

TOWN OF COLEBROOK,
NEW HAMPSHIRE

ANNUAL FINANCIAL REPORT

AS OF AND FOR THE YEAR ENDED

DECEMBER 31, 2011

TOWN OF COLEBROOK
Colebrook, New Hampshire

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TOWN OF COLEBROOK
Colebrook, New Hampshire

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Roberts & Greene, PLLC

INDEPENDENT AUDITOR'S REPORT

To the Town Manager and Members of the Board of Selectmen
Town of Colebrook
Colebrook, New Hampshire

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

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

Management has not determined its liability or annual cost for postemployment benefits other than pensions (OPEB) in governmental activities and business-type activities. Accounting principles generally accepted in the United States of America require that management recognize OPEB expense for the required contributions and a liability for unpaid required contributions, which would increase the liabilities, decrease net assets, and increase expenses of the governmental activities. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective financial position of the governmental activities of the Town of Colebrook, as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statements referred to above present fairly the respective financial position of each major fund and the aggregate remaining fund information of the Town of Colebrook, as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2012, on our consideration of the Town of Colebrook's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Colebrook's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

December 11, 2012

Roberts & Acem, PLLC

MANAGEMENT'S DISCUSSION
AND ANALYSIS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWN OF COLEBROOK
FOR THE YEAR ENDED DECEMBER 31, 2011**

Presented here is Management's Discussion and Analysis for Town of Colebrook for the year ended December 31, 2011. Responsibility for both the accuracy of the data, and the completeness and fairness of this presentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein are accurate in all material respects. This information is reported in a manner designed to fairly present the Town's financial position, and the results of operations of the various funds of the Town. All disclosures necessary to enable the reader to gain an accurate understanding of the Town's financial activities have been included.

The Selectboard is responsible for establishing an accounting and internal control structure designed to ensure that the physical, 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 using the integrated approach as prescribed by GASB Statement 34.

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

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

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (for example, uncollected taxes or unpaid amounts due to suppliers).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include, among others, general government,

public safety, and highway maintenance and construction. Business-type activities of the Town consist of the water distribution and sewage collection and treatment.

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, 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 spendable resources, as well as on balances of spendable 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, 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 governmental funds and governmental activities.

The Town maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balance for the general fund, and landfill closure fund, which are considered major funds. Data from the other governmental funds are combined into a single, aggregate presentation.

The Town adopts an annual appropriation budget for its general fund. A budgetary comparison has been provided for the general fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 12 to 16 of this report.

Proprietary funds include enterprise funds, which the Town uses to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer operations.

The basic proprietary fund financial statements can be found on pages 17 to 19 of this report.

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

The basic fiduciary fund financial statements can be found on pages 20 and 21 of this report.

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. The notes to the financial statements can be found on pages 22 to 39 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (combining non-major fund balance sheet and statement of revenues, expenditures, and changes in fund balance found on page 41 and 42 of this report) and other supplemental information that is not required (statement of estimated and actual revenues for the general fund, and statement of appropriations, expenditures and encumbrances for the general fund, found on pages 43 to 46 of this report).

Government-Wide Financial Analysis

The Town's overall financial position and operations for the past two years are summarized below, based on the information included in the current and prior financial statements.

Statement of Net Assets

The Town's net assets at December 31, 2011, were \$12,116,753, an increase of \$1,549,263 or 14.7% from December 31, 2010. Capital asset additions in 2011 were \$1,636,750.

	Governmental Activities		Business-type Activities	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets:				
Current and other assets	\$ 6,375,396	\$ 5,006,216	\$ 1,523,116	\$ 1,448,845
Capital assets, net of depreciation	3,155,510	1,986,411	5,100,068	4,827,793
Total assets	<u>9,530,906</u>	<u>6,992,627</u>	<u>6,623,184</u>	<u>6,276,638</u>
Current and other liabilities:				
Current liabilities	2,270,822	1,060,882	111,940	63,294
Long-term liabilities	-	-	1,654,575	1,577,599
Total liabilities	<u>2,270,822</u>	<u>1,060,882</u>	<u>1,766,515</u>	<u>1,640,893</u>
Net assets:				
Invested in capital assets, net of related debt	3,155,510	1,986,411	3,445,493	3,250,194
Permanently restricted	361,972	359,156	-	-
Temporarily restricted for -				
Specific purposes	1,508,026	1,454,030	-	-
Capital acquisition	1,188,054	1,180,991	827,287	788,800
Unrestricted	1,046,522	951,157	583,889	596,751
Total net assets	<u>\$ 7,260,084</u>	<u>\$ 5,931,745</u>	<u>\$ 4,856,669</u>	<u>\$ 4,635,745</u>

The largest component of net assets, \$6,601,003 (governmental and business-type activities), is the Town's investment in capital assets (e.g., land, buildings, vehicles and equipment, and infrastructure),

which reflects estimated original cost of those assets less accumulated depreciation and long-term debt related to capital asset acquisition.

An additional \$361,972 of net assets represents permanently restricted funds. By the terms of the gifts, bequests, and trusts that gave rise to these funds, the permanently restricted portion may not be expended, but must be held in perpetuity to generate income for specific or general use by the Town.

Temporarily restricted net assets represent funds set aside by the Town in capital reserve for future acquisition of capital assets, or funds designated for other specific purposes.

Unrestricted net assets are available to meet the Town's ongoing obligations to citizens and creditors.

Statement of Activities

Governmental activities and business-type activities increased the Town's net assets by \$1,283,766 and \$220,924, respectively, as shown in the summarized statement of activities presented below.

	Governmental Activities		Business-type Activities	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Program revenues:				
Charges for services	\$ 222,701	\$ 232,716	\$ 339,646	\$ 300,919
Operating grants and contributions	210,139	115,268	-	-
Capital grants and contributions	1,217,110	877,722	314,706	889,539
Total program revenues	<u>1,649,950</u>	<u>1,225,706</u>	<u>654,352</u>	<u>1,190,458</u>
General revenues:				
Taxes	1,446,253	1,373,655	-	-
All other revenues	592,802	534,545	277	885
Transfers	10,000	-	(10,000)	-
Total general revenues	<u>2,049,055</u>	<u>1,908,200</u>	<u>(9,723)</u>	<u>885</u>
Total revenues	<u>3,699,005</u>	<u>3,133,906</u>	<u>644,629</u>	<u>1,191,343</u>
Program expenses:				
General government	420,864	385,233	-	-
Public safety	753,993	706,061	-	-
Highways and streets	585,701	534,024	-	-
Solid waste	355,432	347,396	-	-
Water and sewer administration	-	-	423,705	445,845
Health and welfare	26,285	32,647	-	-
Culture and recreation	245,928	252,402	-	-
Conservation	225	225	-	-
Economic development	10,311	41,080	-	-
Capital outlay	12,263	5,000	-	-
Interest expense	4,237	1,554	-	-
Total expenses	<u>2,415,239</u>	<u>2,305,622</u>	<u>423,705</u>	<u>445,845</u>
Change in net assets	<u>1,283,766</u>	<u>828,284</u>	<u>220,924</u>	<u>745,498</u>
Net assets, January 1, as reported	5,931,745	5,103,461	4,635,745	3,878,054
Prior period adjustment (Note V.C.)	44,573	-	-	12,193
Net assets, January 1, as restated	<u>5,976,318</u>	<u>5,103,461</u>	<u>4,635,745</u>	<u>3,890,247</u>
Net assets, December 31	<u>\$ 7,260,084</u>	<u>\$ 5,931,745</u>	<u>\$ 4,856,669</u>	<u>\$ 4,635,745</u>

The net increase in net assets from governmental activities of \$1,283,766 reflects the following major components:

- An increase in operating grants and contributions of \$94,871 is composed of a 2010 nonrecurring one time receipt of \$9,335 from a private grant designated to the recreation program and a 2011

nonrecurring one time receipt of \$102,500 from a private grant designated to district heating studies.

- An increase in capital grants and contributions in 2011 of \$339,388 is mainly due to an increase of \$553,853 in EDA grant funds, \$167,680 of CDBG funds and \$66,235 of private donations received in 2011 to offset the cost of the flood resiliency project; a nonrecurring one time receipt of \$48,981 from NH Bridge Aid in 2011 to offset repair costs to the Washburn Bridge; less a nonrecurring one time receipt of \$484,017 in 2010 of grant funds from Homeland Security to offset the purchase and installation cost of public safety antennas.
- An increase in taxes of \$75,598 is mainly due to \$13,304 more in interest on delinquent taxes, \$18,970 more in yield taxes, \$5,680 less in land use change taxes, and \$44,771 more in property taxes in 2011.
- An increase in all other revenue of \$58,257 is mainly due to receiving \$7,522 less in rent; \$21,711 less in interest on investments; \$22,862 less in licenses and fees; and a nonrecurring one time donation of \$100,000 for repairs needed on the road to the town's landfill in 2011.
- An increase in general government expenses of \$35,631 is mainly due to a \$19,147 increase in grant related accounting services and \$12,049 increase in legal services in 2011.
- An increase in public safety expenses of \$47,932 is mainly due to a nonrecurring one time \$15,000 purchase of jaws of life for the fire precinct (offset by grant monies); and a nonrecurring one time purchase and installation of a generator for the 45th Parallel (offset by grant monies) in 2011.
- An increase in highways and streets expenses of \$51,677 is mainly due to an increase in general road maintenance in 2011.
- A decrease in economic development expenses of \$30,769 is mainly due to \$24,967 spent in 2010 for the study of district heating (offset by local contributions).

