

**TOWN OF DURHAM,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007**

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PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street ☐ Concord ☐ New Hampshire ☐ 03301-5063 ☐ 603-225-6996 ☐ FAX-224-1380

INDEPENDENT AUDITOR'S REPORT

To the Members of the Town Council
Town of Durham
Durham, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Durham as of and for the year ended December 31, 2007, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The government-wide statement of net assets does not include any of the Town's capital assets acquired in years prior to 2004 nor the accumulated depreciation on those assets; and the government-wide statement of activities does not include depreciation expense related to those assets. These amounts have not been determined. Therefore, in our opinion, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Town of Durham at December 31, 2007 and the 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, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Town of Durham, as of December 31, 2007, 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.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Durham's basic financial statements. The combining and individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. They have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 17, 2008

*Plodzik & Sanderson
Professional Association*

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MD&A) is intended to be an easily readable analysis of the Town of Durham's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements and notes to the financial statements that follow.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended December 31, 2007 the Town of Durham's net assets are recorded at \$1,845,751.
- The Town's unreserved, undesignated fund balance for the General Fund at year-end of \$1,408,445 reflects an increase of \$4,219 compared to the prior fiscal year's end of \$1,404,226.
- The Sewer Fund's unreserved fund balance at year-end reflects a deficit of \$17,011 which is a decrease of \$66,106 compared to the prior fiscal year's end of \$49,095.
- The Town's long-term obligations saw a net decrease of \$1,294,480 during the year due to the final payment being made on several bonds.

REPORT LAYOUT

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Durham's finances in a manner similar to a private sector business. Besides the Management's Discussion and Analysis (MD&A), the annual financial report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and required supplementary information (RSI). The first two statements are highly condensed and present a government-wide view of the Town's finances. In the next several statements all Town operations are categorized and reported by the various funds.

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. The annual financial report also provides for significant major funds financial statements, which provide more detail than the government-wide statements. Where combined information has been presented, later statements will provide combining information. Budgetary information is provided for major funds. The notes to the financial statements are an integral part of this report. Finally, there is required supplemental information provided relating to the financial activity of the Town.

STATEMENT OF NET ASSETS

The focus of the Statement of Net Assets is to present all of the Town of Durham's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Durham is improving or deteriorating.

STATEMENT OF ACTIVITIES

The focus of the Statement of Activities is to present the major program costs and match major resources with each. To the extent a program's cost is not recovered by grants and direct charges, it is paid from general taxes and other resources. This Statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues. Following the government-wide statements is a section containing fund financial statements. The Town's major funds are presented in their own columns and the remaining funds are combined into a column titled "Other Governmental Funds." For the general and sewer department funds, a Budgetary Comparison Statement is presented. Readers who wish to obtain information on non-major funds can find it in the Combining Schedules of Non-Major Funds.

Finally, completing the document is the report by the independent auditor, as required by statute, which is located at the beginning of this document. This MD&A is intended to explain the significant changes in financial position and differences in operations between the current and prior years.

TOWN AS A WHOLE

GOVERNMENT-WIDE FINANCIAL STATEMENTS

2004 was the first year that the Town reported on governmental activities using the new standard. The Statement of Net Assets reflects changes in net assets during 2007. Since the Town is not reporting capital assets and infrastructure acquired prior to 2004, 2006 was the first year the overall Total Net Assets showed a surplus and it continues to do so. In subsequent years, this statement will continue to show a more accurate picture of the Town's net assets.

A condensed version of the Statement of Net Assets at December 31, 2006 and 2007 follows.

Town of Durham's Net Assets

(all figures are in U.S. dollars)

	2007	2006	Increase (Decrease)	% Increase (Decrease)
Current and other assets	15,950,392	16,667,184	(716,792)	(4%)
Capital assets, net	6,280,223	4,674,042	1,606,181	34%
Total assets	22,230,615	21,341,226	889,389	4%
Long-term liabilities outstanding	11,415,131	12,709,611	(1,294,480)	(10%)
Other liabilities	8,953,199	8,578,913	374,286	4%
Total liabilities	20,368,330	21,288,524	(920,194)	(4%)
Net assets:				
Invested in capital assets, net of related debt	(1,564,212)	(115,746)	(1,448,466)	(1351%)
Restricted	379,544	1,801,813	(1,422,269)	(79%)
Unrestricted	3,030,419	(1,633,365)	4,663,784	68%
Total net assets	1,845,751	52,702	1,793,049	3502%

Under GASB 34 for Phase III reporting entities, the Town is not required to inventory and report on capital infrastructure. The Town elected to not undertake the time and cost commitment to "book" these infrastructure items, and, as a result, the Statement of Net Assets will not accurately reflect the Town's net worth for many years to come. For this reason, the Town also elected to not inventory and report on other historical assets such as land, buildings, vehicles, and equipment. Although this decision goes against Generally Accepted Accounting Principles (GAAP), we believed that the cost versus the benefit of researching every Town owned asset and properly reporting them would not bring the reader of these financial statements any additional worthwhile information without full infrastructure reporting as well.

Infrastructure and other improvements total approximately \$9 million. The non-land portion of improvements is being depreciated. The net value of assets and liabilities as of December 30, 2007 is \$1,845,751. As discussed in prior years, due to the modified approach of only reporting assets and infrastructure added during 2004 and moving forward, it will be several years before the Statement of Net Assets will project a more representative picture for the Town of Durham.

**STATEMENT OF ACTIVITIES FOR THE YEAR ENDED
DECEMBER 31, 2007 AND 2006:**

(all figures are in U.S. dollars)

	2007	2006	Increase (Decrease)	% Increase (Decrease)
REVENUES:				
Program Revenues:				
Charges for services	1,900,354	2,230,320	(329,966)	(15%)
Operating Grants & Contributions	3,198,401	2,655,270	543,131	20%
Capital Grants and Contributions	99,899	0	99,899	100%
General Revenues:				
Taxes	5,759,375	5,398,839	360,536	7%
Licenses and Permits	946,897	896,916	49,981	6%
Unrestricted Grants	740,830	671,523	69,307	10%
Miscellaneous	417,794	543,112	(125,318)	(23%)
Total Revenues	13,063,550	12,395,980	667,570	5%
EXPENSES:				
General Government	1,666,275	1,854,371	(188,096)	(10%)
Public Safety	5,453,912	4,958,403	495,509	10%
Highways and Streets	1,316,292	1,530,329	(214,037)	(14%)
Sanitation	1,648,180	1,581,657	66,523	4%
Water	296,936	252,960	43,976	17%
Health	14,573	17,141	(311)	(2%)
Welfare	17,549	11,639	(2,568)	51%
Culture and Recreation	477,168	267,534	209,634	78%
Conservation	27,888	96,840	(68,952)	(71%)
Capital Outlay	375,013	1,306,596	(931,583)	(71%)
Interest in Long-Term Debt	464,015	670,751	(206,736)	(31%)
Total Governmental Activities	11,757,801	12,548,221	(790,420)	(6%)
Change in Net Assets	1,305,749	(152,241)	(2,295,333)	
Beginning Net Assets	52,702	204,943	2,664,079	
Ending Net Assets	1,845,751	52,702	368,746	

