFERENCE EVALUATION FORM

Governmental Unit:

Town of Pembroke

Balance Sheet Date: December 31, 2015

Opinion Unit:

Government-Wide
Statements:
Governmental ActivitiesFinancial 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 accrued vacation | | -5,043 | | | | | -5,043 |
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| | | | | | | | |
| Total from cont. page(s) | | | | | | | |
| Total | 0 | -5,043 | 0 | 0 | | 0 | -5,043 |
| Less Audit adjustments subsequently booked | | | | | | | |
| Net unadjusted audit differences—this year | 0 | -5,043 | 0 | 0 | | 0 | -5,043 |
| Effect of unadjusted audit differences—prior years | | | | | | | 10,216 |
| Net audit differences | 0 | -5,043 | | 0 | | 0 | 5,173 |
| Financial statement caption totals | 25,530,921 | 10,616,199 | 14,914,622 | 7,198,163 | | | 5,492,548 |
| Net audit differences as % of F/S captions | 0.00% | -0.05% | 0.00% | 0.00% | | | 0.09% |

GCX-23: AUDIT DIFFERENCE EVALUATION FORM

Governmental Unit:

Town of Pembroke

Balance Sheet Date:

December 31, 2015

Opinion Unit:

Government-Wide
Statements: Business-
type activitiesFinancial Statements Effect—Amount of Over (Under) Statement of:

| Description (Nature) of Audit Difference | Total | | Total | | Net | Position | Revenues | Expenses |
|--|--|--|--|--|-----------|-----------|----------|-----------|
| | 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 compensated absences | | | -5,890 | | | | | -5,890 |
| Unrecorded accrued payroll | | | -7,404 | | | | | -7,404 |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| Total from cont. page(s) | | | | | | | | |
| Total | 0 | -13,294 | -13,294 | 0 | 0 | 0 | | -13,294 |
| Less Audit adjustments subsequently booked | | | | | | | | |
| Net unadjusted audit differences—this year | 0 | -13,294 | -13,294 | 0 | 0 | 0 | | -13,294 |
| Effect of unadjusted audit differences—prior years | | | | | | | | 12,077 |
| Net audit differences | 0 | -13,294 | -13,294 | 0 | 0 | 0 | | -1,217 |
| Financial statement caption totals | 6,612,966 | 940,922 | 940,922 | 5,672,044 | 5,672,044 | 1,978,226 | | 1,769,551 |
| Net audit differences as % of F/S captions | 0.00% | -1.41% | -1.41% | 0.00% | 0.00% | 0.00% | | -0.07% |

GCX-23: AUDIT DIFFERENCE EVALUATION FORM

Governmental Unit:

Town of Pembroke

Balance Sheet Date:

December 31, 2015

Opinion Unit:

Sewer - Major
Proprietary FundFinancial Statements Effect—Amount of Over (Under) Statement of:

| <u>Description (Nature) of Audit Difference</u> | <u>Total</u> | | <u>Total</u> | | <u>Net Position</u> | <u>Revenues</u> | <u>Expenses</u> |
|--|--|--|--|--|---------------------|-----------------|-----------------|
| | <u>Assets and Deferred Outflows of Resources</u> | <u>Liabilities and Deferred Inflows of Resources</u> | <u>Assets and Deferred Outflows of Resources</u> | <u>Liabilities and Deferred Inflows of Resources</u> | | | |
| Unrecorded compensated absences | | | -5,890 | | | | -5,890 |
| Unrecorded accrued payroll | | | -7,404 | | | | -7,404 |
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| | | | | | | | |
| Total from cont. page(s) | | | | | | | |
| Total | 0 | -13,294 | -13,294 | 0 | 0 | 0 | -13,294 |
| Less Audit adjustments subsequently booked | | | | | | | |
| Net unadjusted audit differences—this year | 0 | -13,294 | -13,294 | 0 | 0 | 0 | -13,294 |
| Effect of unadjusted audit differences—prior years | | | | | | | 12,077 |
| Net audit differences | 0 | -13,294 | -13,294 | 0 | 0 | 0 | -1,217 |
| Financial statement caption totals | 2,726,108 | 197,594 | 197,594 | 2,528,514 | 1,088,914 | 1,088,914 | 998,090 |
| Net audit differences as % of F/S captions | 0.00% | -6.73% | -6.73% | 0.00% | 0.00% | 0.00% | -0.12% |

GCX-23: AUDIT DIFFERENCE EVALUATION FORM

Governmental Unit:

Town of Pembroke

Balance Sheet Date:

December 31, 2015

Opinion Unit:

Aggregate remaining
informationFinancial Statements Effect—Amount of Over (Under) Statement of:

| <u>Description (Nature) of Audit Difference</u> | <u>Total</u> | | | | <u>Revenues</u> | <u>Expenditures</u> |
|--|--|--|-------------------------|--------------|-----------------|---------------------|
| | <u>Assets and Deferred Outflows of Resources</u> | <u>Liabilities and Deferred Inflows of Resources</u> | <u>Fund Balance</u> | <u>Total</u> | | |
| Unrecorded accrued vacation in Ambulance Fund | | -5,043 | | -5,043 | | -5,043 |
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| | | | | | | |
| Total from cont. page(s) | | | | | | |
| Total | 0 | -5,043 | 0 | -5,043 | 0 | -5,043 |
| Less Audit adjustments subsequently booked | | | | | | |
| Net unadjusted audit differences—this year | 0 | -5,043 | 0 | -5,043 | 0 | -5,043 |
| Effect of unadjusted audit differences—prior years | | | | | | |
| Net audit differences | 0 | -5,043 | 0 | -5,043 | 0 | -5,043 |
| Financial statement caption totals | 564,375 | 18,891 | 545,484 | 898,345 | 593,236 | |
| Net audit differences as % of F/S captions | 0.00% | -26.70% | 0.00% | 0.00% | 0.00% | -0.85% |

**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, 2015, 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
August 19, 2016

August 19, 2016

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, 2015, 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 matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. We previously reported on the Town's internal control structure in our report dated August 19, 2016. This letter does not affect that report or our report on the basic financial statements dated August 19, 2016.

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, we test credit card purchase transactions. We noted that the library has an Amazon account from which many purchases are made. During our review of the monthly statements, we noted personal charges being made on the library's account. However, we were informed that these purchases were excluded from the library's disbursements. During the review of the credit card transactions for the water department, we also noted various charges such as a donation which may not have been an appropriate disbursement of the department.

Implication

The controls over expenditures are weakened. There is an increased risk that purchases made with Town credit cards are not deemed to be appropriate for the applicable department.

Recommendation

We recommend that the Library Trustees and the Board of Water Commissioners adopt a formal credit card policy. Personal purchases should not be permitted. We also recommend that the monthly credit card transactions be reviewed thoroughly by the Library Trustees and the Water Commissioners to ensure that inappropriate charges are not being made.

WATER PAYROLL

Observation

As previously reported, we noted that the rate increases for employees of the water department are approved in non-public meetings, but the actual rate of pay is not documented. We also noted that employee time cards are submitted, but lack a formal approval by the department head.

Implication

The controls over payroll expenditures are weakened. There is an increased risk that an employee will be paid the incorrect rate without any formal approval on file. The Town is also exposed to an increased risk that an employee will submit an overstated time card that will go undetected.

Recommendation

We recommend that all pay rate changes be formally approved and kept current within each employee's personnel file. We also recommend that the Board of Water Commissioners adopt a policy whereby all time cards are to be formally reviewed and approved by the Superintendent prior to submitting the time cards for the processing of payroll.

WATER VENDOR DISBURSEMENTS

Observation

We noted that invoices in the water department are being processed for payment without any formal approval.

Implication

Improper disbursements may be made and go undetected without additional controls in place. There is an increased risk that an invoice will be paid by the finance personnel for goods or services that were not received.

Recommendation

We recommend that all invoices be formally signed by the Superintendent to indicate that the goods or services have been received. We also recommend that the Superintendent indicate on the invoice which expense line item that the payment should be charged to. Too much reliance is being placed on the finance personnel to pay invoices for good or services that may not have been received. The formal approval and coding of invoices is to be completed prior to submitting the invoice for payment.

TOWN OF PEMBROKE, NEW HAMPSHIRE

Financial Statements

December 31, 2015

and

Independent Auditor's Report

TOWN OF PEMBROKE, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2015

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**TOWN OF PEMBROKE, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2015**

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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, 2015, 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, 2015, 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

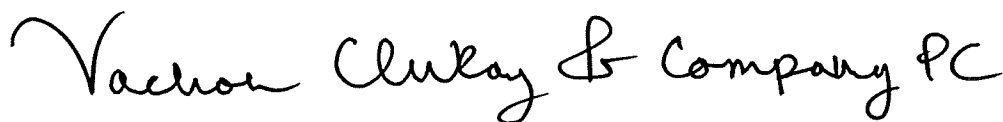
Required Supplementary Information

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 32-35 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
August 19, 2016

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2015

Presented herewith please find the Management Discussion & Analysis Report for the Town of Pembroke for the year ending December 31, 2015. 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.