The net increase in net assets from business-type activities of \$220,924 reflects the following major components:

- An increase in charges for services revenue of \$38,727 is mainly due to an increase in water rates in 2011 in anticipation of repayment of long-term debt that will commence after the ARRA - funded water project is completed.
- A decrease in capital grants and contributions revenue of \$574,833 is mainly due to a decrease of \$105,020 in EPA grant revenues, a decrease of \$735,672 in ARRA revenues, and an increase of \$273,619 of EDI grant revenues in 2011.
- A decrease in water and sewer administration of \$22,140 is mainly due to a decrease in payroll and related costs of \$12,322; a decrease of \$16,481 of equipment rental; and an increase of \$5,959 in depreciation expenses in 2011.

Financial analysis of the Town's funds

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 fiscal year.

At the end of 2011, \$1,085,124 of fund balance was available for spending at the Town's discretion. The remainder of the fund balance is considered either nonspendable, restricted, committed or assigned as defined by the new GASB 54 fund balance definitions. These new fund balance definitions can be found in Note I.E. in the notes to the financial statements.

General fund budgetary highlights

Actual revenues earned by the general fund in 2011 exceeded amounts budgeted by \$1,223,046, as shown in Exhibit E of the basic financial statements. The major component of this favorable variance were:

- Greater than anticipated tax revenue of \$99,440 (favorable).
- Greater than anticipated intergovernmental revenues of \$849,114 (favorable).
- Greater than anticipated other local sources of \$270,787 (favorable).

Actual expenses exceeded appropriations by \$915,711, as shown in Exhibit E of the basic financial statements. The major components of this unfavorable variance were:

- Highway expenditures were \$73,488 less than anticipated (favorable).
- Solid waste collection expenditures were \$143,310 less than anticipated (favorable).
- Capital outlay expenditures were \$1,116,574 more than anticipated (unfavorable).

Contacting Town's Financial Management

This financial report is designed to provide our citizens and creditors with a general overview of the Town's finances and to demonstrate fiscal accountability. If you have questions about this report or need additional information, contact the Board of Selectmen at Colebrook town office, 17 Bridge Street, Colebrook, New Hampshire 03576, or call (603) 237-4142.

BASIC FINANCIAL STATEMENTS

TOWN OF COLEBROOK
Colebrook, New Hampshire
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Exhibit A

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$2,189,662	\$ 48,275	\$ 2,237,937
Investments	2,584,161	390,701	2,974,862
Receivables	1,711,274	974,439	2,685,713
Internal balances	(109,701)	109,701	-
Capital assets, net of accumulated depreciation			
Land	96,427	-	96,427
Buildings	1,641,222	-	1,641,222
Vehicles and equipment	560,184	-	560,184
Construction in progress	857,677	-	857,677
Water and sewer systems	-	5,100,068	5,100,068
Total assets	<u>\$9,530,906</u>	<u>\$6,623,184</u>	<u>\$16,154,090</u>
LIABILITIES AND NET ASSETS			
<i>Liabilities</i>			
Tax anticipation note payable	\$ 700,000	\$ -	\$ 700,000
Accounts payable	978,632	90,146	1,068,778
Accrued expenses	39,668	21,794	61,462
Deferred revenue	6,903	-	6,903
Due to other governments	545,619	-	545,619
Noncurrent liabilities:			
Due within one year	-	-	-
Due beyond one year	-	1,654,575	1,654,575
Total liabilities	<u>2,270,822</u>	<u>1,766,515</u>	<u>4,037,337</u>
<i>Net assets</i>			
Invested in capital assets, net of related debt	3,155,510	3,445,493	6,601,003
Restricted for:			
Capital acquisition and construction	1,188,054	827,287	2,015,341
Non-capital projects	1,290,241	-	1,290,241
Culture and recreation			
Temporarily restricted	93,532	-	93,532
Permanently restricted	92,478	-	92,478
Public safety	43,598	-	43,598
Cemetery	69,942	-	69,942
Perpetual care:			
Temporarily restricted	10,713	-	10,713
Permanently restricted	269,494	-	269,494
Unrestricted	<u>1,046,522</u>	<u>583,889</u>	<u>1,630,411</u>
Total net assets	<u>7,260,084</u>	<u>4,856,669</u>	<u>12,116,753</u>
Total liabilities and net assets	<u>\$9,530,906</u>	<u>\$6,623,184</u>	<u>\$16,154,090</u>

See accompanying notes and independent auditors' report.

TOWN OF COLEBROOK
 Colebrook, New Hampshire
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2011

		Program Revenues		
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<i>Governmental activities</i>				
General government	\$ 420,864	\$ 100,202	\$ -	\$ -
Public safety	753,993	11,672	-	47,224
Highways and streets	585,701	4,045	98,103	-
Solid waste	355,432	57,107	-	-
Health and welfare	26,285	-	-	-
Culture and recreation	245,928	49,675	7,704	4,481
Conservation	225	-	-	-
Economic development	10,311	-	104,332	-
Capital outlay	12,263	-	-	1,165,405
Interest expense	4,237	-	-	-
Total government activities	2,415,239	222,701	210,139	1,217,110
<i>Business-type activities</i>				
Water	169,934	210,472	-	314,706
Sewer	253,771	129,174	-	-
Total business-type activities	423,705	339,646	-	314,706
Total primary government	\$2,838,944	\$ 562,347	\$ 210,139	\$1,531,816

General revenues:
 Taxes
 Licenses, permits and fees
 Intergovernmental
 Other local sources
 Transfers
 Total general revenues
 Increase in net assets
 Net assets, January 1, as reported
 Prior period adjustment (Note V.C.)
 Fund balance, January 1, as restated
 Net assets, December 31

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (320,662)	\$ -	\$ (320,662)
(695,097)	-	(695,097)
(483,553)	-	(483,553)
(298,325)	-	(298,325)
(26,285)	-	(26,285)
(184,068)	-	(184,068)
(225)	-	(225)
94,021	-	94,021
1,153,142	-	1,153,142
(4,237)	-	(4,237)
<u>(765,289)</u>	<u>-</u>	<u>(765,289)</u>
-	355,244	355,244
-	(124,597)	(124,597)
<u>-</u>	<u>230,647</u>	<u>230,647</u>
<u>(765,289)</u>	<u>230,647</u>	<u>(534,642)</u>
1,446,253	-	1,446,253
337,074	-	337,074
107,550	-	107,550
148,178	277	148,455
10,000	(10,000)	-
<u>2,049,055</u>	<u>(9,723)</u>	<u>2,039,332</u>
1,283,766	220,924	1,504,690
5,931,745	4,635,745	10,567,490
44,573	-	44,573
<u>5,976,318</u>	<u>4,635,745</u>	<u>10,612,063</u>
<u>\$ 7,260,084</u>	<u>\$4,856,669</u>	<u>\$ 12,116,753</u>

See accompanying notes and independent auditors' report.

TOWN OF COLEBROOK
 Colebrook, New Hampshire
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2011

	<u>General</u>	<u>Landfill Closure Fund</u>
ASSETS		
Cash	\$2,175,333	\$ -
Investments	1,473,526	805,975
Taxes receivable, less allowance for abatements	539,233	-
Tax liens receivable	266,856	-
Accounts receivable, less allowance for uncollectable	6,202	4,751
Due from other governments	889,976	-
Due from other funds	444,893	141,034
Tax deeded property	4,256	-
Total assets	<u>\$ 5,800,275</u>	<u>\$ 951,760</u>
LIABILITIES AND FUND BALANCE		
<i>Liabilities</i>		
Tax anticipation note payable	\$ 700,000	\$ -
Accounts and warrants payable	978,632	-
Accrued expenses	-	-
Deferred revenue	563,729	-
Deferred tax revenue	623,488	-
Due to other governments	-	-
Due to Colebrook School District	545,619	-
Due to other funds	695,628	-
Total liabilities	<u>4,107,096</u>	<u>-</u>
<i>Fund balance</i>		
Nonspendable fund balance	64,634	-
Restricted fund balance	158,828	-
Committed fund balance	1,401,654	805,975
Assigned fund balance	170,156	145,785
Unassigned fund balance	(102,093)	-
Total fund balance	<u>1,693,179</u>	<u>951,760</u>
Total liabilities and fund balance	<u>\$ 5,800,275</u>	<u>\$ 951,760</u>

Non-major Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
\$ 14,329	\$2,189,662
304,660	2,584,161
-	539,233
-	266,856
-	-
-	10,953
-	889,976
-	585,927
-	4,256
<u>\$ 318,989</u>	<u>\$7,071,024</u>
\$ -	\$ 700,000
-	978,632
-	-
3,713	567,442
-	623,488
-	-
-	545,619
-	695,628
<u>3,713</u>	<u>4,110,809</u>
301,594	366,228
13,682	172,510
-	2,207,629
-	315,941
-	(102,093)
<u>315,276</u>	<u>2,960,215</u>
<u>\$ 318,989</u>	<u>\$7,071,024</u>

See accompanying notes and independent auditors' report.

TOWN OF COLEBROOK
Colebrook, New Hampshire
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Exhibit C-1

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

Net fund balance - governmental funds	\$ 2,960,215
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements (Note II.A.)	3,155,510
Long-term liabilities are not due and payable in the current period and therefore do not appear in the fund financial statements (Note II.A.) Compensated absences	(39,668)
Deferred revenue is considered unavailable revenue and therefore appears in the fund financial statements as a reduction of fund balance; for purposes of government-wide statement of net assets, such revenue is fully recognized (Note II.A.) Property tax revenue	623,488
Deferred grant revenue	<u>560,539</u>
Net assets of governmental activities	<u><u>\$ 7,260,084</u></u>

See accompanying notes and independent auditors' report.