**GOVERNMENTAL ACTIVITIES
FOR FISCAL YEAR ENDING DECEMBER 31, 2007**

With a few minor exceptions, including the decrease in capital outlay, governmental program expenses remain similar to the prior year.

**BUDGETARY HIGHLIGHTS
FOR FISCAL YEAR ENDING DECEMBER 31, 2007**

There were no changes to the Town Council's approved and adopted budget during 2007.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Town has invested \$9,053,698 in capital assets (net of depreciation), which represents an increase of \$2,688,781 as detailed in Note 2-C.

OUTSTANDING DEBT

As of year-end, the Town had \$11.4 million in debt outstanding compared to \$12.7 million last year. The \$1.3 million decrease is a result of the Town not issuing any new debt in 2007. Additional detailed information on Long-term obligations is available in the notes to the financial statements.

Moody's rated our most recent bond issue at Aa3, which was the second highest rating of any entity in the State of NH. For more detailed information on the Town's debt and amortization terms refer to the Notes to the Financial Statements.

ECONOMIC FACTORS

Property taxes are an important factor in funding Town operations, representing 55.2% of total governmental resources. Inter-governmental revenues from the State of New Hampshire, as well as the University of New Hampshire (UNH), grants and a FEMA reimbursement make up just over 25.4% of total resources, while motor vehicle, building permit and other permit fees comprise approximately 9.3%. Interest on investments, rental of property, fines and forfeits and other miscellaneous charges amount to the remaining 10.1%.

With the economy still recovering after an extended downturn, these sources of revenues appear consistent with last year's figures. The Town continues to monitor all of its resources and determines the need for program adjustment or fee increases as necessary.

NEXT YEAR'S BUDGETS AND RATES

The 2008 fiscal year General Fund Budget projects a 6.8% increase in resources and a 3.2% increase in expenditures, due to salary and benefit cost increases, increased costs for fuel, electricity, natural gas and heating oil. The overall property tax rate impact for 2008, using an estimated \$101,500 in fund balance, amounts to a 2.9% increase.

FINANCIAL CONTACT

The Town's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about the report or need additional financial information, please contact the Town's Business Manager at 15 Newmarket Road, Durham, NH 03824 or call (603) 868-8043.

EXHIBIT A
TOWN OF DURHAM, NEW HAMPSHIRE
Statement of Net Assets
December 31, 2007

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 11,121,175
Investments	640,825
Intergovernmental receivable	30,719
Other receivables	1,376,859
Prepaid items	7,339
Capital assets, not being depreciated:	
Land	2,400,203
Construction in progress	373,272
Capital assets, net of accumulated depreciation:	
Land improvements	149,867
Buildings and building improvements	3,653,668
Equipment and vehicles	979,460
Infrastructure	1,497,228
Total assets	<u>22,230,615</u>
LIABILITIES	
Accounts payable	1,071,394
Accrued salaries and benefits	139,069
Intergovernmental payable	7,384,120
Accrued interest payable	138,423
Retainage payable	3,160
Unearned revenue	217,033
Noncurrent obligations:	
Due within one year:	
Bonds	1,259,656
Capital leases	86,372
Compensated absences	52,068
Accrued landfill postclosure care costs	10,000
Due in more than one year:	
Bonds	9,234,649
Capital leases	37,233
Compensated absences	485,153
Accrued landfill postclosure care costs	250,000
Total liabilities	<u>20,368,330</u>
NET ASSETS	
Invested in capital assets, net of related debt	(1,564,212)
Restricted for perpetual care	379,544
Unrestricted	3,030,419
Total net assets	<u>\$ 1,845,751</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT B
TOWN OF DURHAM, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2007

		Program Revenues			Net (Expense)
		Charges	Operating	Capital	Revenue and
		for	Grants and	Grants and	Change in
	Expenses	Services	Contributions	Contributions	Net Assets
Governmental activities:					
General government	\$ 1,666,275	\$ 46,619	\$ 256,315	\$ -	\$ (1,363,341)
Public safety	5,453,912	208,863	1,473,501	-	(3,771,548)
Highways and streets	1,316,292	4,112	513,330	-	(798,850)
Sanitation	1,648,180	1,205,369	464,370	-	21,559
Water distribution and treatment	296,936	393,830	4,858	-	101,752
Health	14,573	-	-	-	(14,573)
Welfare	17,549	-	-	-	(17,549)
Culture and recreation	477,168	41,561	392,406	-	(43,201)
Conservation	27,888	-	32,156	-	4,268
Interest on long-term debt	464,015	-	61,465	-	(402,550)
Capital outlay	375,013	-	-	99,899	(275,114)
Total governmental activities	<u>\$ 11,757,801</u>	<u>\$ 1,900,354</u>	<u>\$ 3,198,401</u>	<u>\$ 99,899</u>	<u>(6,559,147)</u>
General revenues:					
Taxes:					
Property					5,592,810
Other					166,565
Motor vehicle permit fees					867,029
Licenses and other fees					79,868
Grants and contributions not restricted to specific programs					740,830
Miscellaneous					417,794
Total general revenues					<u>7,864,896</u>
Donation of capital asset					<u>487,300</u>
Total general revenues and donation of capital asset					<u>8,352,196</u>
Change in net assets					<u>1,793,049</u>
Net assets, beginning					<u>52,702</u>
Net assets, ending					<u>\$ 1,845,751</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-1
TOWN OF DURHAM, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2007