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2015

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

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

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

Fund Financial Statements

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

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

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balances for the General Fund and the Road Improvements 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, 2015

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, 2015 compared with 2014. Please note that the 2014 figures have been restated to include the effects on the Town's net position for the implementation of GASB Statement No. 68 during the current year.

| | <u>2015</u> | <u>2014</u> |
|----------------------------------|----------------------|----------------------|
| Current and Other Assets: | | |
| Capital assets | \$ 11,760,015 | \$ 10,910,823 |
| Other assets | <u>13,383,144</u> | <u>11,711,871</u> |
| Total Assets | <u>25,143,159</u> | <u>22,622,694</u> |
| Deferred Outflows of Resources | <u>331,318</u> | <u>211,658</u> |
| Long-term and Other Liabilities: | | |
| Long-term obligations | 4,518,485 | 4,587,408 |
| Other liabilities | <u>5,953,777</u> | <u>4,697,189</u> |
| Total Liabilities | <u>10,472,262</u> | <u>9,284,597</u> |
| Deferred Inflows of Resources | <u>143,937</u> | <u>340,748</u> |
| Net Position: | | |
| Net investment in capital assets | 10,080,589 | 9,087,448 |
| Restricted | 999,901 | 1,468,222 |
| Unrestricted | <u>3,777,788</u> | <u>2,653,337</u> |
| Total Net Position | <u>\$ 14,858,278</u> | <u>\$ 13,209,007</u> |

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2015

The Town's net position totaled \$14,858,278 at December 31, 2015, an increase of \$1,649,271 when compared to the end of 2014.

Approximately 68% 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 7% 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 and capital projects 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, 2015 and 2014 are as follows:

| | <u>2015</u> | <u>2014</u> |
|------------------------------------|----------------------|----------------------|
| Program revenues: | | |
| Charges for services | \$ 660,909 | \$ 587,719 |
| Operating grants and contributions | 379,174 | 369,159 |
| Total program revenues | <u>1,040,083</u> | <u>956,878</u> |
| General revenues: | | |
| Property and other taxes | 4,292,438 | 3,875,117 |
| Licenses and permits | 1,464,297 | 1,399,163 |
| Intergovernmental revenue | 340,326 | 342,104 |
| Interest and investment earnings | 11,817 | 13,806 |
| Miscellaneous | 36,702 | 56,865 |
| Total general revenues | <u>6,145,580</u> | <u>5,687,055</u> |
| Total revenues | <u>7,185,663</u> | <u>6,643,933</u> |
| Program expenses: | | |
| General government | 1,339,375 | 1,374,145 |
| Public safety | 2,203,972 | 2,306,816 |
| Highways and streets | 1,309,085 | 1,422,692 |
| Sanitation | 258,619 | 224,667 |
| Health and welfare | 60,862 | 65,672 |
| Culture and recreation | 304,029 | 321,419 |
| Economic development | 1,000 | - |
| Interest and fiscal charges | 59,450 | 42,919 |
| Total expenses | <u>5,536,392</u> | <u>5,758,330</u> |
| Change in net position | 1,649,271 | 885,603 |
| Net position - beginning of year | 13,209,007 | 15,115,610 |
| Restatement due to GASB #68 | | (2,792,206) |
| Net position - ending of year | <u>\$ 14,858,278</u> | <u>\$ 13,209,007</u> |

As shown in the above statement the Town experienced an improvement in financial position of \$1,649,271 on the full accrual basis of accounting.

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2015

Business-type Activities

The table below provides a summary of the Town's net position of its business-type activities as of December 31, 2015 compared with 2014. Please note that the 2014 figures have been restated to include the effects on the Town's net position for the implementation of GASB Statement No. 68 during the current year.

| | <u>2015</u> | <u>2014</u> |
|----------------------------------|---------------------|---------------------|
| Current and Other Assets: | | |
| Capital assets | \$ 4,629,131 | \$ 4,537,199 |
| Other assets | <u>1,964,983</u> | <u>1,717,716</u> |
| Total Assets | <u>6,594,114</u> | <u>6,254,915</u> |
| Deferred Outflows of Resources | <u>18,852</u> | <u>11,868</u> |
| Long-term and Other Liabilities: | | |
| Long-term obligations | 750,987 | 573,551 |
| Other liabilities | <u>180,935</u> | <u>209,946</u> |
| Total Liabilities | <u>931,922</u> | <u>783,497</u> |
| Deferred Inflows of Resources | <u>9,000</u> | <u>19,917</u> |
| Net Position: | | |
| Net investment in capital assets | 3,972,797 | 4,065,997 |
| Unrestricted | <u>1,699,247</u> | <u>1,397,372</u> |
| Total Net Position | <u>\$ 5,672,044</u> | <u>\$ 5,463,369</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, 2015 and 2014 are as follows:

| | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|
| Program revenues: | | |
| Charges for services | \$ 1,977,859 | \$ 1,838,889 |
| Total program revenues | <u>1,977,859</u> | <u>1,838,889</u> |
| General revenues: | | |
| Interest and investment earnings | 367 | 390 |
| Gain on sale of capital assets | <u>367</u> | <u>2,000</u> |
| Total general revenues and gain on sale of capital assets | <u>367</u> | <u>2,390</u> |
| Total revenues | <u>1,978,226</u> | <u>1,841,279</u> |

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2015

| | <u>2015</u> | <u>2014</u> |
|----------------------------------|---------------------|---------------------|
| Program expenses: | | |
| Water distribution and treatment | 771,461 | 686,482 |
| Sanitation | 998,090 | 1,002,188 |
| Total expenses | <u>1,769,551</u> | <u>1,688,670</u> |
| Change in net position | 208,675 | 152,609 |
| Net position - beginning of year | 5,463,369 | 5,467,330 |
| Restatement due to GASB #68 | | (156,570) |
| Net position - ending of year | <u>\$ 5,672,044</u> | <u>\$ 5,463,369</u> |

The main funding source for business-type activities is the charges for services. Net position increased by \$208,675 in 2015 due to revenues exceeding expenses in the water and sewer funds.

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 \$5,593,569. The fund balance components at year end are detailed on page 29 of the Notes to the Basic Financial Statements.

The General Fund balance increased by \$1,071,705 from December 31, 2014.

Road Improvements Fund

The Road Improvements Fund accounts for the financial transactions related to the roadway improvement and reconstruction projects of Town streets. Bond proceeds and a bond premium were received during the year ended December 31, 2014 for a combined total of \$900,000. During the year ended December 31, 2015, the Town expended a significant portion of the bond issuance on road improvements. The fund balance as of December 31, 2015 is \$130,704.

Other Governmental Funds

The total fund balance of \$1,663,494 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 TIF District

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2015

Fund (\$782,935 or 47.1%) and the Ambulance Fund (\$545,484 or 32.8%). Fund balance of the other governmental funds increased by \$638,657 from December 31, 2014.

Proprietary Funds

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

The Town's proprietary funds had unrestricted net position of \$1,699,247 at December 31, 2015, which is an increase of \$301,875 (or 21.6%) from December 31, 2014. The net investment in capital assets decreased by \$93,200 (or 2.3%) from December 31, 2014.

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, 2015 amounts to \$11,760,015 and \$4,629,131, 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 2015, the Town had a reduction in general obligation bonds in governmental activities of \$120,574 from payments made during the year and amortization of the bond premium.

The balance of the notes payable in the business-type activities increased by \$185,132 during 2015. There was a \$250,000 note issuance reduced by the scheduled payments made on the existing notes payable.

During the year ended December 31, 2015, the Town adopted and implemented GASB Statement #68 – *Accounting and Financial Reporting for Pensions*. The Town reports a net pension liability. This unfunded liability as of December 31, 2015 is \$3,125,675.

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.

TOWN OF PEMBROKE, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2015

During the year, the original estimated revenues and budgeted appropriations decreased by \$143,212. This decrease is the result of approved budgeted amounts to be carried forward to 2016.

Actual revenues and transfers in on the budgetary basis exceeded the budgeted amount by \$149,827. This is primarily due to receiving additional revenues from the following budgeted sources: \$264,187 in licenses and permits and \$53,615 from charges for services, which were offset by decreases in recognized tax revenue and transfers in.

The Town underexpended its budget by \$636,068 or 9.4% of the total appropriations. Significant savings were within public safety (\$168,529), highways and streets (\$124,906), and capital outlay (\$172,394).

Economic Conditions

The Town of Pembroke continues to review and update our capital investment plan (CIP) to accommodate and anticipate the needs of the community and its continued operation based on continued growth. By doing so, we have been able to set aside the necessary funds over the years to modernize our services to the community at a savings to the residents. The Town continues to plan for the future and continue reaching out to other communities in an effort to pool purchasing resources with the goal of being able to maximize services while at the same time stabilizing or cutting costs. Several initiatives with Suncook Valley Regional Town Association have enabled Pembroke to substantially lower their costs of health insurance. Also, with the addition of the automated recycling program, the Town saved \$43,321 in 2015 and a total of \$262,725 since its inception in 2010 by recycling as opposed to sending it to the incinerator. Though Pembroke is considered mostly a bedroom community, we have been able over the years with proper planning to stabilize the Town portion of the tax rate with little or no tax increase.