Exhibit D

TOWN OF COLEBROOK
 Colebrook, New Hampshire
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>General</u>	<u>Landfill Closure Fund</u>
<i>Revenues</i>		
Taxes	\$1,358,724	\$ -
Licenses, permits, and fees	337,074	-
Intergovernmental revenue	1,193,568	-
Charges for services	119,383	29,596
Other local sources	312,034	10,368
Total revenues	<u>3,320,783</u>	<u>39,964</u>
<i>Expenditures</i>		
General government	411,279	-
Public safety	719,919	-
Highways and bridges	538,464	-
Solid waste	198,429	118,972
Health and welfare	26,285	-
Culture and recreation	244,554	-
Conservation	225	-
Economic development	10,311	-
Debt service	4,237	-
Capital outlay	1,282,441	-
Total expenditures	<u>3,436,144</u>	<u>118,972</u>
Excess (deficiency) of revenues over expenditures	<u>(115,361)</u>	<u>(79,008)</u>
<i>Other financing sources (uses)</i>		
Transfers from other funds	16,613	-
Transfers to other funds	(128)	-
Total other financing sources and uses	<u>16,485</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other sources and uses	<u>(98,876)</u>	<u>(79,008)</u>
Fund balance, January 1, as reported	146,138	1,030,768
Prior period adjustment (Note V.C.)	19,810	-
Accounting change and restatement (Note V.B.)	1,626,107	-
Fund balance, January 1, as restated	<u>1,792,055</u>	<u>1,030,768</u>
Fund balance, December 31	<u>\$1,693,179</u>	<u>\$ 951,760</u>

Non-major Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
\$ -	\$1,358,724
-	337,074
-	1,193,568
1,031	150,010
<u>7,815</u>	<u>330,217</u>
<u>8,846</u>	<u>3,369,593</u>
550	411,829
-	719,919
-	538,464
-	317,401
-	26,285
1,374	245,928
-	225
-	10,311
-	4,237
-	<u>1,282,441</u>
<u>1,924</u>	<u>3,557,040</u>
<u>6,922</u>	<u>(187,447)</u>
128	16,741
<u>(6,613)</u>	<u>(6,741)</u>
<u>(6,485)</u>	<u>10,000</u>
<u>437</u>	<u>(177,447)</u>
314,839	1,491,745
-	19,810
-	<u>1,626,107</u>
<u>314,839</u>	<u>3,137,662</u>
<u>\$ 315,276</u>	<u>\$2,960,215</u>

See accompanying notes and independent auditors' report.

TOWN OF COLEBROOK
Colebrook, New Hampshire

Exhibit D-1

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

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

Net change in fund balance - total governmental funds \$ (177,447)

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 and reported as depreciation expense. Following are the amounts that compose these differences:

This is the amount of capital assets added in the current period that were reported in the fund financial statements as expenditures (Note II.B.) 1,270,178

This is the amount of depreciation expense in the current period (Note II.B.) (125,842)

Governmental funds report unavailable revenue as deferred revenue.

However, in the statement of activities, such revenue is accrued and recognized.

This is the amount of the change in deferred property tax revenue from beginning to end of year (Note II.B.) 87,529

This is the amount of the change in deferred grant revenue from beginning to end of year (Note II.B.) 231,883

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

This is the amount of the change in accrued compensated absences (Note II.B.) (2,535)

Changes in net assets of governmental activities \$ 1,283,766

See accompanying notes and independent auditors' report.

TOWN OF COLEBROOK
Colebrook, New Hampshire

Exhibit E

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
<i>Revenues</i>				
Taxes	\$ 1,346,813	\$ 1,346,813	\$ 1,446,253	\$ 99,440
Licenses, permits and fees	309,700	309,700	337,074	27,374
Intergovernmental	273,703	273,703	1,122,817	849,114
Charges for services	99,811	99,811	76,142	(23,669)
Other local sources	450	450	271,237	270,787
Total revenues	<u>2,030,477</u>	<u>2,030,477</u>	<u>3,253,523</u>	<u>1,223,046</u>
<i>Expenditures</i>				
General government	381,913	381,913	352,104	29,809
Public safety	468,809	468,809	516,321	(47,512)
Highways and bridges	600,506	600,506	527,018	73,488
Solid waste	341,739	341,739	198,429	143,310
Health and welfare	29,551	29,551	26,285	3,266
Culture and recreation	4,000	4,000	4,000	-
Conservation	275	275	225	50
Economic development	10,000	10,000	10,311	(311)
Debt service	3,000	3,000	4,237	(1,237)
Capital outlay	102,000	102,000	1,218,574	(1,116,574)
Total expenditures	<u>1,941,793</u>	<u>1,941,793</u>	<u>2,857,504</u>	<u>(915,711)</u>
Excess (deficiency) of revenues over expenditures	<u>88,684</u>	<u>88,684</u>	<u>396,019</u>	<u>307,335</u>
<i>Other financing sources (uses)</i>				
Transfers from other funds	52,000	52,000	104,907	52,907
Transfers to other funds	(474,084)	(474,084)	(457,157)	16,927
Total other financing sources and uses	<u>(422,084)</u>	<u>(422,084)</u>	<u>(352,250)</u>	<u>69,834</u>
Excess (deficiency) of revenues over expenditures and other sources and uses	<u>(333,400)</u>	<u>(333,400)</u>	<u>43,769</u>	<u>377,169</u>
Fund balance, January 1, as reported	619,047	619,047	619,047	-
Prior period adjustment (Note V.C.)	19,810	19,810	19,810	-
Fund balance, January 1, as restated	<u>638,857</u>	<u>638,857</u>	<u>638,857</u>	<u>-</u>
Fund balance, December 31	<u>\$ 305,457</u>	<u>\$ 305,457</u>	<u>\$ 682,626</u>	<u>\$ 377,169</u>

See accompanying notes and independent auditors' report.

TOWN OF COLEBROOK
Colebrook, New Hampshire
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS - ENTERPRISE FUNDS
DECEMBER 31, 2011

Exhibit F

ASSETS	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<i>Current assets</i>			
Cash and cash equivalents	\$ 48,275	\$ -	\$ 48,275
Investments	36,106	354,595	390,701
Accounts receivable	71,748	45,665	117,413
Due from other governments	29,739	-	29,739
Due from other funds	187,928	-	187,928
Total currents assets	373,796	400,260	774,056
<i>Non-current assets</i>			
Capital assets, net of accumulated depreciation	3,231,498	1,868,570	5,100,068
Due from other governments	827,287	-	827,287
Total non-current assets	4,058,785	1,868,570	5,927,355
Total assets	\$ 4,432,581	\$ 2,268,830	\$ 6,701,411
LIABILITIES AND NET ASSETS			
<i>Liabilities</i>			
Accounts payable	\$ 76,579	\$ 13,567	\$ 90,146
Accrued interest	21,794	-	21,794
Due to other funds	-	78,227	78,227
Noncurrent liabilities:			
Due within one year	-	-	-
Due beyond one year	1,654,575	-	1,654,575
Total liabilities	1,752,948	91,794	1,844,742
<i>Net assets</i>			
Invested in capital assets, net of related debt	1,576,923	1,868,570	3,445,493
Restricted for capital projects	827,287	-	827,287
Unrestricted	275,423	308,466	583,889
Total net assets	2,679,633	2,177,036	4,856,669
Total liabilities and net assets	\$ 4,432,581	\$ 2,268,830	\$ 6,701,411

See accompanying notes and independent auditors' report.

TOWN OF COLEBROOK
Colebrook, New Hampshire

Exhibit G

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<i>Operating revenues</i>			
Water and sewer rents	\$ 205,160	\$ 115,375	\$ 320,535
Other charges for services	5,312	13,799	19,111
Total revenues	<u>210,472</u>	<u>129,174</u>	<u>339,646</u>
<i>Operating expenses</i>			
Operating and administrative expenses	143,485	185,923	329,408
Depreciation expense	26,449	67,848	94,297
Total operating expenses	<u>169,934</u>	<u>253,771</u>	<u>423,705</u>
Operating income (loss)	<u>40,538</u>	<u>(124,597)</u>	<u>(84,059)</u>
<i>Non-operating revenues (expenses)</i>			
Grant revenue	314,706	-	314,706
Income from investments	24	253	277
Transfers (to) from other funds	(10,000)	-	(10,000)
Interest expense	-	-	-
Net non-operating revenues (expenses)	<u>304,730</u>	<u>253</u>	<u>304,983</u>
Increase (decrease) in net assets	345,268	(124,344)	220,924
Net assets, January 1	<u>2,334,365</u>	<u>2,301,380</u>	<u>4,635,745</u>
Net assets, December 31	<u>\$ 2,679,633</u>	<u>\$ 2,177,036</u>	<u>\$ 4,856,669</u>

See accompanying notes and independent auditors' report.

TOWN OF COLEBROOK
Colebrook, New Hampshire
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<i>Cash flows from operating activities</i>			
Receipts from customers and users	\$ 219,356	\$ 144,144	\$ 363,500
Payments to suppliers	(58,589)	(131,665)	(190,254)
Payments to employees	(59,707)	(46,780)	(106,487)
Net cash provided by (used for) operating activities	<u>101,060</u>	<u>(34,301)</u>	<u>66,759</u>
<i>Cash flows from noncapital financing activities</i>			
Transfers (to) from other funds	(10,000)	-	(10,000)
Advances (to) from other funds	(341,712)	40,431	(301,281)
Proceeds from state grant	2,600	-	2,600
Net cash provided by (used for) noncapital financing activities	<u>(349,112)</u>	<u>40,431</u>	<u>(308,681)</u>
<i>Cash flows from capital financing activities</i>			
Proceeds from federal grant	575,471	-	575,471
Construction of capital assets	(350,593)	-	(350,593)
Proceeds on long-term debt	76,976	-	76,976
Net cash provided by (used for) capital financing activities	<u>301,854</u>	<u>-</u>	<u>301,854</u>
<i>Cash flows from investing activities</i>			
Interest received	24	253	277
(Increase) decrease in investments	(5,551)	(6,383)	(11,934)
Net cash provided by (used for) investing activities	<u>(5,527)</u>	<u>(6,130)</u>	<u>(11,657)</u>
Net increase in cash and cash equivalents	48,275	-	48,275
Cash and cash equivalents, beginning of year	-	-	-
Cash and cash equivalents, end of year	<u>\$ 48,275</u>	<u>\$ -</u>	<u>\$ 48,275</u>

	<u>Water</u> <u>Fund</u>	<u>Sewer</u> <u>Fund</u>	<u>Total</u>
<i>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities</i>			
Operating income (loss)	\$ 40,538	\$ (124,597)	\$ (84,059)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation expense	26,448	67,848	94,296
(Increase) decrease in accounts receivable	8,884	14,970	23,854
Increase (decrease) in accounts payable	<u>25,190</u>	<u>7,478</u>	<u>32,668</u>
Net cash provided by (used for) operations	<u>\$ 101,060</u>	<u>\$ (34,301)</u>	<u>\$ 66,759</u>

Disclosure of accounting policy:

For purposes of the Statement of Cash Flows, the Enterprise Funds consider all highly liquid investments investments with a maturity of three months or less when purchased to be cash equivalents.