	General	Sewer Department	Expendable Trust	Capital Project	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 8,019,555	\$ 2,949	\$ 1,519,364	\$ -	\$ 1,579,307	\$ 11,121,175
Investments	-	-	-	-	640,825	640,825
Receivables, net of allowance for uncollectible:						
Taxes	1,115,036	-	-	-	20,000	1,135,036
Accounts	56,565	99,692	-	-	85,566	241,823
Intergovernmental	5,919	-	-	24,800	-	30,719
Interfund receivable	287,825	-	108,669	-	9,162	405,656
Voluntary tax liens	34,461	-	-	-	-	34,461
Voluntary tax liens reserved until collected	(34,461)	-	-	-	-	(34,461)
Prepaid items	4,839	-	-	-	2,500	7,339
Total assets	<u>\$ 9,489,739</u>	<u>\$ 102,641</u>	<u>\$ 1,628,033</u>	<u>\$ 24,800</u>	<u>\$ 2,337,360</u>	<u>\$ 13,582,573</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 404,481	\$ 43,744	\$ -	\$ 589,811	\$ 33,358	\$ 1,071,394
Accrued salaries and benefits	124,791	7,660	-	-	6,618	139,069
Intergovernmental payable	7,384,120	-	-	-	-	7,384,120
Interfund payable	77,831	68,248	20,000	230,861	8,716	405,656
Retainage payable	-	-	-	3,160	-	3,160
Escrow and performance deposits	16,534	-	-	-	-	16,534
Deferred revenue	22,598	-	-	189,618	4,817	217,033
Total liabilities	<u>8,030,355</u>	<u>119,652</u>	<u>20,000</u>	<u>1,013,450</u>	<u>53,509</u>	<u>9,236,966</u>
Fund balances:						
Reserved for encumbrances	50,939	-	-	690,061	-	741,000
Reserved for endowments	-	-	-	-	339,530	339,530
Reserved for special purposes	-	-	-	-	175,008	175,008
Unreserved, undesignated, reported in:						
Capital project fund	-	-	-	(1,678,711)	-	(1,678,711)
General fund	1,408,445	-	-	-	-	1,408,445
Special revenue funds	-	(17,011)	1,608,033	-	1,769,313	3,360,335
Total fund balances	<u>1,459,384</u>	<u>(17,011)</u>	<u>1,608,033</u>	<u>(988,650)</u>	<u>2,283,851</u>	<u>4,345,607</u>
Total liabilities and fund balances	<u>\$ 9,489,739</u>	<u>\$ 102,641</u>	<u>\$ 1,628,033</u>	<u>\$ 24,800</u>	<u>\$ 2,337,360</u>	<u>\$ 13,582,573</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-2
TOWN OF DURHAM, NEW HAMPSHIRE
Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets
December 31, 2007

Total fund balances of governmental funds (Exhibit C-1)		\$	4,345,607
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.			
Cost	\$	9,768,977	
Less accumulated depreciation		<u>(715,279)</u>	
			9,053,698
Interfund receivables and payables between governmental funds are eliminated on the statement of net assets.			
Receivables	\$	(405,656)	
Payables		<u>405,656</u>	
			-
Interest on long-term debt is not accrued in governmental funds.			
Accrued interest payable			(138,423)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.			
Bonds	\$	10,494,305	
Capital leases		123,605	
Compensated absences		537,221	
Accrued landfill postclosure care costs		<u>260,000</u>	
			<u>(11,415,131)</u>
Total net assets of governmental activities (Exhibit A)		\$	<u>1,845,751</u>

EXHIBIT C-3
TOWN OF DURHAM, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended December 31, 2007

	General	Sewer Department	Expendable Trust	Capital Project	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 5,739,375	\$ -	\$ -	\$ -	\$ 20,000	\$ 5,759,375
Licenses and permits	946,897	-	-	-	-	946,897
Intergovernmental	2,788,123	423,845	26,425	97,399	-	3,335,792
Charges for services	300,635	1,167,208	-	-	432,511	1,900,354
Miscellaneous	313,354	3,825	78,491	2,500	690,962	1,089,132
Total revenues	10,088,384	1,594,878	104,916	99,899	1,143,473	13,031,550
Expenditures:						
Current:						
General government	1,566,751	-	-	-	69,769	1,636,520
Public safety	5,384,306	-	-	-	2,760	5,387,066
Highways and streets	1,214,694	-	-	-	-	1,214,694
Water distribution and treatment	-	-	-	-	276,115	276,115
Sanitation	567,080	961,409	-	-	-	1,528,489
Health	14,573	-	-	-	-	14,573
Welfare	17,549	-	-	-	-	17,549
Culture and recreation	199,494	-	-	-	256,944	456,438
Conservation	1,567	-	-	-	26,321	27,888
Debt service:						
Principal	770,800	438,134	-	-	125,597	1,334,531
Interest	256,828	158,442	-	-	60,608	475,878
Capital outlay	-	-	-	2,863,885	-	2,863,885
Total expenditures	9,993,642	1,557,985	-	2,863,885	818,114	15,233,626
Excess (deficiency) of revenues over (under) expenditures	94,742	36,893	104,916	(2,763,986)	325,359	(2,202,076)
Other financing sources (uses):						
Transfers in	263,080	-	67,244	355,342	201,735	887,401
Transfers out	(526,104)	(102,999)	(56,978)	-	(201,320)	(887,401)
Total other financing sources and uses	(263,024)	(102,999)	10,266	355,342	415	-
Net change in fund balances	(168,282)	(66,106)	115,182	(2,408,644)	325,774	(2,202,076)
Fund balances, beginning	1,627,666	49,095	1,492,851	1,419,994	1,958,077	6,547,683
Fund balances, ending	\$ 1,459,384	\$ (17,011)	\$ 1,608,033	\$ (988,650)	\$ 2,283,851	\$ 4,345,607

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-4
TOWN OF DURHAM, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2007

Net change in fund balances of governmental funds (Exhibit C-3)		\$ (2,202,076)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.		
Capitalized capital outlay	\$ 3,027,185	
Depreciation expense	<u>(338,404)</u>	
		2,688,781
Transfers in and out between governmental funds are eliminated on the operating statement.		
Transfers in	\$ (887,401)	
Transfers out	<u>887,401</u>	
		-
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.		
Repayment of bond principal	\$ 1,252,990	
Repayment of capital lease principal	<u>81,540</u>	
		1,334,530
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.		
Decrease in accrued interest expense	\$ 11,864	
Increase in compensated absences payable	(50,050)	
Decrease in accrued landfill postclosure care costs	<u>10,000</u>	
		(28,186)
Change in net assets of governmental activities (Exhibit B)		<u><u>\$ 1,793,049</u></u>