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, 2015

| | Primary Government | | |
|---|----------------------------|-----------------------------|---------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 12,843,076 | \$ 564,459 | \$ 13,407,535 |
| Investments | 71,040 | 29,833 | 100,873 |
| Taxes receivable, net | 1,151,739 | | 1,151,739 |
| Accounts receivable, net | 95,999 | 546,763 | 642,762 |
| Prepaid expenses | 6,376 | | 6,376 |
| Inventory | | 38,842 | 38,842 |
| Internal balance | (785,086) | 785,086 | |
| Total Current Assets | 13,383,144 | 1,964,983 | 15,348,127 |
| Noncurrent Assets: | | | |
| Non-depreciable capital assets | 4,044,965 | 582,720 | 4,627,685 |
| Depreciable capital assets, net | 7,715,050 | 4,046,411 | 11,761,461 |
| Total Noncurrent Assets | 11,760,015 | 4,629,131 | 16,389,146 |
| Total Assets | 25,143,159 | 6,594,114 | 31,737,273 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows of resources attributable to net pension liability | 331,318 | 18,852 | 350,170 |
| Total Deferred Outflows of Resources | 331,318 | 18,852 | 350,170 |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 99,227 | 73,503 | 172,730 |
| Retainage payable | 72,052 | 25,634 | 97,686 |
| Accrued expenses | 181,956 | 5,282 | 187,238 |
| Due to other governments | 5,184,096 | | 5,184,096 |
| Deposits payable | 932 | | 932 |
| Current portion of bonds payable | 408,514 | | 408,514 |
| Current portion of notes payable | | 76,516 | 76,516 |
| Current portion of estimated liability for landfill post-closure care costs | 7,000 | | 7,000 |
| Total Current Liabilities | 5,953,777 | 180,935 | 6,134,712 |
| Noncurrent Liabilities: | | | |
| Bonds payable | 1,270,912 | | 1,270,912 |
| Notes payable | | 579,818 | 579,818 |
| Compensated absences payable | 32,967 | | 32,967 |
| Other post-employment benefits obligation | 72,893 | 5,207 | 78,100 |
| Estimated liability for landfill post-closure care costs | 182,000 | | 182,000 |
| Net pension liability | 2,959,713 | 165,962 | 3,125,675 |
| Total Noncurrent Liabilities | 4,518,485 | 750,987 | 5,269,472 |
| Total Liabilities | 10,472,262 | 931,922 | 11,404,184 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources attributable to net pension liability | 143,937 | 8,190 | 152,127 |
| Unearned user fees | | 810 | 810 |
| Total Deferred Inflows of Resources | 143,937 | 9,000 | 152,937 |
| NET POSITION | | | |
| Net investment in capital assets | 10,080,589 | 3,972,797 | 14,053,386 |
| Restricted | 999,901 | | 999,901 |
| Unrestricted | 3,777,788 | 1,699,247 | 5,477,035 |
| Total Net Position | \$ 14,858,278 | \$ 5,672,044 | \$ 20,530,322 |

See accompanying notes to the basic financial statements

EXHIBIT B
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Activities
For the Year Ended December 31, 2015

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---------------------------------------|------------------|-------------------------|--|--|-----------------------------|----------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental Activities: | | | | | | |
| General government | \$ 1,339,375 | \$ 36,205 | | \$ (1,303,170) | | \$ (1,303,170) |
| Public safety | 2,203,972 | 483,930 | \$ 224,251 | (1,495,791) | | (1,495,791) |
| Highways and streets | 1,309,085 | 1,935 | 153,965 | (1,153,185) | | (1,153,185) |
| Sanitation | 258,619 | 96,729 | 958 | (160,932) | | (160,932) |
| Health and welfare | 60,862 | 1,755 | | (59,107) | | (59,107) |
| Culture and recreation | 304,029 | 40,355 | | (263,674) | | (263,674) |
| Economic development | 1,000 | | | (1,000) | | (1,000) |
| Interest and fiscal charges | 59,450 | | | (59,450) | | (59,450) |
| Total governmental activities | 5,536,392 | 660,909 | 379,174 | (4,496,309) | \$ - | (4,496,309) |
| Business-type activities: | | | | | | |
| Water Department | 771,461 | 889,072 | | | 117,611 | 117,611 |
| Sewer Department | 998,090 | 1,088,787 | | | 90,697 | 90,697 |
| Total business-type activities | 1,769,551 | 1,977,859 | - | - | 208,308 | 208,308 |
| Total primary government | \$ 7,305,943 | \$ 2,638,768 | \$ 379,174 | (4,496,309) | 208,308 | (4,288,001) |
| General revenues: | | | | | | |
| Property and other taxes | | | | 4,292,438 | | 4,292,438 |
| Licenses and permits | | | | 1,464,297 | | 1,464,297 |
| Grants and contributions: | | | | | | |
| Rooms and meals tax distribution | | | | 340,326 | | 340,326 |
| Interest and investment earnings | | | | 11,817 | 367 | 12,184 |
| Miscellaneous | | | | 36,702 | | 36,702 |
| Total general revenues | | | | 6,145,580 | 367 | 6,145,947 |
| Change in net position | | | | 1,649,271 | 208,675 | 1,857,946 |
| Net position - beginning, as restated | | | | 13,209,007 | 5,463,369 | 18,672,376 |
| Net position - ending | | | | \$ 14,858,278 | \$ 5,672,044 | \$ 20,530,322 |

See accompanying notes to the basic financial statements

EXHIBIT C
TOWN OF PEMBROKE, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2015

| | General Fund | Road Improvements Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|------------------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 12,635,639 | \$ 202,756 | \$ 4,681 | \$ 12,843,076 |
| Investments | | | 71,040 | 71,040 |
| Taxes receivable, net | 1,151,739 | | | 1,151,739 |
| Accounts receivable, net | 8,037 | | 87,962 | 95,999 |
| Due from other funds | | | 1,522,082 | 1,522,082 |
| Prepaid expenses | 6,376 | | | 6,376 |
| Total Assets | <u>13,801,791</u> | <u>202,756</u> | <u>1,685,765</u> | <u>15,690,312</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Total Deferred Outflows of Resources | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 13,801,791</u> | <u>\$ 202,756</u> | <u>\$ 1,685,765</u> | <u>\$ 15,690,312</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 91,666 | | \$ 7,133 | \$ 98,799 |
| Retainage payable | | \$ 72,052 | | 72,052 |
| Accrued expenses | 133,957 | | 15,138 | 149,095 |
| Due to other governments | 5,184,096 | | | 5,184,096 |
| Deposits payable | 932 | | | 932 |
| Due to other funds | 2,307,596 | | | 2,307,596 |
| Total Liabilities | <u>7,718,247</u> | <u>72,052</u> | <u>22,271</u> | <u>7,812,570</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unearned property taxes | 489,975 | | | 489,975 |
| Total Deferred Inflows of Resources | <u>489,975</u> | <u>-</u> | <u>-</u> | <u>489,975</u> |
| FUND BALANCES | | | | |
| Nonspendable | 6,376 | | 41,403 | 47,779 |
| Restricted | 6,762 | 130,704 | 827,794 | 965,260 |
| Committed | 1,575,159 | | 767,742 | 2,342,901 |
| Assigned | 306,411 | | 26,555 | 332,966 |
| Unassigned | 3,698,861 | | | 3,698,861 |
| Total Fund Balances | <u>5,593,569</u> | <u>130,704</u> | <u>1,663,494</u> | <u>7,387,767</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 13,801,791</u> | <u>\$ 202,756</u> | <u>\$ 1,685,765</u> | |

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 11,760,015

Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis 489,975

Deferred outflows of resources and deferred inflows of resources that do not provide or require the use of current financial resources are not reported within the funds:

Deferred outflows of resources attributable to net pension liability 331,318
Deferred inflows of resources attributable to net pension liability (143,937)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:

Bonds payable (1,679,426)
Accrued interest on long-term obligations (32,861)
Compensated absences payable (32,967)
Other post-employment benefits obligation (72,893)
Estimated liability for landfill post-closure care costs (189,000)
Net pension liability (2,959,713)

Net position of governmental activities \$ 14,858,278

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, 2015

| | General Fund | Road Improvements Fund | Nonmajor Governmental Funds | Total Governmental Funds | |
|---|---------------------|------------------------|-----------------------------|--------------------------|---------------------|
| Revenues: | | | | | |
| Taxes | \$ 4,163,118 | | \$ 376,107 | \$ 4,539,225 | |
| Licenses and permits | 1,464,297 | | | 1,464,297 | |
| Intergovernmental | 499,889 | | 219,611 | 719,500 | |
| Charges for services | 170,415 | | 467,346 | 637,761 | |
| Interest and investment income | 8,610 | \$ 938 | 2,269 | 11,817 | 905,536 |
| Miscellaneous | 49,202 | | 23,148 | 72,350 | |
| Total Revenues | 6,355,531 | 938 | 1,088,481 | 7,444,950 | (246,787) |
| Expenditures: | | | | | |
| Current operations: | | | | | |
| General government | 1,110,821 | | | 1,110,821 | |
| Public safety | 1,522,007 | | 621,121 | 2,143,128 | |
| Highways and streets | 1,010,621 | | 63,228 | 1,073,849 | |
| Sanitation | 209,619 | | | 209,619 | |
| Health and welfare | 59,081 | | 1,780 | 60,861 | |
| Culture and recreation | 256,319 | | 33,398 | 289,717 | |
| Economic development | 1,000 | | | 1,000 | |
| Capital outlay | 677,960 | 770,234 | | 1,448,194 | |
| Debt service: | | | | | |
| Principal retirement | 100,000 | | | 100,000 | |
| Interest and fiscal charges | 66,695 | | | 66,695 | |
| Total Expenditures | 5,014,123 | 770,234 | 719,527 | 6,503,884 | 123,375 |
| Excess of revenues over (under) expenditures | 1,341,408 | (769,296) | 368,954 | 941,066 | (13,029) |
| Other financing sources (uses): | | | | | |
| Transfers in | | | 269,703 | 269,703 | |
| Transfers out | (269,703) | | | (269,703) | |
| Total other financing sources (uses) | (269,703) | - | 269,703 | - | (56,344) |
| Net change in fund balances | 1,071,705 | (769,296) | 638,657 | 941,066 | 20,574 |
| Fund balances at beginning of year | 4,521,864 | 900,000 | 1,024,837 | 6,446,701 | |
| Fund balances at end of year | \$ 5,593,569 | \$ 130,704 | \$ 1,663,494 | \$ 7,387,767 | (44,994) |
| | | | | | \$ 1,649,271 |