See accompanying notes and independent auditors' report.

TOWN OF COLEBROOK
Colebrook, New Hampshire
STATEMENT OF NET ASSETS
ALL FIDUCIARY FUNDS
DECEMBER 31, 2011

Exhibit I

	<u>Private-purpose Trust Funds</u>	<u>Agency Funds</u>	<u>Total</u>
ASSETS			
Cash	\$ 13,718	\$ 19,784	\$ 33,502
Investments	412,676	555,701	968,377
Due from other governments	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 426,394</u>	<u>\$ 575,485</u>	<u>\$ 1,001,879</u>
LIABILITIES AND NET ASSETS			
<i>Liabilities</i>			
Due to Colebrook School District	\$ -	\$ 506,748	\$ 506,748
Due to Colebrook Precinct	<u>-</u>	<u>68,737</u>	<u>68,737</u>
Total liabilities	<u>-</u>	<u>575,485</u>	<u>575,485</u>
<i>Net assets</i>			
Net assets held in trust -			
Permanently restricted	393,413	-	393,413
Temporarily restricted	<u>32,981</u>	<u>-</u>	<u>32,981</u>
Total net assets	<u>426,394</u>	<u>-</u>	<u>426,394</u>
Total liabilities and net assets	<u>\$ 426,394</u>	<u>\$ 575,485</u>	<u>\$ 1,001,879</u>

See accompanying notes and independent auditors' report.

TOWN OF COLEBROOK
Colebrook, New Hampshire
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Exhibit J

Revenues

Interest on investments	\$ 6,117
New funds	378
	6,495
Total revenues	6,495

Expenditures

Distributions to beneficiaries	12,684
	12,684
Total expenditures	12,684

Excess (deficiency) of revenues over expenditures	(6,189)
---	---------

Other financing sources (uses)

Transfers from other governments	-
Transfers to other governments	-
	-
Total other financing sources and uses	-

Excess (deficiency) of revenues over expenditures and other sources and uses	(6,189)
---	---------

Net assets, January 1	432,583
-----------------------	---------

Net assets, December 31	\$ 426,394
-------------------------	------------

See accompanying notes and independent auditors' report.

TOWN OF COLEBROOK
Colebrook, New Hampshire

NOTES TO FINANCIAL STATEMENTS

I. Summary of significant accounting policies

Following is a summary of significant accounting policies reflected in these financial statements:

A. Reporting entity

The Town of Colebrook (the Town) is a municipal corporation governed by an elected three-member board of selectmen.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Codification Section 2100 have been considered and, as a result, no other organization is included in the Town's financial reporting entity.

B. Government-wide and fund financial statements

The government-wide financial statements report information on all the nonfiduciary activities of the primary government. The effect of interfund activity, if any, has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Under this focus and basis, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized when they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF COLEBROOK
Colebrook, New Hampshire

NOTES TO FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Using this focus and basis, revenues are recognized as soon as they are both measurable and available.

Property tax revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The following revenues are considered to be susceptible to accrual and, therefore, have been recognized as revenues of the current period:

- a) property taxes when levied and;
- b) charges for services.

All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major and non-major governmental funds:

General fund. This fund is the Town's primary operating fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid through other funds. General fund amounts in these financial statements also include balances and activities of certain other funds as described in Note V.B. in accordance with GASB Statement No. 54.

Landfill closure fund. This fund is a special revenue fund used to account for the Town's activities to close and cap its landfill and to remediate certain groundwater pollution sites. This fund includes assets in the custody of the trustees of trust funds.

Non-major governmental funds. Other governmental funds, as reported in the fund financial statements, include the following special revenue and permanent funds:

Special Revenue Funds -
PAL Fund

Permanent Funds -
Cemetery Perpetual Care Fund
Vershire Trust Fund
Library Endowment Fund

These funds are aggregated in the fund financial statements as they do not meet the threshold for discrete reporting.

TOWN OF COLEBROOK
Colebrook, New Hampshire

NOTES TO FINANCIAL STATEMENTS

The government also reports the following fund type:

Fiduciary funds. These funds are excluded from the government-wide financial statements as the Town acts solely as an agent for others. Fiduciary funds include scholarship and award funds for the benefit of current and former students of Colebrook schools, and various expendable trust funds held by the Trustees of Trust funds on behalf of Colebrook School District and Colebrook Precinct.

Additionally, the government reports the following proprietary funds:

Enterprise funds. These funds are primarily supported by charges to users of the Town's water distribution and sewage collection and wastewater treatment facilities. These activities are accounted for in the Water and Sewer Funds.

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of operation, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TOWN OF COLEBROOK
Colebrook, New Hampshire

NOTES TO FINANCIAL STATEMENTS

E. Assets, liabilities, and net assets or equity

Deposits and investments

Pursuant to New Hampshire statute, the Town's Treasurer is authorized by state statute to invest excess funds, with the approval of the selectmen, in obligations of the United States government, in the public deposit investment pool established under New Hampshire law, or in savings accounts, certificates of deposit and repurchase agreements of banks incorporated under New Hampshire law or in banks recognized by the state treasurer.

For financial reporting purposes, cash and cash equivalents include amounts in demand deposits and money market funds, as well as certificates of deposit and short-term investments with original maturities of 90 days or less.

Investments are stated at fair value using quoted market prices.

Receivables and payables

Activity between funds that represent lending/borrowing arrangements outstanding at yearend are referred to as "due to/from other funds." Such balances have been eliminated from the government-wide financial statements.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (such as roads, bridges, sidewalks and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life beyond five years. Such assets, if purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives is not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 - 30
Equipment	5 - 20
Water and sewer infrastructure	50

Capital assets are reported as expenditures and no depreciation expense is reported in the governmental fund financial statements.

Compensated absences

Accumulated unpaid vacation leave is accrued in the government-wide financial statements using the full accrual basis of accounting, though it is not accrued in the fund financial statements in

TOWN OF COLEBROOK
Colebrook, New Hampshire

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accordance with the modified accrual basis. Employees of the Town accumulate vacation leave up to a maximum of sixty days depending on their employment length. The total accumulated vacation leave is paid to employees upon termination of employment.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability. Long-term liabilities are not reflected in the governmental fund financial statements.

Fund balance and net assets

In the government-wide financial statements, net assets are classified in the following categories:

Invested in capital assets, net of related debt

This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted net assets

This category presents net assets subject to external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets or deficits

This category represents the net assets of the Town which are not restricted for any project or other purpose. Deficits require future funding.

In the governmental fund financial statements, the Town classified fund balance as follows:

Nonspendable

Amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

Restricted

Fund balance should be reported as restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

Amounts that must be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (town meeting). These amounts cannot be used for any other purpose unless the highest level of decision-making authority (town meeting) rescinds or modifies the constraint.

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Assigned

Amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The authorization of intent can be established by town meeting or the Board of Selectmen or their assignee through the budgetary process.

Unassigned

Unassigned fund balance is the residual classification for the general fund. This is fund balance that has not been reported in any other classification. The general fund is the only fund that reports a positive unassigned fund balance. Other governmental funds would only report deficit fund balances as unassigned.

Funds are to be used, as appropriate, first from restricted followed by committed then assigned. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

F. Taxes collected for others

The property taxes collected by the Town include taxes levied for the School District, Coös County, and the State of New Hampshire (Education Tax) which are remitted to these governmental units as required by law. The ultimate responsibility for the collection of taxes rests with the Town. No revenue is recognized for taxes collected on behalf of other governmental entities, nor are expenditures recorded when these taxes are remitted to those governmental entities. The balance of tax revenues due to the school district is recorded as a liability in the General Fund balance sheet.

	<u>Amount Levied</u>	<u>Percent</u>
Town of Colebrook	\$1,340,625	31.8 %
Colebrook School District	1,653,347	39.1
New Hampshire Education Tax	367,272	8.7
Coös County	752,174	17.8
Village District	<u>110,966</u>	<u>2.6</u>
Total	<u><u>\$4,224,384</u></u>	<u><u>100.0 %</u></u>

G. Property taxes

Property tax revenues are recognized when they are measurable (that is, when levied) and available. Such revenue is considered available if collected during the year levied or within 60 days after the end of the year levied.

Deferred property tax revenue represents taxes receivable not collected within 60 days following yearend. Taxes receivable under this recognition policy are reduced by a reserve for anticipated abatements, if any.

As prescribed by law, the tax collector places a lien on properties for all uncollected property taxes in the year following that when taxes are due. The lien on these properties has priority over

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other liens and accrues interest at 18% per annum. If taxes are not paid within a two-year redemption period, the property may be deeded to the Town.