EXHIBIT D-1
TOWN OF DURHAM, NEW HAMPSHIRE
Fiduciary Funds
Statement of Fiduciary Net Assets
December 31, 2007

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ 178,785	\$ 559,108
LIABILITIES		
Due to other governmental units	-	559,108
NET ASSETS		
Held in trust for specific purposes	\$ 178,785	\$ -

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D-2
TOWN OF DURHAM, NEW HAMPSHIRE
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended December 31, 2007

	Private Purpose Trust
ADDITIONS	
Contributions:	
New funds	\$ 60,993
Investment earnings:	
Interest	4,067
Total additions	<u>65,060</u>
DEDUCTIONS	
Scholarships	<u>(8,421)</u>
Change in net assets	56,639
Net assets, beginning	<u>122,146</u>
Net assets, ending	<u><u>\$ 178,785</u></u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

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TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Durham, New Hampshire (the Town) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to the governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

1-A Reporting Entity

The Town of Durham is a municipal corporation governed by an elected Town Council and Town Administrator. The reporting entity is comprised of the primary government and any other organizations that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the Town is financially accountable. The Town is financially accountable for an organization if the Town appoints a voting majority of the organization's governing board, and (1) the Town is able to significantly influence the programs or services performed or provided by the organization; or (2) the Town is legally entitled to or can otherwise access the organization's resources; the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Town is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the Town's financial reporting entity.

1-B Basis of Presentation

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

Government-wide Financial Statements - The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Town as a whole. Fiduciary activities are not included at the government-wide reporting level. Individual funds are not displayed at this reporting level as all individual funds are consolidated as governmental activities.

The statement of net assets presents the financial position of the governmental activities of the Town at year-end. This statement includes all of the Town's assets, liabilities and net assets, with the exception of some of the capital assets and related accumulated depreciation which have been omitted because they have not been inventoried at historical cost.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with the function, and therefore, clearly identifiable to that particular function.

The statement of activities reports the expenses of a given function offset by program revenues directly related to the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with the functional activity. Program revenues include: (1) charges for services, which include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions, which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to the program uses.

For identifying to which function program revenue pertains, the determining factor for *charges for services* is which functions generate the revenue. For *grants and contributions*, the determining factor is to which functions the revenues are *restricted*.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
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Fund Financial Statements - During the year, the Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund financial statements are designed to present financial information of the Town at this more detailed level. Fund financial statements are provided for governmental and fiduciary funds.

Fund Accounting - The Town uses funds to maintain its financial records during the year. The Town uses two categories of funds: governmental and fiduciary.

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

General Fund - The general fund is the primary operating fund of the Town. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

Sewer Department Fund - The sewer department fund is used to account for revenues, expenditures, assets, liabilities and balances associated with providing sewer services.

Expendable Trust Fund - The expendable trust fund is used to account for funds established by Town Meeting as capital reserve of other expendable funds.

Capital Project Fund - The capital project fund is used to account for activities related to the acquisition or construction of capital assets.

The Town also reports eight nonmajor governmental funds.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets. The Town's fiduciary funds consist of two types of funds, private purpose trust and agency funds. The agency funds are custodial in nature (assets equal liabilities), and do not involve the measurement of results of operations.

1-C Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Town are included on the statement of net assets, with the exception of some of the capital assets and related accumulated depreciation which have been omitted because they have not been valued at historical cost. The statement of activities reports revenues, expenses and changes in net assets except for depreciation expense on the omitted assets.

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

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

Fiduciary funds use an economic resources measurement focus. These funds report all assets and liabilities on the statement of fiduciary net assets. The statement of changes in fiduciary net assets reports additions and deductions to net assets of the private purpose trust funds.

1-D Basis of Accounting

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

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

Revenues - Nonexchange Transactions - Nonexchange transactions, in which the Town receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all grantor imposed eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Town must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions also must be available (i.e., collected within 60 days) before it can be recognized, with the exception of property taxes which are recognized if expected to be collected in time to be used to pay the liability to the school district which is due over the next six months.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: taxes, charges for services, interest, and federal and state grants.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met (e.g., cash advances) are recorded as deferred revenue in the governmental funds, and as unearned revenue on the government-wide financial statements.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

1-E Assets, Liabilities and Net Assets or Fund Equity

1-E-1 Cash, Cash Equivalents and Investments

Cash and Cash Equivalents - Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Town.

New Hampshire statutes require that the Town treasurer have custody of all moneys belonging to the Town and pay out the same only upon orders of the Town Administrator. The treasurer shall deposit all such moneys in participation units in the public deposit investment pool established pursuant to N.H. RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

Investments - Wherever the treasurer has in custody an excess of funds, which is not immediately needed for the purpose of expenditure, the treasurer shall, with the approval of the Town Council, invest the excess funds.

New Hampshire law authorizes the Town to invest in the following type of obligations:

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the state treasurer.

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the Town. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Investments are stated at fair value based on quoted market prices.

1-E-2 Receivables

Tax revenue is recorded when a warrant for collection is committed to the tax collector. Taxes receivable are reported net of an allowance established for any taxes considered uncollectible by management. As prescribed by law, the tax collector executes a lien on properties for all uncollected property taxes in the following year after taxes are due. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed within the 2-year redemption period, the property is tax deeded to the Town.

Accounts receivable include various service charges which are recorded as revenue for the period when service was provided.

1-E-3 Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated on the statement of net assets.

1-E-4 Prepaid Items

Payments made to vendors for services that will benefit periods beyond year-end are recorded as prepaid items using the consumption method, by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

1-E-5 Capital Assets

Capital assets are those assets of a capital nature which the Town owns. These assets are reported in the government-wide financial statements. However, only those assets put in service during or since 2004 have been reported. The Town has not inventoried the rest of its capital assets at historical cost.

The capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$5,000 and more than one year of estimated life. Improvements to capital assets are capitalized; the costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset's life are expensed.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

All reported capital assets are depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Years</u>
Land improvements	10-15
Buildings and building improvements	10
Equipment and vehicles	5-15
Infrastructure	15

1-E-6 Compensated Absences

Sick and vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Town will compensate the employees for the benefits through paid time off or some other means. All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. Governmental funds report the compensated absence liability at the fund reporting level only "when due."

1-E-7 Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year.

1-E-8 Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Equity for all other reporting is classified as "net assets."

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources, and therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance that is available for appropriation in future periods.