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, 2015

| | |
|--|--------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 941,066 |
| 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. | 905,536 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (246,787) |
| Repayment of principal on bonds and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | 123,375 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | (13,029) |
| 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 contributions exceeded pension expense in the current period. | 19,874 |
| Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are unearned and amortized in the statement of activities. | 20,574 |
| Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss of disposed capital assets reduced by the actual proceeds received from the sale. | (56,344) |
| Some expenses reported in the statement of activities, such as compensated absences, other post-employment benefits, and the estimated liability for landfill post-closure care costs, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | (44,994) |
| Change in net position of governmental activities | \$ 1,649,271 |

EXHIBIT E
TOWN OF PEMBROKE, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
December 31, 2015

| | Business-type Activities | | |
|--|--------------------------|----------------------|---------------------|
| | Water <u>Fund</u> | Sewer <u>Fund</u> | <u>Totals</u> |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 135,057 | \$ 429,402 | \$ 564,459 |
| Investments | 29,833 | | 29,833 |
| Accounts receivable, net | 207,539 | 339,224 | 546,763 |
| Due from other funds | 380,147 | 404,939 | 785,086 |
| Inventory | 38,842 | | 38,842 |
| Total Current Assets | <u>791,418</u> | <u>1,173,565</u> | <u>1,964,983</u> |
| Noncurrent Assets: | | | |
| Non-depreciable capital assets | 541,824 | 40,896 | 582,720 |
| Depreciable capital assets, net | 2,553,616 | 1,492,795 | 4,046,411 |
| Total Noncurrent Assets | <u>3,095,440</u> | <u>1,533,691</u> | <u>4,629,131</u> |
| Total Assets | <u>3,886,858</u> | <u>2,707,256</u> | <u>6,594,114</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows of resources attributable to net pension liability | | 18,852 | 18,852 |
| Total Deferred Outflows of Resources | <u>-</u> | <u>18,852</u> | <u>18,852</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 56,078 | 17,425 | 73,503 |
| Retainage payable | 25,634 | | 25,634 |
| Accrued expenses | 5,282 | | 5,282 |
| Current portion of note payable | 76,516 | | 76,516 |
| Total Current Liabilities | <u>163,510</u> | <u>17,425</u> | <u>180,935</u> |
| Noncurrent Liabilities: | | | |
| Note payable | 579,818 | | 579,818 |
| Other post-employment benefits obligation | | 5,207 | 5,207 |
| Net pension liability | | 165,962 | 165,962 |
| Total Noncurrent Liabilities | <u>579,818</u> | <u>171,169</u> | <u>750,987</u> |
| Total Liabilities | <u>743,328</u> | <u>188,594</u> | <u>931,922</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources attributable to net pension liability | | 8,190 | 8,190 |
| Unearned user fees | | 810 | 810 |
| Total Deferred Inflows of Resources | <u>-</u> | <u>9,000</u> | <u>9,000</u> |
| NET POSITION | | | |
| Net investment in capital assets | 2,439,106 | 1,533,691 | 3,972,797 |
| Unrestricted | 704,424 | 994,823 | 1,699,247 |
| Total Net Position | <u>\$ 3,143,530</u> | <u>\$ 2,528,514</u> | <u>\$ 5,672,044</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, 2015

| | Business-type Activities | | |
|--|--------------------------|---------------------|---------------------|
| | Water Fund | Sewer Fund | Totals |
| Operating revenues: | | | |
| Charges for services, net | \$ 878,553 | \$ 1,086,563 | \$ 1,965,116 |
| Miscellaneous revenues | 10,519 | 2,224 | 12,743 |
| Total operating revenues | <u>889,072</u> | <u>1,088,787</u> | <u>1,977,859</u> |
| Operating expenses: | | | |
| Personnel services | 285,308 | 198,711 | 484,019 |
| Contractual services | 101,252 | 544,678 | 645,930 |
| Materials and supplies | 110,364 | 27,024 | 137,388 |
| Maintenance and repairs | 20,493 | 57,528 | 78,021 |
| Utilities | 65,216 | 19,009 | 84,225 |
| Depreciation | 131,408 | 133,324 | 264,732 |
| Miscellaneous expenses | 34,776 | 17,816 | 52,592 |
| Total operating expenses | <u>748,817</u> | <u>998,090</u> | <u>1,746,907</u> |
| Operating income | <u>140,255</u> | <u>90,697</u> | <u>230,952</u> |
| Non-operating revenues (expenses): | | | |
| Interest revenue | 240 | 127 | 367 |
| Interest expense | (22,644) | | (22,644) |
| Net non-operating revenues (expenses) | <u>(22,404)</u> | <u>127</u> | <u>(22,277)</u> |
| Change in net position | 117,851 | 90,824 | 208,675 |
| Total net position at beginning of year, as restated | <u>3,025,679</u> | <u>2,437,690</u> | <u>5,463,369</u> |
| Total net position at end of year | <u>\$ 3,143,530</u> | <u>\$ 2,528,514</u> | <u>\$ 5,672,044</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, 2015

| | Business-type Activities | | |
|---|--------------------------|-------------------|---------------------|
| | Water Fund | Sewer Fund | Totals |
| Cash flows from operating activities: | | | |
| Cash received from customers | \$ 851,751 | \$ 1,050,814 | \$ 1,902,565 |
| Cash paid to suppliers | (380,616) | (707,160) | (1,087,776) |
| Cash paid to employees | (231,477) | (146,218) | (377,695) |
| Net cash provided by operating activities | <u>239,658</u> | <u>197,436</u> | <u>437,094</u> |
| Cash flows from capital and related financing activities: | | | |
| Purchases of capital assets | (386,801) | (40,896) | (427,697) |
| Proceeds of note payable | 250,000 | | 250,000 |
| Principal paid on long-term debt | (64,868) | | (64,868) |
| Interest paid on long-term debt | (22,644) | | (22,644) |
| Net cash used for capital and related financing activities | <u>(224,313)</u> | <u>(40,896)</u> | <u>(265,209)</u> |
| Cash flows from investing activities: | | | |
| Purchase of investments | (196) | | (196) |
| Interest on investments | 240 | 127 | 367 |
| Net cash provided by investing activities | <u>44</u> | <u>127</u> | <u>171</u> |
| Net increase in cash and cash equivalents | 15,389 | 156,667 | 172,056 |
| Cash and cash equivalents at beginning of year | <u>499,815</u> | <u>677,674</u> | <u>1,177,489</u> |
| Cash and cash equivalents at end of year | <u>\$ 515,204</u> | <u>\$ 834,341</u> | <u>\$ 1,349,545</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | \$ 140,255 | \$ 90,697 | \$ 230,952 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation expense | 131,408 | 133,324 | 264,732 |
| Change in deferred outflows related to pension | | (6,984) | (6,984) |
| Change in deferred inflows related to pension | | (10,917) | (10,917) |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (37,321) | (37,973) | (75,294) |
| Inventory | 279 | | 279 |
| Accounts payable | 2,897 | 12,972 | 15,869 |
| Accrued expenses | 2,140 | | 2,140 |
| Other post-employment benefits obligation | | (314) | (314) |
| Net pension liability | | 16,631 | 16,631 |
| Net cash provided by operating activities | <u>\$ 239,658</u> | <u>\$ 197,436</u> | <u>\$ 437,094</u> |
| Non-cash transactions affecting financial position: | | | |
| Capital asset additions included in year end liabilities | <u>\$ 75,634</u> | <u>\$ -</u> | <u>\$ 75,634</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, 2015

| | Agency Funds |
|---------------------------|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 975,831 |
| Investments | 839,091 |
| Due from other funds | <u>428</u> |
| Total Assets | <u><u>\$ 1,815,350</u></u> |
| LIABILITIES | |
| Deposits | \$ 37,614 |
| Due to other governments | 1,777,308 |
| Due to others | <u>428</u> |
| Total Liabilities | <u><u>\$ 1,815,350</u></u> |

See accompanying notes to the basic financial statements

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015

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, 2015

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 *Road Improvements Fund* accounts for the financial transactions related to the roadway improvement and reconstruction projects of Town streets.

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, 2015

Measurement Focus

1. Government-Wide Financial Statements:

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

2. Fund Financial Statements:

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

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

Basis of Accounting

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

1. Revenues – Exchange and Non-exchange Transactions:

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

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (see Note 12). Revenue from

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Town must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

2. Unearned Revenue:

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

3. Expenses/Expenditures:

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

Budgetary Data

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

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended December 31, 2015, the Town applied \$445,000 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.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

Inventory

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

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

Capital Assets

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

All capital assets including infrastructure and intangible assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair values as of the date received. The Town maintains a capitalization threshold of \$10,000. The Town's infrastructure consists of roads, water purification and distribution system, sewer collection and treatment system, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction phase of capital assets of business-type activities is also capitalized.