Annually, the Town establishes and raises through taxation an amount for abatements and refunds of property tax revenues, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any tax reserves at yearend. There was no reserve for abatements or refunds as of December 31, 2011.

Property taxes are billed twice annually. The first bill is mailed in early summer and is an estimate based on one-half of the prior year's tax. The second bill is mailed in November subsequent to the setting of the tax rate by the State and is due thirty days from the date of the bill. The lien date is determined by the Town but is limited to the period between when the taxes become delinquent and September 30 of the following year. During 2011, the lien filing for delinquent 2010 taxes occurred September 29, 2011.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet (Exhibit C) and the government-wide statement of net assets (Exhibit A)

These financial statements include reconciliation between *fund balance – total governmental funds* and *net assets – government activities* reported in the government-wide statement of net assets.

The reconciliation includes the following:

- An amount totaling \$3,155,510, which represents the capital assets, net of accumulated depreciation, used in governmental activities which are not current financial resources and therefore do not appear in the governmental funds.
- An amount of \$39,668 representing compensated absences (vacation) that would be payable to employees upon termination but that is not a current financial obligation and therefore does not appear in the fund financial statements.
- An amount totaling \$623,488, which represents deferred property tax revenue and an amount totaling \$560,539 which represents deferred grant revenue that are considered unavailable for governmental funds (see Note I.G.) but is fully accrued on the government-wide statement of net assets.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance (Exhibit D) and the government-wide statement of activities (Exhibit B)

These financial statements include a reconciliation between *net changes in fund balance – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities.

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The reconciliation contains several items that result from differences between government-wide financial statements and fund financial statements in accounting for capital assets. In the fund financial statements, capital outlays, which totaled \$1,270,178, are treated as expenditures of the period. In the government-wide financial statements, acquisitions of long-lived assets are recorded as capital assets and the cost of such assets is allocated over their estimated lives as depreciation expense, which totaled \$125,842 for the year.

The fund financial statements also reflect an increase in deferred revenue, which is composed of \$87,529 of property tax (see Note I.G.) and \$231,883 of grant revenue. Since this is considered unavailable revenue, it is not recognized as revenue of the current period but is deferred for future recognition when collected. The government-wide statement of activities reflects all taxes levied and grant revenue earned, regardless of when available.

The government-wide financial statements reflect an increase in accrued compensated absences of \$2,535. This decrease did not change current financial resources and therefore is not reported as a revenue in the fund financial statements.

III. Stewardship, compliance, and accountability

A. Budgetary accounting

General governmental revenues and expenditures are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town's operations. At its annual meeting the Town adopts a budget for the next fiscal year on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund. State statute requires a balanced budget and permits the use of beginning General Fund unreserved fund balance to achieve that end. In 2011, beginning fund balance was applied as follows:

Unreserved fund balance used to fund specific appropriations	\$ 80,900
Unreserved fund balance used to reduce tax rate	<u>252,500</u>
Total use of beginning fund balance	<u>\$ 333,400</u>

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects, and specific items not fully expended at yearend) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures and are therefore reported as part of the fund balance at December 31, 2011, and are carried forward to supplement appropriations of the subsequent year. As of December 31, 2011, none of the fund balance was reserved for encumbrances.

The Town reports one other major fund, Landfill Closure Fund, which, due to the nature of the fund, does not adopt a budget and therefore no budgetary schedule is presented.

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B. Explanation of certain differences in General Fund’s revenues and expenditures between statement of revenues, expenditures and changes in fund balance – budget and actual (budgetary basis) (Exhibit E) and statement of revenues, expenditures and changes in fund balance (Exhibit D)

These revenue and expenditure differences exist because Exhibit E is reported on a budgetary basis for comparison purposes and Exhibit D is reported as noted in Note I.C. For budgetary comparison purposes (Exhibit E), the change in encumbrances is reflected in the related actual expense categories and property tax revenue is accrued for comparison to the amount levied. In Exhibit D only actual expenses and available revenue is reported. A reconciliation of the two General Fund balances follows:

	Fund Balance, Beginning of Year <u>as Restated</u>	2011 Revenues and Other <u>Sources</u>	2011 Expenditures and Other <u>Uses</u>	Fund Balance, End of Year
Exhibit E amounts	\$ 638,857	\$ 3,358,430	\$ (3,314,661)	\$ 682,626
<i>Reconciling items</i>				
GASB 54 (Note V.B.)				
Change in fund type classification	1,626,107	647,376	(639,442)	1,634,041
Elimination of interfund activity	-	(580,881)	580,881	-
Encumbrances, December 31, 2010	63,050	-	(63,050)	-
Encumbrances, December 31, 2011	-	-	-	-
Deferred property tax revenue	(535,959)	(87,529)	-	(623,488)
Exhibit D amounts	<u>\$ 1,792,055</u>	<u>\$ 3,337,396</u>	<u>\$ (3,436,272)</u>	<u>\$ 1,693,179</u>

IV. Detailed notes on all funds

A. Deposits and investments

The Town had bank deposits totaling \$5,691,889 at December 31, 2011, of which \$4,865,733 was not insured by federal deposit insurance (FDIC) but was collateralized. All but \$93,974 of deposit balances were concentrated in one financial institution.

The Town also had amounts deposited with New Hampshire Public Deposit Investment Pool (NHPDIP) totaling \$445,915 at December 31, 2011. Amounts invested in NHPDIP are recorded at cost, which is also fair market value. Pool investments are not categorized in accordance with GASB Statements No. 3 and No. 40 because they are not evidenced by securities that exist in physical or book entry form.

In addition, the Town’s Library special revenue fund included investments in diversified equity and fixed income mutual funds totaling \$63,614 (\$73,354 at cost). These investments are insured by Securities Investor Protection Corporation (SIPC). The Cemetery permanent fund includes 140 shares of First Colebrook Bank common stock totaling \$13,264 (\$9,940 at cost). This investment is uninsured.

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None of the Town's deposits or investments is subject to interest rate risk or foreign currency risk, except that \$63,614 of the library's investments are in diversified mutual funds that may be subject to such risks.

B. Permanent funds

The Town's trustees are custodians of other funds accounted for as permanent funds which are included in non-major funds in the fund financial statements. These funds reflect the following fund balances as of December 31, 2011

	Non- Expendable Net Assets	Expendable Net Assets
	<u> </u>	<u> </u>
Cemetery perpetual care	\$ 269,494	\$ 10,713
Vershire trust fund	2,000	12
Library fund	30,100	1,121
	<u>\$ 301,594</u>	<u>\$ 11,846</u>

C. Fiduciary funds

Agency funds. The Trustees of Trust Funds hold expendable trust funds on behalf of Colebrook School District and Colebrook Precinct. Such funds, which arose from appropriations of each of those separate local governments and from contributions from citizens, are reported in the fiduciary funds as agency funds, and amounts invested are reflected as a liability to the appropriate local government. Activity in these funds during 2011 was as follows:

	School District	Precinct
	<u> </u>	<u> </u>
Balance, January 1, 2011	\$470,638	\$43,147
New funds received	30,000	25,000
Income from investments	7,027	590
Funds transferred to school district	<u>(917)</u>	<u>-</u>
Balance, December 31, 2011	<u>\$506,748</u>	<u>\$68,737</u>

Private-purpose trust funds. The Trustees of Trust Funds also hold scholarship and memorial award funds for the benefit of students of Colebrook School District. These invested funds are recorded in the fiduciary funds as private-purpose trust funds. Activity in these private-purpose trust funds during 2011 is reflected in Exhibit J of these financial statements.

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D. Capital reserve and expendable trust funds

The Town's capital reserve and expendable trust funds held for investment by the Trustees of Trust Funds at December 31, 2011 reflect the following fund balances.

<u>Purpose</u>	<u>Balance</u>
<i>Equipment Fund</i>	
Equipment Purchasing - Cruiser	\$ 34,992
Equipment Purchasing - Highway	90,298
	125,290
<i>Main Street Reconstruction Fund</i>	
Main Street Reconstruction	926,460
<i>Other Fund</i>	
Colebrook Bridge Fund	105,030
Colebrook Revaluation	41,081
Communications Enhancement	33,802
Cemetery Fence Maintenance	5,008
Cemetery General Maintenance and Reclamation	73,006
Digital Mapping	20,033
Water Reservoir	10,000
Disaster Management	40,515
Library Buildings Roof Repair / Replacement	10,006
	338,481
Total	\$1,390,231

E. Defined benefit pension plan

The Town's full-time employees participate in a contributory state-wide retirement system under New Hampshire law ("System"), a multiple-employer public employee retirement system. This system is a defined-benefit contributory retirement plan, administered by the State of New Hampshire, which covers substantially all employees of the State and participating political subdivisions, and the teaching and professional staff of the public school system. The payroll for the Town employees covered by the system for the year ended December 31, 2011 was \$805,265; the Town's total payroll was \$1,057,696.

The New Hampshire Retirement System provides retirement, disability and death benefits according to predetermined formulas. All full-time employees are eligible to participate in the system.

Covered public safety employees were required by State statute to contribute 9.3% of their January 1 through June 30 salary and 11.55% of their July 1 through December 31 salary to the plan, whereas general employees were required to contribute 5.0% of their January 1 through June 30 salary and 7% of their July 1 through December 31 salary to the plan. The Town is required by the

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same statute to contribute the remaining amounts necessary to pay benefits when due. In 2011 this amount ranged from 8.8% to 25.57% of the employee salary. The contribution requirements for the years ended December 31, 2011, 2010 and 2009, were \$147,363, \$125,909 and \$115,914, respectively, which consisted of \$89,922, \$79,409 and \$71,655, respectively, from the Town and \$57,441, \$46,500 and \$44,259, respectively, from employees.