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

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

1-E-9 Interfund Activity

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

At the government-wide financial reporting level, transfers between funds that would be reported in the individual funds are eliminated.

1-E-10 Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - DETAILED NOTES ON ALL FUNDS AND GOVERNMENT-WIDE STATEMENTS

2-A Taxes Receivable

The property tax year is from April 1 to March 31 and all property taxes are assessed on the inventory taken in April of that year. The net assessed valuation as of April 1, 2007, upon which the 2007 property tax levy was based is:

For the New Hampshire education tax	\$ 805,040,918
For all other taxes	\$ 815,112,018

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Under this method, tax bills are due on or around July 1 and December 1 of each year, with interest accruing at a rate of 12% on bills outstanding after the due date. The first billing is considered an estimate only and is one half of the previous year's tax billing. The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated and approved the Town's tax rate for the fiscal year.

In connection with the setting of the tax rate, Town officials with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for abatements and refunds of property taxes, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any tax allowances at year-end. The property taxes collected by the Town include taxes levied for the State of New Hampshire, Oyster River Cooperative School District and Strafford County, which are remitted as required by law. The ultimate responsibility for the collection of taxes rests with the Town.

The tax rates and amounts assessed for the year ended December 31, 2007, were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$6.90	\$ 5,627,994
School portion:		
State of New Hampshire	\$2.52	2,027,116
Local	\$16.55	13,490,248
County portion	\$2.27	1,848,026
Total		<u>\$ 22,993,384</u>

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

During the current fiscal year, the tax collector executed a lien on June 8 for all uncollected 2006 property taxes.

Taxes receivable at December 31, 2007, are as follows:

Property:	
Levy of 2007	\$ 990,398
Unredeemed (under tax lien):	
Levy of 2006	140,683
Levy of 2005	5,633
Land use change	20,000
Less: allowance for estimated uncollectible taxes	(21,678)
Net taxes receivable	<u>\$ 1,135,036</u>

2-B Other Receivables

Other receivables at December 31, 2007, consisted of accounts (billings for water, sewer and other user charges), and intergovernmental amounts arising from grants.

Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectibility.

Amounts receivable at December 31, 2007 are as follows:

	General Fund	Sewer Department Fund	Capital Project Fund	Nonmajor Funds	Total
Accounts	\$ 56,565	\$ 99,692	\$ -	\$ 85,566	\$ 241,823
Intergovernmental	5,919	-	24,800	-	30,719
Liens	34,461	-	-	-	34,461
Less: allowance for unavailable amounts	(34,461)	-	-	-	(34,461)
Net receivables	<u>\$ 62,484</u>	<u>\$ 99,692</u>	<u>\$ 24,800</u>	<u>\$ 85,566</u>	<u>\$ 272,542</u>

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

2-C Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance, beginning	Changes	Balance, ending
At cost:			
Not being depreciated:			
Land	\$ 1,487,621	\$ 912,582	\$ 2,400,203
Construction in progress	203,254	170,018	373,272
Total capital assets not being depreciated	<u>1,690,875</u>	<u>1,082,600</u>	<u>2,773,475</u>
Being depreciated:			
Land improvements	184,347	-	184,347
Buildings and building improvements	3,283,911	649,153	3,933,064
Equipment and vehicles	721,002	496,623	1,217,625
Infrastructure	861,657	798,809	1,660,466
Total capital assets being depreciated	<u>5,050,917</u>	<u>1,944,585</u>	<u>6,995,502</u>
Total all capital assets	<u>6,741,792</u>	<u>3,027,185</u>	<u>9,768,977</u>
Less accumulated depreciation:			
Land improvements	(23,765)	(10,715)	(34,480)
Buildings and building improvements	(135,361)	(144,035)	(279,396)
Equipment and vehicles	(131,156)	(107,009)	(238,165)
Infrastructure	(86,593)	(76,645)	(163,238)
Total accumulated depreciation	<u>(376,875)</u>	<u>(338,404)</u>	<u>(715,279)</u>
Net book value, capital assets being depreciated	<u>4,674,042</u>	<u>1,606,181</u>	<u>6,280,223</u>
Net book value, all capital assets	<u>\$ 6,364,917</u>	<u>\$ 2,688,781</u>	<u>\$ 9,053,698</u>

Depreciation expense was charged to functions of the Town as follows:

General government	\$ 9,683
Public safety	43,066
Highways and streets	97,262
Sanitation	170,849
Water distribution and treatment	8,858
Culture and recreation	8,686
Total	<u>\$ 338,404</u>

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

2-D Interfund Balances and Transfers

Interfund balances at December 31, 2007 consisted of overdrafts in the pooled cash and investments and budgetary transfers not yet made as follow:

Receivable Fund	Payable Fund	Amount
General	Sewer department	\$ 28,248
	Expendable trust	20,000
	Capital project	230,861
	Nonmajor	8,716
Expendable trust	General	68,669
	Sewer department	40,000
Nonmajor	General	9,162
		<u>\$ 405,656</u>

Interfund transfers during the year were comprised of voted appropriations and the distribution of trust income as follow:

	Transfer In:				Total
	General Fund	Expendable Trust Fund	Capital Project Fund	Nonmajor Funds	
Transfer out:					
General fund	\$ -	\$ 43,669	\$ 280,700	\$ 201,735	\$ 526,104
Sewer department fund	63,426	13,575	25,998	-	102,999
Expendable trust fund	20,000	-	36,978	-	56,978
Nonmajor funds	179,654	10,000	11,666	-	201,320
Total	<u>\$ 263,080</u>	<u>\$ 67,244</u>	<u>\$ 355,342</u>	<u>\$ 201,735</u>	<u>\$ 887,401</u>

2-E Intergovernmental Payable

The amount due to other governments at December 31, 2007 consists of \$7,384,120 due to the Oyster River Cooperative School District for the balance of the 2007-2008 district assessment.

2-F Deferred/Unearned Revenue

Deferred/unearned revenue at December 31, 2007 consists of \$20,000 of donations for specific purposes received prior to expenditures being made, \$7,415 of rent received for January 2008 and \$189,618 in FEMA grant funds for flood damages that have not yet been repaired.