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

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. No payment

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

for unused sick leave is made upon involuntary termination. Town employees earn vacation at 80-120 hours per year dependent on length of service. Vacation can only be accrued up to 80 hours. A provision has been made in the financial statements for accrued/unused vacation.

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

Accrued Liabilities and Long-Term Obligations

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

Pensions

During the year ended December 31, 2015, the Town adopted Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for 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, 2015

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, 2015

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, 2015 are classified in the accompanying financial statements as follows:

| | |
|--------------------------------------|----------------------|
| Statement of Net Position: | |
| Cash and cash equivalents | \$ 13,407,535 |
| Investments | 100,873 |
| Statement of Fiduciary Net Position: | |
| Cash and cash equivalents | 975,831 |
| Investments | 839,091 |
| Total deposits and investments | <u>\$ 15,323,330</u> |

Deposits and investments as of December 31, 2015 consist of the following:

| | |
|--------------------------------------|----------------------|
| Cash on hand | \$ 1,198 |
| Deposits with financial institutions | 14,412,001 |
| Investments | 910,131 |
| Total deposits and investments | <u>\$ 15,323,330</u> |

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

Credit Risk

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

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

| <u>Investment Type</u> | <u>Not rated</u> |
|---------------------------|-------------------|
| Open end mutual funds | \$ 96,021 |
| Closed end mutual funds | 8,503 |
| Money market mutual funds | 62,023 |
| | <u>\$ 166,547</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, \$13,328,547 was collateralized by securities held by the bank in the bank's name, and \$106,033 was uninsured and uncollateralized.

As of December 31, 2015, 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 | \$ 743,584 |
| Closed end mutual funds | 8,503 |
| | <u>\$ 752,087</u> |

NOTE 3—CASH AND CASH EQUIVALENTS

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

| | Water Fund | Sewer Fund | Totals |
|---------------------------------|-------------------|-------------------|---------------------|
| Cash and cash equivalents | \$ 135,057 | \$ 429,402 | \$ 564,459 |
| Due from other funds | 380,147 | 404,939 | 785,086 |
| Total cash and cash equivalents | <u>\$ 515,204</u> | <u>\$ 834,341</u> | <u>\$ 1,349,545</u> |

NOTE 4—TAXES RECEIVABLE

Taxes levied during the current year and prior and uncollected at December 31, 2015 are recorded as receivables net of reserves for estimated uncollectibles of \$149,447.

NOTE 5—ACCOUNTS RECEIVABLE

Accounts receivable are recorded net of reserves for estimated uncollectibles of \$402,218 in the ambulance fund (a nonmajor governmental fund) and \$47,031 in the sewer fund.

NOTE 6—CAPITAL ASSETS

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

| | Balance 01/01/15 | Additions | Reductions | Balance 12/31/15 |
|---|----------------------|-------------------|--------------------|----------------------|
| Governmental activities: | | | | |
| Capital assets not depreciated: | | | | |
| Land | \$ 2,659,269 | | \$ (56,344) | \$ 2,602,925 |
| Easements | 608,579 | | | 608,579 |
| Construction in progress | | \$ 833,461 | | 833,461 |
| Total capital assets not being depreciated | <u>3,267,848</u> | <u>833,461</u> | <u>(56,344)</u> | <u>4,044,965</u> |
| Other capital assets: | | | | |
| Intangible assets | 60,960 | | | 60,960 |
| Infrastructure | 4,583,152 | 260,683 | | 4,843,835 |
| Buildings and improvements | 3,843,700 | 41,186 | | 3,884,886 |
| Vehicles and equipment | 5,914,456 | 316,452 | | 6,230,908 |
| Total other capital assets at historical cost | <u>14,402,268</u> | <u>618,321</u> | <u>-</u> | <u>15,020,589</u> |
| Less accumulated depreciation for: | | | | |
| Intangible assets | (12,192) | (6,096) | | (18,288) |
| Infrastructure | (596,005) | (121,095) | | (717,100) |
| Buildings and improvements | (2,747,675) | (89,042) | | (2,836,717) |
| Vehicles and equipment | (3,403,421) | (330,013) | | (3,733,434) |
| Total accumulated depreciation | <u>(6,759,293)</u> | <u>(546,246)</u> | <u>-</u> | <u>(7,305,539)</u> |
| Total other capital assets, net | <u>7,642,975</u> | <u>72,075</u> | <u>-</u> | <u>7,715,050</u> |
| Total capital assets, net | <u>\$ 10,910,823</u> | <u>\$ 905,536</u> | <u>\$ (56,344)</u> | <u>\$ 11,760,015</u> |

Depreciation expense was charged to governmental functions as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

| | |
|--|-------------------|
| General government | \$ 171,403 |
| Public safety | 102,810 |
| Highways and streets | 270,818 |
| Culture and recreation | 1,215 |
| Total governmental activities depreciation expense | <u>\$ 546,246</u> |

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

| | <u>Balance</u> <u>01/01/15</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>12/31/15</u> |
|---|-----------------------------------|------------------|-------------------|-----------------------------------|
| Business-type activities: | | | | |
| Capital assets not depreciated: | | | | |
| Land | \$ 31,935 | \$ 40,896 | | \$ 72,831 |
| Construction in progress | 241,344 | 268,545 | | 509,889 |
| Total capital assets not being depreciated | <u>273,279</u> | <u>309,441</u> | <u>\$ -</u> | <u>582,720</u> |
| Other capital assets: | | | | |
| Intangible assets | 29,000 | 12,900 | | 41,900 |
| Building and improvements | 272,333 | | | 272,333 |
| Water infrastructure | 2,373,456 | | | 2,373,456 |
| Sewer infrastructure | 3,417,224 | | | 3,417,224 |
| Machinery, vehicles, and equipment | 3,070,233 | 34,323 | | 3,104,556 |
| Other | 29,865 | | | 29,865 |
| Total other capital assets at historical cost | <u>9,192,111</u> | <u>47,223</u> | <u>-</u> | <u>9,239,334</u> |
| Less accumulated depreciation for: | | | | |
| Intangible assets | (5,800) | (4,190) | | (9,990) |
| Building and improvements | (208,635) | (5,791) | | (214,426) |
| Water infrastructure | (953,109) | (51,565) | | (1,004,674) |
| Sewer infrastructure | (1,956,133) | (113,907) | | (2,070,040) |
| Machinery, vehicles, and equipment | (1,774,649) | (89,279) | | (1,863,928) |
| Other | (29,865) | | | (29,865) |
| Total accumulated depreciation | <u>(4,928,191)</u> | <u>(264,732)</u> | <u>-</u> | <u>(5,192,923)</u> |
| Total other capital assets, net | <u>4,263,920</u> | <u>(217,509)</u> | <u>-</u> | <u>4,046,411</u> |
| Total capital assets, net | <u>\$ 4,537,199</u> | <u>\$ 91,932</u> | <u>\$ -</u> | <u>\$ 4,629,131</u> |

Depreciation expense was charged to the proprietary funds as follows:

| | |
|---|-------------------|
| Water Fund | \$ 131,408 |
| Sewer Fund | 133,324 |
| Total business-type activities depreciation expense | <u>\$ 264,732</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, 2015 are as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

| | Due to | | Due from |
|--|--------|-----------------------------|---------------------|
| | | | General Fund |
| | | Nonmajor Governmental Funds | \$ 1,522,082 |
| | | Water Fund | 380,147 |
| | | Sewer Fund | 404,939 |
| | | Fiduciary Funds | 428 |
| | | | <u>\$ 2,307,596</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, 2015, the General Fund transferred \$269,703 to the Nonmajor Governmental Funds.

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, 2015 are as follows:

| | Balance 01/01/15 | Additions | Reductions | Balance 12/31/15 | Due Within One Year |
|----------------------------------|---------------------|-------------------|---------------------|---------------------|------------------------|
| <i>Governmental activities:</i> | | | | | |
| Bonds payable | \$ 1,732,000 | | \$ (100,000) | \$ 1,632,000 | \$ 382,000 |
| Unamortized bond premium | 68,000 | | (20,574) | 47,426 | 26,514 |
| Total bonds payable | 1,800,000 | \$ - | (120,574) | 1,679,426 | 408,514 |
| Notes payable | 23,375 | | (23,375) | - | - |
| Compensated absences payable | 32,576 | 4,611 | (4,220) | 32,967 | - |
| Total governmental activities | <u>\$ 1,855,951</u> | <u>\$ 4,611</u> | <u>\$ (148,169)</u> | <u>\$ 1,712,393</u> | <u>\$ 408,514</u> |
| <i>Business-type activities:</i> | | | | | |
| Notes payable | \$ 471,202 | \$ 250,000 | \$ (64,868) | \$ 656,334 | \$ 76,516 |
| Total business-type activities | <u>\$ 471,202</u> | <u>\$ 250,000</u> | <u>\$ (64,868)</u> | <u>\$ 656,334</u> | <u>\$ 76,516</u> |

Payments on the general obligation bonds of the governmental activities are paid out of the General Fund. Amortization of the bond premium is recognized as a component of interest expense on the government-wide financial statements. Payments on the notes payable of the governmental activities and the business-type activities are paid out of the Ambulance Fund (a nonmajor governmental fund) and the Water Fund, respectively. 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, 2015 are comprised of the following individual issues:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

| | |
|---|---------------------|
| \$2,560,000, 2003 Safety complex and refunding, due in annual installments of \$100,000 through July 2023, interest at 3.25-4.6% | \$ 800,000 |
| \$832,000, 2014 Roadway Improvement bonds, due in varying annual installments of \$270,000 - \$282,000 through February 2018, interest at 5.10% | 832,000 |
| | <u>1,632,000</u> |
| Add: Unamortized bond premium | 47,426 |
| | <u>\$ 1,679,426</u> |