“Pension benefit obligation” is a standardized measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems and employers. The State retirement system does not make separate measurements of assets and pension benefit obligations for individual employers. According to plan administrators, the pension benefit obligation at June 30, 2011, for the system as a whole, determined through an actuarial valuation performed as of that date, was \$9,998,251,000. The system's net assets available for benefits on June 30, 2011 were estimated as \$5,740,516,000. The percentage that the Town of Colebrook has in relation to the entire plan cannot be determined.

F. Other Postemployment Benefits (OPEB)

In addition to pension benefits described in Note IV.E, the Town provides postemployment benefit options for health care to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criterion to determine eligibility for COBRA is active participation in the medical insurance plan. The Town funds the benefits on a pay-as-you-go basis. Eligible employees are required to pay set premiums for all of the cost under COBRA.

The Governmental Accounting Standards Board (GASB) issued statement number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement number 45, which was effective for the Town on January 1, 2010, requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported on the financial statements. The Town has not implemented GASB statement number 45 at December 31, 2011 or contracted with an actuarial firm to assist in evaluating the impact of this new standard on the Town. The amounts that should be recorded as the annual required contribution/OPEB cost and the net OPEB obligation is unknown.

G. Interfund receivables, payables, and transfers

During the course of normal operations, the Town has numerous transactions between funds. Some of such transactions are intended for one fund (the transferring fund) to subsidize the operations of the other (the recipient fund). The accompanying governmental and proprietary fund financial statements reflect such transactions as interfund transfers. Other interfund transactions are entered into for convenience and processing efficiency, and simply represent temporary loans from one fund to another. These transactions are reflected as interfund receivables (for the lending fund) and interfund payables (for the borrowing fund).

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Interfund receivables and payables at December 31, 2011, and interfund transfers for the year ended December 31, 2011, were:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund	\$ 16,613	\$ 128	\$ 444,893	\$ 695,628
<i>Capital project:</i>				
Landfill closure fund	-	-	141,034	-
<i>Special revenue:</i>				
PAL fund	-	-	-	-
<i>Permanent:</i>				
Cemetery fund	128	4,101	-	-
Library fund	-	2,512	-	-
<i>Enterprise:</i>				
Water fund	-	10,000	187,928	-
Sewer fund	-	-	-	78,227
Total	<u>\$ 16,741</u>	<u>\$ 16,741</u>	<u>\$ 773,855</u>	<u>\$ 773,855</u>

H. Long-term liabilities

In 2009, the Town began construction on a major town water improvement project, funded by a combination of grants and loans. The funding of this project includes temporary financing up to \$2,060,600 provided by New Hampshire's Drinking Water Revolving fund. A portion of the principal sum, not to exceed the lesser of \$1,030,300 or 50% of the aggregate of disbursements, will be provided through federal financial assistance from the American Recovery and Reinvestment Act of 2009. Upon completion of the project the remaining amount provided by temporary financing will be refinanced with a promissory note issued by the State of New Hampshire with interest not to exceed 3.744%.

As of December 31, 2011, business-type activities general obligation debt consisted of temporary advances under New Hampshire Drinking Water Revolving Loan Fund totaling \$1,654,575 with an interest rate of 1%.

I. Tax anticipation note

The Town borrowed \$500,000 on June 14, 2011, \$200,000 on September 30, 2011 and \$500,000 on October 25, 2011 under a 1.75% tax anticipation note. \$250,000 of principal was repaid on July 27, 2011 and an additional \$250,000 was repaid, with \$1,211 of interest, on August 25, 2011. \$2,858 of interest was accrued on the \$700,000 principal as of December 31, 2011. This principal and interest balance was subsequently paid on January 11, 2012.

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J. Capital assets

2011 activity in capital assets and related accumulated depreciation, as reflected in the government-wide financial statements, consisted of:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Governmental activities</i>				
Capital assets not being depreciated:				
Land	\$ 96,427	\$ -	\$ -	\$ 96,427
Construction in progress	<u>658,273</u>	<u>1,122,291</u>	<u>(139,342)</u>	<u>1,641,222</u>
Totals, capital assets not being depreciated	<u>754,700</u>	<u>1,122,291</u>	<u>(139,342)</u>	<u>1,737,649</u>
Capital assets being depreciated:				
Buildings and improvements	914,748	61,226	-	975,974
Vehicles and equipment	<u>1,192,252</u>	<u>226,003</u>	<u>-</u>	<u>1,418,255</u>
Totals, capital assets being depreciated	<u>2,107,000</u>	<u>287,229</u>	<u>-</u>	<u>2,394,229</u>
Less accumulated depreciation for:				
Buildings and improvements	(376,309)	(39,481)	-	(415,790)
Vehicles and equipment	<u>(474,217)</u>	<u>(86,361)</u>	<u>-</u>	<u>(560,578)</u>
Total accumulated depreciation	<u>(850,526)</u>	<u>(125,842)</u>	<u>-</u>	<u>(976,368)</u>
Capital assets being depreciated, net	<u>1,256,474</u>	<u>161,387</u>	<u>-</u>	<u>1,417,861</u>
Governmental activities capital assets, net	<u>\$ 2,011,174</u>	<u>\$ 1,283,678</u>	<u>\$ (139,342)</u>	<u>\$ 3,155,510</u>
<i>Business-type activities</i>				
Capital assets not being depreciated				
Land	\$ 191,103	\$ -	\$ -	\$ 191,103
Construction in progress	<u>2,265,869</u>	<u>366,572</u>	<u>-</u>	<u>2,632,441</u>
Total capital assets not being depreciated	<u>2,456,972</u>	<u>366,572</u>	<u>-</u>	<u>2,823,544</u>
Capital assets being depreciated:				
Water system	1,229,518	-	-	1,229,518
Sewer system	<u>2,993,687</u>	<u>-</u>	<u>-</u>	<u>2,993,687</u>
Total capital assets being depreciated	<u>4,223,205</u>	<u>-</u>	<u>-</u>	<u>4,223,205</u>
Less accumulated depreciation for:				
Water system	(786,015)	(26,449)	-	(812,464)
Sewer system	<u>(1,066,369)</u>	<u>(67,848)</u>	<u>-</u>	<u>(1,134,217)</u>
Total accumulated depreciation	<u>(1,852,384)</u>	<u>(94,297)</u>	<u>-</u>	<u>(1,946,681)</u>
Capital assets being depreciated, net	<u>2,370,821</u>	<u>(94,297)</u>	<u>-</u>	<u>2,276,524</u>
Business-type activities capital assets, net	<u>\$ 4,827,793</u>	<u>\$ 272,275</u>	<u>\$ -</u>	<u>\$ 5,100,068</u>

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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$	6,500
Public safety		34,074
Highways and streets		47,237
Solid waste		<u>38,031</u>
Total depreciation expense	\$	<u><u>125,842</u></u>

K. Landfill closure and water remediation project

In 2004, the Town entered into several agreements principally with two related third parties to remediate groundwater pollution, mostly consisting of volatile organic compounds present in certain aquifers beneath Town and adjacent lands, and to close and cap the Town's landfill. Work on the project did not begin until 2005.

Under the agreements, the Town permitted the third parties to deposit 215,688 tons of solid waste as fill for the closure project at no charge. The third parties, in exchange, agreed to (i) close and cap the Town's landfill, (ii) construct a groundwater remediation facility in the vicinity of the contaminated aquifer at a cost of \$596,477 and to provide funds for remediation activities at the facility up to a cost of \$250,000, (iii) provide funds for certain other infrastructure improvements up to \$100,000, (iv) provide up to \$150,000 of funds towards the cost of a Town employee to oversee the third parties' activities during the term of the project, (v) provide funds for three years of post-closure monitoring of test wells by the Town up to a cost of \$150,000, and (vi) provide \$47,500 towards post-closure monitoring for another thirty years beyond the term of the project. The third parties further agreed to pay the Town \$20,000 towards the cost of constructing a water testing laboratory, and to pay the Town \$1 per ton of solid waste deposited in excess of the contractual limit described above. As of December 31, 2011, substantially all obligations under these agreements had been fulfilled.

The agreements also provide that the Town is responsible for complying with all legal requirements in connection with the project and the groundwater contamination. The Town retains ultimate liability for any future costs connected with the landfill or groundwater pollution beyond what is specified as the responsibility of the third parties in these contracts.

In accordance with federal law, the Town was required to establish an escrow account with a local bank in an amount deemed by state environmental officials to be adequate to assure proper closure and ongoing monitoring of the landfill and surrounding aquifers. This escrow account was funded primarily with a capital reserve fund that had been established for landfill closure. The Town is permitted to draw on the escrow account with the prior approval of state environmental officials to pay for costs associated with the account's purpose.

These financial statements include a landfill closure capital project fund which accounts for activities and balances related to this project. Because much of this project is a barter arrangement and the third parties have not disclosed their relevant financial information for the

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project, this capital project fund includes only those transactions which the Town can substantiate through identifiable transactions. Accordingly, the landfill closure capital project fund is not a complete representation of the entire financial scope of the project.