2-G Long-Term Liabilities

Changes in the Town's long-term obligations during the year ended December 31, 2007, consisted of the following:

	General Obligation Bonds Payable	Capital Leases Payable	Compensated Absences Payable	Accrued Landfill Postclosure Care Costs	Total
Balance, beginning	\$ 11,747,295	\$ 205,145	\$ 487,171	\$ 270,000	\$ 12,709,611
Additions	-	-	50,050	-	50,050
Reductions	(1,252,990)	(81,540)	-	(10,000)	(1,344,530)
Balance, ending	<u>\$ 10,494,305</u>	<u>\$ 123,605</u>	<u>\$ 537,221</u>	<u>\$ 260,000</u>	<u>\$ 11,415,131</u>

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
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Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2007	Current Portion
General obligation bonds/notes payable:						
Treatment plant	\$ 336,018	1994	2008	3.9075	\$ 289,477	\$ 289,477
Refunding	\$ 2,305,000	1997	2009	4.25-2.60	345,000	175,000
Refunding/capital improvements	\$ 3,279,458	2002	2019	3.00-4.50	1,920,000	235,000
Water improvements	\$ 828,554	2002	2016	3.4725	546,915	52,807
Landfill closure	\$ 802,756	2004	2024	3.6880	682,342	40,138
Wastewater treatment plant improvements	\$ 3,290,757	2005	2024	3.6880	2,935,571	127,234
Capital improvements	\$ 3,800,154	2006	2026	3.9494	3,515,000	290,000
Capital improvements	\$ 315,364	2006	2013	5.7499	260,000	50,000
					<u>10,494,305</u>	<u>1,259,656</u>
Capital leases payable:						
Ladder truck	\$ 409,000	1998	2008	5.5000	51,432	51,432
Fire engine	\$ 303,076	2000	2009	6.5600	72,173	34,940
					<u>123,605</u>	<u>86,372</u>
Compensated absences payable:						
Vested sick leave					206,269	24,883
Accrued vacation leave					330,952	27,185
					<u>537,221</u>	<u>52,068</u>
Accrued landfill postclosure care costs					260,000	10,000
Total					<u>\$ 11,415,131</u>	<u>\$ 1,408,096</u>

The annual requirements to amortize all general obligation debt outstanding as of December 31, 2007, including interest payments, are as follows:

Annual Requirements To Amortize General Obligation Bonds/Notes Payable

Fiscal Year Ending December 31,	Principal	Interest	Total
2008	\$ 1,259,656	\$ 412,026	\$ 1,671,682
2009	981,705	359,189	1,340,894
2010	813,467	317,100	1,130,567
2011	820,476	286,399	1,106,875
2012	747,738	255,149	1,002,887
2013-2017	2,805,391	895,621	3,701,012
2018-2022	1,999,435	429,848	2,429,283
2023-2026	1,066,437	83,272	1,149,709
Totals	<u>\$ 10,494,305</u>	<u>\$ 3,038,604</u>	<u>\$ 13,532,909</u>

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
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Annual Requirements To Amortize Capital Leases Payable

Fiscal Year Ending December 31,	Principal	Interest	Total
2008	\$ 86,372	\$ 7,564	\$ 93,936
2009	37,233	2,442	39,675
Totals	\$ 123,605	\$ 10,006	\$ 133,611

All debt is general obligation debt of the Town, which is backed by its full faith and credit and will be repaid from general governmental revenues.

Accrued Landfill Postclosure Care Costs

The Town ceased operating its landfill and has closed it. Federal and State laws and regulations require that the Town continue to perform certain maintenance and monitoring functions at the landfill site. A liability is being recognized for the postclosure care costs that will be incurred. The estimated liability for landfill postclosure care costs has a balance of \$260,000 as of December 31, 2007, which is based on the amount that would be paid if all equipment, facilities, and services required to monitor and maintain the landfill were acquired as of December 31, 2007. However, the actual cost of postclosure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations. The Town expects to finance the postclosure care costs by annual appropriation.

Bonds and notes authorized and unissued at December 31, 2007 are as follow:

Per Town Council vote of	Purpose	Unissued Amount
December 15, 2003	Capital improvements	\$ 800,000
December 20, 2004	Capital improvements	\$ 80,000
January 19, 2006	Capital improvements	\$ 18,000
December 18, 2006	Capital improvements	\$ 2,064,725

NOTE 3 - OTHER MATTERS

3-A Pensions

The Town of Durham participates in the New Hampshire Retirement System (the System) which consists of a cost-sharing, multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provisions for benefits and contributions are established and can be amended by the New Hampshire Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees except police officers and firefighters are required to contribute 5% of earnable compensation. Police officers and firefighters are required to contribute 9.3% of gross earnings. For the first six months of 2007, the Town contributed 9.68% for police, 14.36% for fire and 6.81% for other employees. Effective July 1, those rates increased to 11.84% for police, 15.92% for fire, and 8.74% for others. The contribution requirements for the Town of Durham for the fiscal years 2005, 2006 and 2007 were \$424,878, \$472,332 and \$556,888, respectively, which were paid in full in each year.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

The State of New Hampshire funds 35% of employer costs for police officers and firefighters employed by the Town. This amount, \$211,320 is reported as an "on-behalf payment," as an expenditure and revenue on the governmental fund operating statement, and as an expense and revenue on the government-wide statement of activities.

3-B Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2007, the Town was a member of the New Hampshire Public Risk Management Exchange (Primex) Workers' Compensation and Property/Liability Programs, which are pooled risk management programs under RSAs 5-B and 281-A. The workers' compensation and employer's liability policy provides statutory coverage for workers' compensation and up to \$2,000,000 of employer's liability coverage. Primex retained \$500,000 of each workers' compensation and liability loss, and \$200,000 of each property loss. The combined liability package includes coverage for property, auto, liability, errors and omissions, crime, and boiler and machinery. The membership and coverage run from January 1 through December 31. The estimated net contribution from the Town of Durham billed and paid for the year ended December 31, 2007 was \$125,051 for workers' compensation and \$104,844 for property/liability. The member participation agreements permit Primex to make additional assessments to members, should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. At this time, Primex foresees no likelihood of any additional assessment for this or any prior year.