Debt service requirements to retire general obligation bonds outstanding for governmental activities at December 31, 2015 are as follows:

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------------|---------------------|-------------------|---------------------|
| 2016 | \$ 382,000 | \$ 70,591 | \$ 452,591 |
| 2017 | 380,000 | 52,110 | 432,110 |
| 2018 | 370,000 | 33,835 | 403,835 |
| 2019 | 100,000 | 22,600 | 122,600 |
| 2020 | 100,000 | 18,150 | 118,150 |
| 2021-2023 | 300,000 | 27,400 | 327,400 |
| Total | <u>1,632,000</u> | <u>224,686</u> | <u>1,856,686</u> |
| Add: <i>Bond Premium</i> | 47,426 | | 47,426 |
| | <u>\$ 1,679,426</u> | <u>\$ 224,686</u> | <u>\$ 1,904,112</u> |

Business-type Activities

Notes payable

The notes payable at December 31, 2015 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 | \$ 262,381 |
| \$250,000, 2015 Water line construction note, due in monthly installments of \$2,449, including interest at 3.30%, through May 2025 | 237,594 |
| \$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 | 156,359 |
| | <u>\$ 656,334</u> |

Debt service requirements to retire the notes payable for business-type activities at December 31, 2015 are as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------------|-------------------|------------------|-------------------|
| 2016 | \$ 76,516 | \$ 23,240 | \$ 99,756 |
| 2017 | 79,475 | 20,281 | 99,756 |
| 2018 | 82,550 | 17,206 | 99,756 |
| 2019 | 201,211 | 10,411 | 211,622 |
| 2020 | 77,778 | 6,280 | 84,058 |
| 2021-2025 | 138,804 | 9,286 | 148,090 |
| | <u>\$ 656,334</u> | <u>\$ 86,704</u> | <u>\$ 743,038</u> |

Authorized and Unissued Debt

As of December 31, 2015, the Town had the following debt authorized and unissued:

| <u>Description</u> | <u>Amount</u> |
|--|---------------------|
| Loop Road construction | \$ 4,000,000 |
| Roadway improvement and reconstruction | 904,000 |
| Water line improvements | 50,000 |
| | <u>\$ 4,954,000</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 \$189,000 as of December 31, 2015. 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, 2015. 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, 2015:

| | |
|---|-------------------|
| Balance - January 1, 2015 | \$ 140,000 |
| Change in estimated liability | 55,123 |
| Expenditures recognized in General Fund | (6,123) |
| Balance - December 31, 2015 | <u>\$ 189,000</u> |

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-

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

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.

Substantially all full-time state employees, public school teachers and administrators, 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 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 a nonvested 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% or age 60.

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 are required to contribute 11.55% of their covered salary, whereas general employees are required to contribute 7.0% of their covered salary. The Town is required to contribute at an actuarially determined rate. The Town's pension contribution rates for the covered payroll of police officers and general employees were 21.35% and 10.44%, respectively through June 30, 2015 and 22.54% and 10.86%, respectively thereafter. The Town contributed 100% of the employer cost for public safety and general employees of the Town.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

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 \$274,762 for the year ending December 31, 2015.

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

At December 31, 2015, the Town reported a liability of \$3,125,675 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014. 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, 2015, the Town's proportion was approximately 0.0789 percent, which was an increase of 0.004 percentage points from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Town recognized pension expense of \$253,628. At December 31, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | Deferred Outflows of <u>Resources</u> | Deferred Inflows of <u>Resources</u> |
|---|---|--|
| Differences between expected and actual experience | | \$ 68,590 |
| Net difference between projected and actual earnings on pension plan investments | | 83,537 |
| Changes in proportion and differences between Town contributions and share of contributions | \$ 210,937 | |
| Town contributions subsequent to the measurement date | <u>139,233</u> | |
| Totals | <u>\$ 350,170</u> | <u>\$ 152,127</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 \$198,043. The Town reported \$139,233 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 year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| <u>Year Ending December 31,</u> | |
|-------------------------------------|------------------|
| 2016 | \$ (8,507) |
| 2017 | (8,507) |
| 2018 | (8,507) |
| 2019 | 78,190 |
| 2020 | <u>6,141</u> |
| | <u>\$ 58,810</u> |

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

Actuarial Assumptions

The total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to 2015 measurements:

| | |
|---------------------------|---|
| Inflation | 3.0 percent |
| Wage inflation | 3.75 percent |
| Salary increases | 5.8 percent, average, including inflation |
| Investment rate of return | 7.75 percent, net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2000 mortality table projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

Retirement rates were based on a table of rates that are specific to the type of eligibility condition, last updated in 2011 pursuant to an experience study of the period 2005-2010.

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 3.0%)</u> |
|----------------------|--------------------------|--|
| Fixed income | 25% | (1.0)-0.28% |
| Domestic equity | 30% | 3.0% |
| International equity | 20% | 4.0-6.0% |
| Real estate | 10% | 3.5% |
| Private equity | 5% | 5.5% |
| Private debt | 5% | 4.5% |
| Opportunistic | 5% | 2.75% |
| Total | <u>100%</u> | |

Discount Rate

The discount rate used to measure the collective pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee 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. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

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 7.75 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:

| | 1% Decrease (6.75%) | Discount rate (7.75%) | 1% Increase (8.75%) |
|---|------------------------|--------------------------|------------------------|
| Town's proportionate share of the net pension liability | \$ 4,114,545 | \$ 3,125,675 | \$ 2,282,658 |

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 must reach age 50 with 10 years of service, obtain 20 years of service and 70 points (the sum of age plus years of service) or reach age 60 with no service to qualify for this benefit. Public safety employees are required to reach age 45 with 20 years of service or reach age 60 with no service to qualify for this benefit. Retirees pay the full cost of the health care coverage. This valuation does not account for the cost of benefits to retirees or their spouses after age 65. Surviving beneficiaries continue to receive medical coverage after the death of the eligible retired employee as long as they pay the required premiums. This valuation does not account for the cost of benefits to survivors. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of January 1, 2013, the actuarial valuation date, participants of the postretirement plan that meet eligibility requirements are comprised of 6 retirees and 30 active employees with 6 currently eligible to retire. The plan does not issue a separate financial report.

Annual OPEB Costs

The Town's fiscal 2014 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, 2015 including the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2013 is as follows:

| | |
|---|------------------|
| Annual required contribution | \$ 64,552 |
| Interest on net OPEB obligation | 3,312 |
| NOO amortization adjustment to ARC | (3,291) |
| Annual OPEB cost | 64,573 |
| Contributions made | (69,284) |
| Decrease in net OPEB obligation | (4,711) |
| Net OPEB obligation - beginning of year | 82,811 |
| Net OPEB obligation - end of year | <u>\$ 78,100</u> |

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

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, 2015, 2014 and 2013 are as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|----------------------------------|-----------------------------|--|--------------------------------|
| 12/31/2015 | \$ 64,573 | 107.3% | \$ 78,100 |
| 12/31/2014 | \$ 64,572 | 92.6% | \$ 82,811 |
| 12/31/2013 | \$ 64,570 | 85.0% | \$ 78,034 |

The Town's net OPEB obligation as of December 31, 2015 is recognized as a liability in these financial statements.

Funded Status and Funding Progress for OPEB

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

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

The alternative measurement valuation involves estimates of the value of reported amounts and assumptions about the probability of events in the future. The total cost of providing post-employment benefits is projected, taking into account assumptions about current claim cost, turnover, mortality, health care trends, and other actuarial assumptions. Internally generated key assumptions, based on recent trends within the Town, include general considerations, expected point at which benefits begin, and marital dependency status. Mortality assumptions were derived from the RP-2000 Mortality Table. The assumption on health care trends was provided by an independent company that assisted the Town in the preparation of the alternative measurement method for GASB 45. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, when available.

Actuarial Methods and Assumptions for OPEB

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

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

In the January 1, 2013 actuarial valuation, the Projected Unit Credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an annual healthcare cost trend rate of 9.0% initially, and then reduced by 0.5% decrements to an ultimate rate of 5.0% after 8 years. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level percentage of payroll for a period of thirty years on an open group basis. This has been calculated assuming the amortization payment increases at a rate of 3.0% per year.

NOTE 12—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$597,627,120 as of April 1, 2015) and are due in two installments on July 1, 2015 and December 21, 2015. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

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

In accordance with State law, the Town collects taxes for the Pembroke School District and Merrimack County, both independent governmental units, which are remitted to them as required by law. The Town also collects State of New Hampshire education taxes, which are remitted directly to the school district. Total taxes appropriated during the year were \$11,180,273 and \$1,695,003 for the Pembroke School District and Merrimack County, respectively. These taxes are not recognized as revenues in these financial statements. At December 31, 2015, the balance of the property tax appropriation due to the Pembroke School District is \$5,180,273. The Town bears responsibility for uncollected taxes.