L. Governmental Fund Balances

Governmental fund balances reported on the fund financial statements at December 31, 2011 include the following:

	General <u>Fund</u>	Landfill Closure <u>Fund</u>	Non-Major Governmental <u>Funds</u>
<i>Nonspendable:</i>			
Tax deeded property	\$ 4,256	\$ -	\$ -
Principal portion of library trusts	60,378	-	-
Principal portion of perpetual care	-	-	269,494
Principal portion of Vershire trust	-	-	2,000
Principal portion of library endowment	-	-	30,100
Total nonspendable	<u>64,634</u>	<u>-</u>	<u>301,594</u>
<i>Restricted for:</i>			
Interest portion of perpetual care	-	-	10,713
Interest portion of Vershire trust	-	-	12
Interest portion of library endowment	-	-	1,121
General fund reserve for private grants	158,828	-	-
PAL	-	-	1,836
Total restricted	<u>158,828</u>	<u>-</u>	<u>13,682</u>
<i>Committed:</i>			
Recreation revolving fund	11,423	-	-
Equipment capital reserve	125,290	-	-
Main Street reconstruction of capital reserve	926,460	-	-
Landfill closure capital reserve	-	805,975	-
Other SRF capital reserve	338,481	-	-
Total committed	<u>1,401,654</u>	<u>805,975</u>	<u>-</u>
<i>Assigned to:</i>			
Library	58,452	-	-
Cemetery	69,942	-	-
Dispatch	41,762	-	-
Landfill closure	-	145,785	-
Total assigned	<u>170,156</u>	<u>145,785</u>	<u>-</u>
<i>Unassigned:</i>			
General fund	(103,946)	-	-
Recreation	1,853	-	-
Total unassigned	<u>(102,093)</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>\$ 1,693,179</u>	<u>\$ 951,760</u>	<u>\$ 315,276</u>

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M. Expenses in excess of budget

During 2011 the Town's actual expenses exceeded their budget by \$915,711 as shown on Exhibit E. The major component of this unfavorable variance was federal and state grant expenditures, which were offset by grant revenue.

V. Other information

A. Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors, and omissions; and natural disasters for which the Town carries commercial insurance. The Town believes this insurance is adequate to cover potential losses.

B. Accounting change and restatement

As further discussed in Note V.E., the Town implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended December 31, 2011. The effect of fund type reclassification is as follows:

	Fund Balance, January 1, as previously reported	Change in fund type classification	Prior period adjustments (Note V.C.)	Fund balance, January 1, as restated
General Fund	\$ 146,138	\$ 1,626,107	\$ 19,810	\$ 1,792,055
Library Fund	128,024	(128,024)	-	-
Cemetery Fund	69,942	(69,942)	-	-
Dispatch Fund	44,330	(44,330)	-	-
Recreation Fund	14,054	(14,054)	-	-
Equipment Capital Reserve	147,560	(147,560)	-	-
Main Street Recreation	910,699	(910,699)	-	-
Other Capital Reserve	311,498	(311,498)	-	-
Totals	<u>\$ 1,772,245</u>	<u>\$ -</u>	<u>\$ 19,810</u>	<u>\$ 1,792,055</u>

C. Prior period adjustments

Prior to 2011, the Town did not capitalize the entire amount of construction in progress as related to the flood resiliency grant in the governmental activities government-wide financial statements as required by Governmental Accounting Standards Board Statement (GASB) No. 34. As such, capital assets and net assets invested in capital assets, net of related debt were both understated by \$24,763 as of December 31, 2010 in the statement of net assets. Under the terms of the federal award on this project, Economic Development Administration will reimburse the Town 80% of

TOWN OF COLEBROOK
Colebrook, New Hampshire

NOTES TO FINANCIAL STATEMENTS

these expenses. As a result, due from other governments and fund balance were both understated by \$19,810 as of December 31, 2010 in the governmental fund balance sheet. The accompanying governmental funds statement of revenues, expenditures and changes in fund balance (Exhibit D) reports a prior period adjustment increasing fund balance by \$19,810 and the government-wide statement of activities (Exhibit B) reports a prior period adjustment increasing net assets by \$44,573 as of the beginning of 2011.

D. Subsequent events

The Town has evaluated all subsequent events through November 2, 2012, the date the financial statements were available to be issued.

E. Implementation of new GASB pronouncements

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of Statement No. 54 are mandatory for the Town for the year ended December 31, 2011, and accordingly have been implemented, with the exception of adoption of a fund balance policy. GASB Statements No. 60 through No. 64 issued during this period are not effective for the Town's financial statements until future years.

REQUIRED SUPPLEMENTARY
INFORMATION

TOWN OF COLEBROOK
Colebrook, New Hampshire

DESCRIPTION OF NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

PAL Fund – this fund is used to account for the Town’s PAL (Police Athletic League) program activities.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government’s programs.

Cemetery Perpetual Care Fund – this fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the Town’s cemeteries.

Vershire Trust Fund – this fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used for the Vershire organization to help children.

Library Endowment Fund – this fund is used to account for the principal trust amounts received and related interest income. The interest portion of the trust can be used for the Town’s library.

TOWN OF COLEBROOK
Colebrook, New Hampshire
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011

Schedule 1

	Special Revenue				Total
	Fund	Permanent Funds			
		Cemetery	Vershire	Library	
	PAL Fund	Perpetual Care Fund	Trust Fund	Endowment Fund	
ASSETS					
Cash	\$ 5,549	\$ 8,780	\$ -	\$ -	\$ 14,329
Investments	-	271,427	2,012	31,221	304,660
Accounts receivable	-	-	-	-	-
Due from other funds	-	-	-	-	-
Total assets	\$ 5,549	\$ 280,207	\$ 2,012	\$ 31,221	\$ 318,989
LIABILITIES AND FUND EQUITY					
<i>Liabilities</i>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued expenses	-	-	-	-	-
Deferred revenue	3,713	-	-	-	3,713
Due to other funds	-	-	-	-	-
Total liabilities	3,713	-	-	-	3,713
<i>Fund balance</i>					
Nonspendable fund balance	-	269,494	2,000	30,100	301,594
Restricted fund balance	1,836	10,713	12	1,121	13,682
Committed fund balance	-	-	-	-	-
Assigned fund balance	-	-	-	-	-
Unassigned fund balance	-	-	-	-	-
Total fund balance	1,836	280,207	2,012	31,221	315,276
Total liabilities and fund balance	\$ 5,549	\$ 280,207	\$ 2,012	\$ 31,221	\$ 318,989

See independent auditor's report.

TOWN OF COLEBROOK
Colebrook, New Hampshire

Schedule 2

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Special Revenue				Total
	Fund	Permanent Funds			
	PAL	Cemetery	Vershire	Library	
	Fund	Perpetual Care	Trust	Endowment	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
<i>Revenues</i>					
Contributions	\$ -	\$ 2,400	\$ -	\$ -	\$ 2,400
Charges for services	1,031	-	-	-	1,031
Income from investments	6	4,553	33	407	4,999
Gain (loss) on investments	-	416	-	-	416
Other local sources	-	-	-	-	-
Total revenues	<u>1,037</u>	<u>7,369</u>	<u>33</u>	<u>407</u>	<u>8,846</u>
<i>Expenditures</i>					
General government	-	131	419	-	550
Culture and recreation	1,374	-	-	-	1,374
Total expenditures	<u>1,374</u>	<u>131</u>	<u>419</u>	<u>-</u>	<u>1,924</u>
Excess (deficiency) of revenues over expenditures	<u>(337)</u>	<u>7,238</u>	<u>(386)</u>	<u>407</u>	<u>6,922</u>
<i>Other financing sources (uses)</i>					
Transfers from other funds	-	128	-	-	128
Transfers to other funds	-	(4,101)	-	(2,512)	(6,613)
Total other financing sources and uses	<u>-</u>	<u>(3,973)</u>	<u>-</u>	<u>(2,512)</u>	<u>(6,485)</u>
Excess (deficiency) of revenues over expenditures and sources and uses	<u>(337)</u>	<u>3,265</u>	<u>(386)</u>	<u>(2,105)</u>	<u>437</u>
Net assets, January 1	<u>2,173</u>	<u>276,942</u>	<u>2,398</u>	<u>33,326</u>	<u>314,839</u>
Fund balance, December 31	<u>\$ 1,836</u>	<u>\$ 280,207</u>	<u>\$ 2,012</u>	<u>\$ 31,221</u>	<u>\$ 315,276</u>

See independent auditor's report.

OTHER SUPPLEMENTAL
SCHEDULES

TOWN OF COLEBROOK
Colebrook, New Hampshire
STATEMENT OF ESTIMATED AND ACTUAL REVENUES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

Schedule 3

	<u>Estimated</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<i>Taxes</i>			
Property tax	\$1,245,635	\$ 1,340,625	\$ 94,990
Resident tax	-	(1,069)	(1,069)
Land use change tax	-	-	-
Yield tax	27,066	25,584	(1,482)
Payment in lieu of taxes	-	-	-
Excavation tax	112	112	-
Interest and penalties on taxes	74,000	81,001	7,001
Total taxes	1,346,813	1,446,253	99,440
<i>Licenses, permits and fees</i>			
Business licenses and permits	-	-	-
Motor vehicle permit fees	300,000	326,077	26,077
Building permits	1,700	2,115	415
Other licenses, permits and fees	8,000	8,882	882
Total licenses, permits and fees	309,700	337,074	27,374
<i>Intergovernmental</i>			
Shared revenue block grant	-	-	-
Meals and rooms distributions	102,770	102,770	-
Highway block grant	97,353	97,353	-
State and federal forest lands	-	4,005	4,005
Other state grants and reimbursements	62,580	775	(61,805)
Other federal grants and reimbursements	11,000	917,914	906,914
Other intergovernmental revenues	-	-	-
Total intergovernmental revenues	273,703	1,122,817	849,114
<i>Charges for services</i>			
Income from departments	99,811	76,142	(23,669)
Other charges for services	-	-	-
Total charges for services	99,811	76,142	(23,669)

TOWN OF COLEBROOK
Colebrook, New Hampshire
STATEMENT OF ESTIMATED AND ACTUAL REVENUES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

Schedule 3
(Continued)

	<u>Estimated</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<i>Other local sources</i>			
Sale of tax deeded property	-	-	-
Sale of municipal property	-	-	-
Interest on investments	450	670	220
Rents of property	-	-	-
Insurance dividends and reimbursements	-	-	-
Proceeds from long-term debt	-	-	-
Donations	-	170,567	170,567
Other miscellaneous revenue	-	100,000	100,000
	450	271,237	270,787
Total other local sources	450	271,237	270,787
Total revenues	2,030,477	3,253,523	1,223,046
<i>Other financing sources</i>			
Transfers from capital reserve and trust funds	52,000	104,907	52,907
Total revenues and other financing services	2,082,477	<u>\$ 3,358,430</u>	<u>\$ 1,275,953</u>
<i>Unreserved fund balance</i>			
Used to reduce tax rate	252,500		
Used to fund specific appropriations	80,900		
Total revenues and uses of fund balance	\$2,415,877		

See independent auditors' report.