3-C Contingent Liabilities

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement from the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the Town believes such disallowances, if any, will be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT E-1
TOWN OF DURHAM, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2007

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes	\$ 5,642,079	\$ 5,739,375	\$ 97,296
Licenses and permits	997,000	946,897	(50,103)
Intergovernmental	2,715,527	2,576,803	(138,724)
Charges for services	220,000	300,635	80,635
Miscellaneous	315,451	313,354	(2,097)
Total revenues	<u>9,890,057</u>	<u>9,877,064</u>	<u>(12,993)</u>
Expenditures:			
Current:			
General government	1,614,850	1,543,115	71,735
Public safety	5,083,282	5,172,600	(89,318)
Highways and streets	1,174,691	1,219,590	(44,899)
Water distribution and treatment	-	-	-
Sanitation	506,140	567,180	(61,040)
Health	16,773	14,573	2,200
Welfare	7,500	17,549	(10,049)
Culture and recreation	220,443	196,019	24,424
Conservation	1,000	1,567	(567)
Debt service:			
Principal	768,868	770,800	(1,932)
Interest	364,252	256,828	107,424
Total expenditures	<u>9,757,799</u>	<u>9,759,821</u>	<u>(2,022)</u>
Excess of revenues over expenditures	<u>132,258</u>	<u>117,243</u>	<u>(15,015)</u>
Other financing sources (uses):			
Transfers in	279,177	263,080	(16,097)
Transfers out	(482,435)	(526,104)	(43,669)
Total other financing sources and uses	<u>(203,258)</u>	<u>(263,024)</u>	<u>(59,766)</u>
Net change in fund balance	<u>\$ (71,000)</u>	<u>(145,781)</u>	<u>\$ (74,781)</u>
Unreserved fund balance, beginning		1,404,226	
Decrease in designation for contingency		150,000	
Unreserved fund balance, ending		<u>\$ 1,408,445</u>	

The notes to the required supplementary information are an integral part of this schedule.

EXHIBIT E-2
TOWN OF DURHAM, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (GAAP Basis)
Sewer Department Fund
For the Fiscal Year Ended December 31, 2007

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Intergovernmental	\$ 474,569	\$ 423,845	\$ (50,724)
Charges for services	1,177,943	1,167,208	(10,735)
Miscellaneous	3,750	3,825	75
Total revenues	<u>1,656,262</u>	<u>1,594,878</u>	<u>(61,384)</u>
Expenditures:			
Current:			
Sanitation	942,030	961,409	(19,379)
Debt service:			
Principal	445,184	438,134	7,050
Interest	159,624	158,442	1,182
Total expenditures	<u>1,546,838</u>	<u>1,557,985</u>	<u>(11,147)</u>
Excess of revenues over expenditures	109,424	36,893	(72,531)
Other financing uses:			
Transfers out	<u>(109,424)</u>	<u>(102,999)</u>	<u>6,425</u>
Net change in fund balances	<u>\$ -</u>	<u>(66,106)</u>	<u>\$ (66,106)</u>
Unreserved fund balance, beginning		49,095	
Unreserved fund balance, ending		<u>\$ (17,011)</u>	

The notes to the required supplementary information are an integral part of this schedule.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

General Budget Policies	1
Budgetary Reconciliation	2
Excess of Expenditures over Appropriations.....	3

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

1. General Budget Policies

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town's operations. The Town Council adopts a budget for the current year for the general and sewer department funds, as well as the nonmajor water department, parking and Depot Road funds. Except as reconciled below, the budget was adopted on a basis consistent with U.S. generally accepted accounting principles.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) 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 year-end, and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets, but provide for the use of beginning unreserved fund balance to achieve that end. In the fiscal year 2007, \$71,000 of the beginning general fund fund balance was applied for this purpose.

2. Budgetary Reconciliation

The following reconciles the general fund budgetary basis to the GAAP basis.

	<u>General Fund</u>
Revenues and other financing sources:	
Per Exhibit E-1 (budgetary basis)	\$ 10,140,144
Adjustment:	
Basis difference:	
On-behalf retirement contributions made by the State of New Hampshire recognized as revenue on the GAAP basis, but not on the budgetary basis	<u>211,320</u>
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 10,351,464</u></u>
Expenditures and other financing uses:	
Per Exhibit E-1 (budgetary basis)	\$ 10,285,925
Adjustments:	
Basis difference:	
Encumbrances, beginning	73,440
Encumbrances, ending	(50,939)
On-behalf retirement contributions made by the State of New Hampshire recognized as an expenditure on the GAAP basis, but not on the budgetary basis	<u>211,320</u>
Per Exhibit C-3 (GAAP basis)	<u><u>\$ 10,519,746</u></u>

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

3. Excess of Expenditures over Appropriations

The general and sewer department funds had an excess of expenditures over appropriations of \$45,691 and \$4,722 respectively, for the year ended December 31, 2007. Overexpenditures were due to increased costs for fuel and electricity.

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
TOWN OF DURHAM, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2007

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 5,510,794	\$ 5,592,810	\$ 82,016
Yield	2,253	2,253	-
Boat and railroad	200	182	(18)
Payment in lieu of taxes	45,832	47,230	1,398
Interest and penalties on taxes	83,000	96,900	13,900
Total taxes	<u>5,642,079</u>	<u>5,739,375</u>	<u>97,296</u>
Licenses, permits and fees:			
Motor vehicle permit fees	922,000	867,029	(54,971)
Building permits	45,000	46,624	1,624
Other	30,000	33,244	3,244
Total licenses, permits and fees	<u>997,000</u>	<u>946,897</u>	<u>(50,103)</u>
Intergovernmental:			
State:			
Shared revenue block grant	150,000	150,000	-
Meals and rooms distribution	575,125	575,125	-
Highway block grant	216,531	216,531	-
Water pollution grants	130,069	10,275	(119,794)
University of New Hampshire	1,526,210	1,550,897	24,687
Other	1,400	15,705	14,305
Federal:			
FEMA	116,192	58,270	(57,922)
Total intergovernmental	<u>2,715,527</u>	<u>2,576,803</u>	<u>(138,724)</u>
Charges for services:			
Income from departments	<u>220,000</u>	<u>300,635</u>	<u>80,635</u>
Miscellaneous:			
Sale of property	4,200	6,636	2,436
Interest on investments	145,000	135,752	(9,248)
Rent of property	47,751	43,628	(4,123)
Fines and forfeits	104,000	107,989	3,989
Insurance dividends and reimbursements	10,000	14,543	4,543
Other	4,500	4,806	306
Total miscellaneous	<u>315,451</u>	<u>313,354</u>	<u>(2,097)</u>
Other financing sources:			
Transfers in	<u>279,177</u>	<u>263,080</u>	<u>(16,097)</u>
Total revenues and other financing sources	<u>10,169,234</u>	<u>\$10,140,144</u>	<u>\$ (29,090)</u>
Unreserved fund balance used to reduce tax rate	<u>71,000</u>		
Total revenues, other financing sources and use of fund balance	<u>\$10,240,234</u>		