NOTE 13—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

| | Governmental <u>Activities</u> |
|----------------------------------|-----------------------------------|
| Permanent Funds - Principal | \$ 41,403 |
| Permanent Funds - Income | 34,318 |
| Road Improvements | 130,704 |
| Tax Increment Financing District | 782,935 |
| Christmas Donations Fund | 210 |
| Police Grants Fund | 5,510 |
| Grants Fund | 4,821 |
| | <u>\$ 999,901</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, 2015

| <u>Fund Balances</u> | <u>General Fund</u> | <u>Road Improvements Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|----------------------------------|-------------------------|---------------------------------------|--|---|
| Nonspendable: | | | | |
| Permanent Funds - Principal | | | \$ 41,403 | \$ 41,403 |
| Prepaid expenses | \$ 6,376 | | | 6,376 |
| Restricted for: | | | | |
| Permanent Funds - Income | | | 34,318 | 34,318 |
| Road Improvements | | \$ 130,704 | | 130,704 |
| Tax Increment Financing District | | | 782,935 | 782,935 |
| Christmas Donations Fund | | | 210 | 210 |
| Police Grants Fund | | | 5,510 | 5,510 |
| Grants Fund | | | 4,821 | 4,821 |
| Library operations | 6,762 | | | 6,762 |
| Committed for: | | | | |
| Police Details Fund | | | 35,629 | 35,629 |
| Conservation Commission | | | 186,629 | 186,629 |
| Ambulance Fund | | | 545,484 | 545,484 |
| Expendable Trust Funds | 1,575,159 | | | 1,575,159 |
| Assigned for: | | | | |
| Recreation Fund | | | 26,460 | 26,460 |
| Town Clock Fund | | | 95 | 95 |
| Encumbrances | 306,411 | | | 306,411 |
| Unassigned: | | | | |
| Unassigned - General operations | 3,698,861 | | | 3,698,861 |
| | <u>\$ 5,593,569</u> | <u>\$ 130,704</u> | <u>\$ 1,663,494</u> | <u>\$ 7,387,767</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, 2015, 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, 2015.

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.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

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—RESTATEMENT OF NET POSITION

During the year ended December 31, 2015, the Town adopted Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions*, as described in Note 1 of these financial statements.

Government-Wide Statements

The impact on net position of the Governmental Activities and Business-type Activities as of January 1, 2015 is as follows:

| | Governmental <u>Activities</u> | Business-type <u>Activities</u> |
|---|-----------------------------------|------------------------------------|
| Net Position - January 1, 2015 (as previously reported) | \$ 16,001,213 | \$ 5,619,939 |
| Amount of restatement due to: | | |
| Net pension liability | (2,663,116) | (149,331) |
| Deferred inflows related to pension | (340,748) | (19,107) |
| Deferred outflows related to pension | 89,352 | 5,010 |
| Contributions subsequent to measurement date | 122,306 | 6,858 |
| Net Position - January 1, 2015, as restated | <u>\$ 13,209,007</u> | <u>\$ 5,463,369</u> |

Proprietary Funds

The impact on net position of the Sewer Fund as of January 1, 2015 is as follows:

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2015

| | |
|---|---------------------|
| Net Position - January 1, 2015 (as previously reported) | \$ 2,594,260 |
| Amount of restatement due to: | |
| Net pension liability | (149,331) |
| Deferred inflows related to pension | (19,107) |
| Deferred outflows related to pension | 5,010 |
| Contributions subsequent to measurement date | 6,858 |
| Net Position - January 1, 2015, as restated | <u>\$ 2,437,690</u> |

NOTE 18—SUBSEQUENT EVENT

Bond Authorization

At the March 2016 annual town meeting, the voters authorized a bond issuance of \$800,000 for the purpose of replacing the Bow Lane pumping station. Funding for these debt service payments will come from the sewer user fees.

Bond Anticipation Notes

During August 2016, the Town issued a \$3,500,000 bond anticipation note to finance the construction of continuing the Loop Road. This bond anticipation note has an interest rate of 0.90% and matures on July 21, 2017.

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, 2015

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Favorable (Unfavorable) |
|--------------------------------------|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Taxes | \$ 3,972,714 | \$ 3,972,714 | \$ 3,916,331 | \$ (56,383) |
| Licenses and permits | 1,200,110 | 1,200,110 | 1,464,297 | 264,187 |
| Intergovernmental | 646,317 | 503,105 | 499,889 | (3,216) |
| Charges for services | 116,800 | 116,800 | 170,415 | 53,615 |
| Interest and investment income | 8,000 | 8,000 | 8,475 | 475 |
| Miscellaneous | 24,600 | 24,600 | 39,547 | 14,947 |
| Total Revenues | <u>5,968,541</u> | <u>5,825,329</u> | <u>6,098,954</u> | <u>273,625</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,136,955 | 1,136,955 | 1,093,916 | 43,039 |
| Public safety | 1,690,483 | 1,690,483 | 1,521,954 | 168,529 |
| Highways and streets | 1,141,851 | 1,141,851 | 1,016,945 | 124,906 |
| Sanitation | 278,800 | 278,800 | 209,619 | 69,181 |
| Health and welfare | 109,570 | 109,570 | 58,501 | 51,069 |
| Culture and recreation | 40,775 | 40,775 | 33,182 | 7,593 |
| Economic development | 355 | 355 | 1,000 | (645) |
| Capital outlay | 1,215,105 | 1,071,893 | 899,499 | 172,394 |
| Debt service: | | | | |
| Principal retirement | 100,000 | 100,000 | 100,000 | - |
| Interest and fiscal charges | 66,697 | 66,697 | 66,695 | 2 |
| Total Expenditures | <u>5,780,591</u> | <u>5,637,379</u> | <u>5,001,311</u> | <u>636,068</u> |
| Excess of revenues over expenditures | <u>187,950</u> | <u>187,950</u> | <u>1,097,643</u> | <u>909,693</u> |
| Other financing sources (uses): | | | | |
| Transfers in | 489,103 | 489,103 | 365,305 | (123,798) |
| Transfers out | (1,122,053) | (1,122,053) | (1,122,053) | - |
| Total other financing sources (uses) | <u>(632,950)</u> | <u>(632,950)</u> | <u>(756,748)</u> | <u>(123,798)</u> |
| Net change in fund balance | (445,000) | (445,000) | 340,895 | 785,895 |
| Fund balance at beginning of year | | | | |
| - Budgetary Basis | <u>3,854,317</u> | <u>3,854,317</u> | <u>3,854,317</u> | <u>-</u> |
| Fund balance at end of year | | | | |
| - Budgetary Basis | <u>\$ 3,409,317</u> | <u>\$ 3,409,317</u> | <u>\$ 4,195,212</u> | <u>\$ 785,895</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, 2015

| <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> |
|---|--|--|------------------------------------|-------------------------|----------------------------|--|
| 1/1/2013 | \$ - | \$ 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, 2015

| | For the Measurement Period Ended June 30: | | |
|---|---|--------------|--------------|
| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
| Town's proportion of the net pension liability (asset) | 0.0789% | 0.0749% | 0.0723% |
| Town's proportionate share of the net pension liability (asset) | \$ 3,125,675 | \$ 2,812,447 | \$ 3,109,853 |
| Town's covered-employee payroll | \$ 1,883,624 | \$ 1,737,816 | \$ 1,626,500 |
| Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 165.94% | 161.84% | 191.20% |
| Plan fiduciary net position as a percentage of the total pension liability | 65.47% | 66.32% | 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, 2015

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|------------------|
| Contractually required contribution | \$ 274,762 | \$ 252,319 | \$ 210,019 |
| Contributions in relation to the contractually required contribution | <u>(274,762)</u> | <u>(252,319)</u> | <u>(210,019)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Town's covered-employee payroll | \$ 1,908,543 | \$ 1,812,810 | \$ 1,683,999 |
| Contributions as a percentage of covered-employee payroll | 14.40% | 13.92% | 12.47% |

See accompanying notes to the required supplementary information

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2015

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 in and out as follows:

| | Revenues and Other Financing <u>Sources</u> | Expenditures and Other Financing <u>Uses</u> |
|---|--|---|
| Per Exhibit D | \$ 6,355,531 | \$ 5,283,826 |
| Difference in property taxes meeting susceptible to accrual criteria | (246,787) | |
| Encumbrances - December 31, 2015 | | 306,411 |
| Encumbrances - December 31, 2014 | | (83,926) |
| Non-budgetary revenues and expenditures | (9,790) | (235,297) |
| Budgetary transfers in and out | 365,305 | 852,350 |
| Per Schedule 1 | <u>\$ 6,464,259</u> | <u>\$ 6,123,364</u> |

NOTE 2—BUDGETARY FUND BALANCES

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

| | |
|---------------------------------|---------------------|
| Nonspendable: | |
| Prepaid expenses | \$ 6,376 |
| Unassigned: | |
| Unassigned - General operations | 4,188,836 |
| | <u>\$ 4,195,212</u> |

NOTE 3—SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS

In accordance with GASB Statement #45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, the Town is required to disclose the schedule of funding progress for each of the three most recent actuarial valuations. The Town implemented the provisions of GASB Statement #45 during the year ended December 31, 2010. Accordingly, the funding progress has only been presented for the two most recent actuarial valuation reports. Additional disclosures will be made as the information becomes available.