TOWN OF COLEBROOK
Colebrook, New Hampshire
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Encumbered from 2010	Appropriations 2011
<i>General government</i>		
Executive	\$ -	\$ 69,906
Election and registration expenses	-	53,420
Financial administration	-	162,428
Revaluation of property	-	23,000
Legal expense	-	10,425
Planning and zoning	-	5,462
General government buildings	-	55,072
Advertising and regional association	-	2,200
Total general government	-	381,913
<i>Public safety</i>		
Police department	-	377,870
Ambulance	-	64,964
Fire	-	20,692
Emergency management	-	5,283
Total public safety	-	468,809
<i>Highways and streets</i>		
Highways	11,446	579,506
Street lighting	-	21,000
Total highways and streets	11,446	600,506
<i>Solid waste</i>		
Solid waste collection	-	321,001
Solid waste disposal	-	20,738
Total solid waste	-	341,739
<i>Health and welfare</i>		
Health	-	-
Animal control	-	100
Health agencies and hospitals	-	25,775
Welfare	-	3,676
Total health and welfare	-	29,551

Expenditures Net of Refunds	Encumbered to 2012	Variance Favorable (Unfavorable)
\$ 60,143	\$ -	\$ 9,763
48,173	-	5,247
151,009	-	11,419
20,400	-	2,600
12,522	-	(2,097)
6,087	-	(625)
51,589	-	3,483
2,181	-	19
<u>352,104</u>	<u>-</u>	<u>29,809</u>
381,893	-	(4,023)
97,188	-	(32,224)
36,947	-	(16,255)
293	-	4,990
<u>516,321</u>	<u>-</u>	<u>(47,512)</u>
515,128	-	75,824
23,336	-	(2,336)
<u>538,464</u>	<u>-</u>	<u>73,488</u>
177,691	-	143,310
20,738	-	-
<u>198,429</u>	<u>-</u>	<u>143,310</u>
-	-	-
-	-	100
25,775	-	-
510	-	3,166
<u>26,285</u>	<u>-</u>	<u>3,266</u>

See independent auditors' report.

Schedule 4
(Continued)

TOWN OF COLEBROOK
Colebrook, New Hampshire
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Encumbered from 2010	Appropriations 2011
<i>Culture and recreation</i>		
Parks and recreation	-	-
Patriotic purposes	-	4,000
Other culture and recreation	-	-
Total culture and recreation	-	4,000
<i>Conservation commission</i>		
	-	275
<i>Economic development</i>		
	-	10,000
<i>Debt service</i>		
Principal on long-term debt	-	-
Interest on long-term debt	-	-
Interest on tax anticipation notes	-	3,000
Total debt service	-	3,000
<i>Capital outlay</i>		
Land and improvements	-	-
Machinery, vehicles, and equipment	51,604	32,000
Buildings	-	-
Other capital improvements	-	70,000
Total capital outlay	51,604	102,000
Total expenditures	63,050	1,941,793
<i>Other financial uses</i>		
Transfer to capital reserve funds	-	92,600
Transfer to special revenue funds	-	381,484
Transfer to expendable trusts	-	-
Total other financing uses	-	474,084
Total expenditures and other financing uses	\$ 63,050	\$ 2,415,877

Expenditures Net of Refunds	Encumbered to 2012	Variance Favorable (Unfavorable)
-	-	-
4,000	-	-
<u>-</u>	<u>-</u>	<u>-</u>
4,000	-	-
<u>225</u>	<u>-</u>	<u>50</u>
<u>10,311</u>	<u>-</u>	<u>(311)</u>
-	-	-
-	-	-
4,237	-	(1,237)
<u>4,237</u>	<u>-</u>	<u>(1,237)</u>
-	-	-
86,661	-	(3,057)
-	-	-
<u>1,183,517</u>	<u>-</u>	<u>(1,113,517)</u>
<u>1,270,178</u>	<u>-</u>	<u>(1,116,574)</u>
<u>2,920,554</u>	<u>-</u>	<u>(915,711)</u>
93,213	-	(613)
363,944	-	17,540
<u>-</u>	<u>-</u>	<u>-</u>
<u>457,157</u>	<u>-</u>	<u>16,927</u>
<u><u>\$ 3,377,711</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (898,784)</u></u>

See independent auditors' report.

SINGLE AUDIT REPORTS

TOWN OF COLEBROOK
Colebrook, New Hampshire
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Federal Grantor/Pass Through</u> <u>Grantor/Program Title</u>	<u>Federal</u> <u>CFDA #</u>	<u>Total</u> <u>Expenditures</u>
U.S. Department of Commerce		
<i>Direct</i>		
Economic Adjustment Assistance	11.307	<u>\$ 882,508</u>
Environmental Protection Agency		
<i>Passed through State of New Hampshire Department of</i> <i>Environmental Services</i>		
Capitalization Grants for Drinking Water State Revolving Funds, Grant	66.468	38,488
Capitalization Grants for Drinking Water State Revolving Funds, Loan	66.468	<u>38,488</u>
		<u>76,976</u>
Department of Homeland Security		
<i>Passed through State of New Hampshire Department of Safety</i>		
Emergency Management Performance Grant	97.042	32,225
Disaster Grants - Public Assistance	97.036	<u>750</u>
		<u>32,975</u>
U.S. Department of Agriculture		
<i>Direct</i>		
Community Facilities Loans and Grants	10.766	<u>4,490</u>
Department of Housing and Urban Development		
<i>Direct</i>		
Economic Development Initiative Special Projects	14.251	273,619
<i>Passed through New Hampshire Community Development</i> <i>Finance Authority</i>		
Community Development Block Grant	14.228	<u>167,680</u>
		<u>441,299</u>
Total expenditures of federal awards		<u><u>\$ 1,438,248</u></u>

TOWN OF COLEBROOK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Colebrook under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Town of Colebrook, it is not intended to and does not present the financial position or changes in net assets of the Town of Colebrook.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Town Manager and Members of the Board of Selectmen
Town of Colebrook,
Colebrook, New Hampshire

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Colebrook, as of and for the year ended December 31, 2011, which collectively comprise the Town of Colebrook's basic financial statements and have issued our report thereon dated December 11, 2012. The opinion on the governmental activities was adverse as indicated therein. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town of Colebrook is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Colebrook's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Colebrook's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Colebrook's internal control over financial reporting.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all matters in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Colebrook's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 11-01.

*REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS*

The Town of Colebrook's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Selectmen, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 11, 2012

Roberts & Greene, PLLC



Roberts & Greene, PLLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Town Manager and Members of the Board of Selectmen
Town of Colebrook
Colebrook, New Hampshire

Compliance

We have audited the Town of Colebrook's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Colebrook's major federal programs for the year ended December 31, 2011. The Town of Colebrook's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal program is the responsibility of the Town of Colebrook's management. Our responsibility is to express an opinion on the Town of Colebrook's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Colebrook's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Colebrook's compliance with those requirements.

In our opinion, the Town of Colebrook, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control over Compliance

Management of the Town of Colebrook is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Colebrook's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Colebrook's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of

*INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133*

deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all matters in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Selectmen, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 11, 2012

Roberts & Heene, PLLC

**TOWN OF COLEBROOK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

Section I – Summary of Auditor’s Results

Financial Statements

1. The auditor’s report issued contained an adverse opinion on the financial statements of the governmental activities as described therein, and an unqualified opinion on the business-type activities, each major fund and the aggregate remaining fund information.
2. There were no material weaknesses identified in the internal control over financial reporting.
3. There were no significant deficiencies identified in the internal control over financial reporting that were not considered to be material weaknesses.
4. There was one instance of noncompliance material to the financial statements noted.

Federal Awards

1. There were no material weaknesses identified in the internal control over major programs.
2. There were no significant deficiencies identified in the internal control over major programs that were not considered to be material weaknesses.
3. The auditor’s report issued on compliance for major programs contained an unqualified opinion.
4. There were no audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133.
5. The programs tested as major programs were CFDA No. 11.307: Economic Adjustment Assistance, and CFDA No. 14.228: Community Development Block Grants to States.
6. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
7. The auditee did not qualify as a low-risk auditee.

Section II – Financial Statement Finding

11-01 *Investment Policy*

Condition: Neither the Board of Selectmen nor the Trustees of Trust Funds have adopted an investment policy.

Criteria: RSA 41:9-VII states that the Board of Selectmen “shall annually review and adopt an investment policy for the investment of public funds in conformance with applicable statutes and

**TOWN OF COLEBROOK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

shall advise the treasurer of such policies.” RSA 31:25 states that the Trustees of Trust Funds “shall formally adopt an investment policy for all investments made by them or by their agents for any trust funds in their custody in conformance with the provisions of applicable statutes. Such investment policy shall be reviewed and confirmed at least annually. A copy of the investment policy shall be filed with the attorney general.”

Effect: The Board of Selectmen and Trustees of Trust Funds have not complied with the RSA’s.

Recommendation: The Board of Selectmen and Trustees of Trust Funds should develop investment policies for their respective roles within the Town of Colebrook in accordance with RSA’s as indicated above.

Management’s Response: A policy will be written and submitted to the Board of Selectmen for approval.

Section III – Federal Award Findings and Questioned Costs

No Findings