TOWN OF PEMBROKE, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
December 31, 2015

**NOTE 4— 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. 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.

SCHEDULE A
TOWN OF PEMBROKE, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Funds
December 31, 2015

| | Total Special Revenue Funds | TIF District Capital Projects Fund | Permanent Funds | Total Nonmajor Funds |
|---|--------------------------------------|---|--------------------|----------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | | | \$ 4,681 | \$ 4,681 |
| Investments | | | 71,040 | 71,040 |
| Accounts receivable, net | \$ 87,962 | | | 87,962 |
| Due from other funds | 739,147 | \$ 782,935 | | 1,522,082 |
| Total Assets | <u>827,109</u> | <u>782,935</u> | <u>75,721</u> | <u>1,685,765</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Total Deferred Outflows of Resources | - | - | - | - |
| Total Assets and Deferred Outflows of Resources | <u>\$ 827,109</u> | <u>\$ 782,935</u> | <u>\$ 75,721</u> | <u>\$ 1,685,765</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 7,133 | | | \$ 7,133 |
| Accrued expenses | 15,138 | | | 15,138 |
| Total Liabilities | <u>22,271</u> | <u>\$ -</u> | <u>\$ -</u> | <u>22,271</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Total Deferred Inflows of Resources | - | - | - | - |
| FUND BALANCES | | | | |
| Nonspendable | | | 41,403 | 41,403 |
| Restricted | 10,541 | 782,935 | 34,318 | 827,794 |
| Committed | 767,742 | | | 767,742 |
| Assigned | 26,555 | | | 26,555 |
| Total Fund Balances | <u>804,838</u> | <u>782,935</u> | <u>75,721</u> | <u>1,663,494</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 827,109</u> | <u>\$ 782,935</u> | <u>\$ 75,721</u> | <u>\$ 1,685,765</u> |

SCHEDULE A-1
TOWN OF PEMBROKE, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Special Revenue Funds
December 31, 2015

| | Recreation Fund | Police Details Fund | Christmas Donations Fund | Town Clock Fund | Police Grants Fund | Conservation Commission Fund | Grants Fund | Ambulance Fund | Total Special Revenue Funds |
|---|--------------------|---------------------------|--------------------------------|-----------------------|--------------------------|------------------------------------|----------------|-------------------|--------------------------------------|
| ASSETS | | | | | | | | | |
| Accounts receivable, net | \$ 27,650 | \$ 1,594 | \$ 1,990 | \$ 95 | \$ 5,920 | \$ 186,629 | \$ 4,821 | \$ 86,368 | \$ 87,962 |
| Due from other funds | <u>27,650</u> | <u>34,035</u> | <u>1,990</u> | <u>95</u> | <u>5,920</u> | <u>186,629</u> | <u>4,821</u> | <u>478,007</u> | <u>739,147</u> |
| Total Assets | | | | | | | | | <u>827,109</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | | | |
| Total Deferred Outflows of Resources | | | | | | | | | |
| Total Assets and Deferred Outflows of Resources | | | | | | | | | |
| LIABILITIES | | | | | | | | | |
| Accounts payable | \$ 1,190 | | \$ 1,780 | | \$ 410 | | | \$ 3,753 | \$ 7,133 |
| Accrued expenses | <u>1,190</u> | <u>\$ -</u> | <u>1,780</u> | <u>\$ -</u> | <u>410</u> | <u>\$ -</u> | <u>\$ -</u> | <u>15,138</u> | <u>15,138</u> |
| Total Liabilities | | | | | | | | | <u>22,271</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | | | |
| Total Deferred Inflows of Resources | | | | | | | | | |
| FUND BALANCES | | | | | | | | | |
| Restricted | | | 210 | | 5,510 | | 4,821 | | 10,541 |
| Committed | | | | | | | | 545,484 | 767,742 |
| Assigned | 26,460 | 35,629 | | 95 | | 186,629 | | | 26,555 |
| Total Fund Balances | <u>26,460</u> | <u>35,629</u> | <u>210</u> | <u>95</u> | <u>5,510</u> | <u>186,629</u> | <u>4,821</u> | <u>545,484</u> | <u>804,838</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 27,650 | \$ 35,629 | \$ 1,990 | \$ 95 | \$ 5,920 | \$ 186,629 | \$ 4,821 | \$ 564,375 | \$ 827,109 |

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, 2015

| | Total Special Revenue Funds | TIF District Capital Projects Fund | Permanent Funds | Total Nonmajor Funds |
|---|--------------------------------------|---|--------------------|----------------------------|
| Revenues: | | | | |
| Taxes | \$ 17,850 | \$ 358,257 | | \$ 376,107 |
| Intergovernmental revenue | 219,611 | | | 219,611 |
| Charges for services | 467,346 | | | 467,346 |
| Interest and investment income | | | \$ 2,269 | 2,269 |
| Miscellaneous | 23,148 | | | 23,148 |
| Total Revenues | <u>727,955</u> | <u>358,257</u> | <u>2,269</u> | <u>1,088,481</u> |
| Expenditures: | | | | |
| Current operations: | | | | |
| Public safety | 621,121 | | | 621,121 |
| Highways and streets | | 63,228 | | 63,228 |
| Health and welfare | 1,780 | | | 1,780 |
| Culture and recreation | 32,898 | | 500 | 33,398 |
| Total Expenditures | <u>655,799</u> | <u>63,228</u> | <u>500</u> | <u>719,527</u> |
| Excess of revenues over (under) expenditures | <u>72,156</u> | <u>295,029</u> | <u>1,769</u> | <u>368,954</u> |
| Other financing sources: | | | | |
| Transfers in | 269,703 | | | 269,703 |
| Total other financing sources | <u>269,703</u> | <u>-</u> | <u>-</u> | <u>269,703</u> |
| Net change in fund balances | 341,859 | 295,029 | 1,769 | 638,657 |
| Fund balances at beginning of year | <u>462,979</u> | <u>487,906</u> | <u>73,952</u> | <u>1,024,837</u> |
| Fund balances at end of year | <u>\$ 804,838</u> | <u>\$ 782,935</u> | <u>\$ 75,721</u> | <u>\$ 1,663,494</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, 2015

| | 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 | | | | | | \$ 17,850 | \$ 1,060 | \$ 211,909 | \$ 17,850 |
| Intergovernmental revenue | | \$ 6,642 | | | | | | | 219,611 |
| Charges for services | \$ 27,810 | 25,303 | | | | | | 414,233 | 467,346 |
| Miscellaneous | 7,740 | | \$ 1,755 | \$ 90 | \$ 3,558 | 4,005 | 3,500 | 2,500 | 23,148 |
| Total Revenues | <u>35,550</u> | <u>31,945</u> | <u>1,755</u> | <u>90</u> | <u>3,558</u> | <u>21,855</u> | <u>4,560</u> | <u>628,642</u> | <u>727,955</u> |
| Expenditures: | | | | | | | | | |
| Current operations: | | | | | | | | | |
| Public safety | | 23,969 | 1,780 | | 2,144 | | 1,772 | 593,236 | 621,121 |
| Health and welfare | | | | | | 5,059 | | | 1,780 |
| Culture and recreation | 27,839 | | | | | | | | 32,898 |
| Total Expenditures | <u>27,839</u> | <u>23,969</u> | <u>1,780</u> | <u>-</u> | <u>2,144</u> | <u>5,059</u> | <u>1,772</u> | <u>593,236</u> | <u>655,799</u> |
| Excess of revenues over (under) expenditures | <u>7,711</u> | <u>7,976</u> | <u>(25)</u> | <u>90</u> | <u>1,414</u> | <u>16,796</u> | <u>2,788</u> | <u>35,406</u> | <u>72,156</u> |
| Other financing sources: | | | | | | | | | |
| Transfers in | | | | | | | | 269,703 | 269,703 |
| Total other financing sources | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>269,703</u> | <u>269,703</u> |
| Net change in fund balances | 7,711 | 7,976 | (25) | 90 | 1,414 | 16,796 | 2,788 | 305,109 | 341,859 |
| Fund balances at beginning of year | <u>18,749</u> | <u>27,653</u> | <u>235</u> | <u>5</u> | <u>4,096</u> | <u>169,833</u> | <u>2,033</u> | <u>240,375</u> | <u>462,979</u> |
| Fund balances at end of year | <u>\$ 26,460</u> | <u>\$ 35,629</u> | <u>\$ 210</u> | <u>\$ 95</u> | <u>\$ 5,510</u> | <u>\$ 186,629</u> | <u>\$ 4,821</u> | <u>\$ 545,484</u> | <u>\$ 804,838</u> |

SCHEDULE C
TOWN OF PEMBROKE, NEW HAMPSHIRE
Combining Statement of Fiduciary Net Position
Fiduciary Funds - All Agency Funds
December 31, 2015

| | School Agency <u>Fund</u> | M & M <u>Fund</u> | Performance Bond Agency <u>Fund</u> | Total Agency <u>Funds</u> |
|---------------------------|---------------------------------|----------------------|---|---------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 938,217 | | \$ 37,614 | \$ 975,831 |
| Investments | 839,091 | | | 839,091 |
| Due from other funds | | \$ 428 | | 428 |
| Total Assets | <u>\$ 1,777,308</u> | <u>\$ 428</u> | <u>\$ 37,614</u> | <u>\$ 1,815,350</u> |
| LIABILITIES | | | | |
| Deposits | | | \$ 37,614 | \$ 37,614 |
| Due to other governments | \$ 1,777,308 | | | 1,777,308 |
| Due to others | | \$ 428 | | 428 |
| Total Liabilities | <u>\$ 1,777,308</u> | <u>\$ 428</u> | <u>\$ 37,614</u> | <u>\$ 1,815,350</u> |