SCHEDULE 2
TOWN OF DURHAM, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2007

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 323,169	\$ 313,189	\$ 14,559	\$ (4,579)
Election and registration	-	168,704	179,555	-	(10,851)
Financial administration	-	240,346	236,165	-	4,181
Revaluation of property	-	129,082	123,515	-	5,567
Legal	-	50,000	54,162	-	(4,162)
Planning and zoning	15,485	205,000	207,965	7,500	5,020
General government buildings	-	145,089	129,865	-	15,224
Cemeteries	-	17,417	13,656	-	3,761
Advertising and regional associations	-	9,836	9,836	-	-
Other	30,210	326,207	298,843	-	57,574
Total general government	45,695	1,614,850	1,566,751	22,059	71,735
Public safety:					
Police	-	1,948,327	2,103,841	-	(155,514)
Ambulance	-	37,245	37,245	-	-
Fire	13,500	2,684,890	2,628,107	13,114	57,169
Building inspection	-	137,960	130,360	-	7,600
Emergency management	-	5,500	5,983	-	(483)
Communications	-	269,360	267,450	-	1,910
Total public safety	13,500	5,083,282	5,172,986	13,114	(89,318)
Highways and streets:					
Administration	-	356,222	327,347	-	28,875
Highways and streets	-	818,469	887,347	4,896	(73,774)
Total highways and streets	-	1,174,691	1,214,694	4,896	(44,899)
Sanitation:					
Administration	-	141,945	151,402	100	(9,557)
Collection	-	249,809	308,228	-	(58,419)
Disposal	-	102,841	87,865	-	14,976
Clean-up	-	11,545	19,585	-	(8,040)
Total sanitation	-	506,140	567,080	100	(61,040)
Health:					
Pest control	-	1,200	-	-	1,200
Health agencies and hospitals	-	15,573	14,573	-	1,000
Total health	-	16,773	14,573	-	2,200
Welfare:					
Direct assistance	-	7,500	17,549	-	(10,049)
Culture and recreation:					
Parks and recreation	8,475	218,943	198,319	5,000	24,099
Patriotic purposes	-	1,500	1,175	-	325
Total culture and recreation	8,475	220,443	199,494	5,000	24,424
Conservation	5,770	1,000	1,567	5,770	(567)

(continued)

SCHEDULE 2 (Continued)
TOWN OF DURHAM, NEW HAMPSHIRE
Major General Fund

Schedule of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2007

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Debt service:					
Principal of long-term debt	-	768,868	770,800	-	(1,932)
Interest on long-term debt	-	259,252	253,775	-	5,477
Interest on tax anticipation notes	-	100,000	3,053	-	96,947
Other	-	5,000	-	-	5,000
Total debt service	-	1,133,120	1,027,628	-	105,492
Other financing uses:					
Transfers out	-	482,435	526,104	-	(43,669)
Total appropriations, expenditures, other financing uses and encumbrances	\$ 73,440	\$ 10,240,234	\$ 10,308,426	\$ 50,939	\$ (45,691)

SCHEDULE 3
TOWN OF DURHAM, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unreserved - Undesignated Fund Balance (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2007

Unreserved, undesignated fund balance, beginning		\$	1,404,226
Changes:			
Unreserved fund balance used to reduce 2007 tax rate			(71,000)
2007 Budget summary:			
Revenue shortfall (Schedule 1)	\$	(29,090)	
Overdraft of appropriations (Schedule 2)		(45,691)	
2007 Budget deficit			(74,781)
Decrease in fund balance designated for contingency			150,000
Unreserved, undesignated fund balance, ending		\$	1,408,445

SCHEDULE 4
TOWN OF DURHAM, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2007

	Special Revenue Funds								
	Public Library	Water Department	Conservation Commisison	Parking	Police	Depot Road	Churchill Rink	Permanent Fund	Total
ASSETS									
Cash and cash equivalents	\$ 764,743	\$ 334,761	\$ -	\$ -	\$ 2,154	\$ 89,334	\$ 2,068	\$ 386,247	\$ 1,579,307
Investments	-	-	640,825	-	-	-	-	-	640,825
Receivables:									
Taxes	-	-	20,000	-	-	-	-	-	20,000
Accounts	-	47,300	-	2,841	-	1,700	33,725	-	85,566
Interfund receivable	9,162	-	-	-	-	-	-	-	9,162
Prepaid items	2,500	-	-	-	-	-	-	-	2,500
Total assets	<u>\$ 776,405</u>	<u>\$ 382,061</u>	<u>\$ 660,825</u>	<u>\$ 2,841</u>	<u>\$ 2,154</u>	<u>\$ 91,034</u>	<u>\$ 35,793</u>	<u>\$ 386,247</u>	<u>\$ 2,337,360</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 6,968	\$ 14,418	\$ -	\$ 17	\$ -	\$ 150	\$ 11,805	\$ -	\$ 33,358
Accrued salaries and benefits	2,194	1,856	-	811	-	-	1,757	-	6,618
Interfund payable	-	-	-	2,013	-	-	-	6,703	8,716
Deferred revenue	-	4,817	-	-	-	-	-	-	4,817
Total liabilities	<u>9,162</u>	<u>21,091</u>	<u>-</u>	<u>2,841</u>	<u>-</u>	<u>150</u>	<u>13,562</u>	<u>6,703</u>	<u>53,509</u>
Fund balances:									
Reserved for endowments	-	-	-	-	-	-	-	339,530	339,530
Reserved for special purposes	134,994	-	-	-	-	-	-	40,014	175,008
Unreserved, undesignated	632,249	360,970	660,825	-	2,154	90,884	22,231	-	1,769,313
Total fund balances	<u>767,243</u>	<u>360,970</u>	<u>660,825</u>	<u>-</u>	<u>2,154</u>	<u>90,884</u>	<u>22,231</u>	<u>379,544</u>	<u>2,283,851</u>
Total liabilities and fund balances	<u>\$ 776,405</u>	<u>\$ 382,061</u>	<u>\$ 660,825</u>	<u>\$ 2,841</u>	<u>\$ 2,154</u>	<u>\$ 91,034</u>	<u>\$ 35,793</u>	<u>\$ 386,247</u>	<u>\$ 2,337,360</u>

SCHEDULE 5
TOWN OF DURHAM, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2007

	Special Revenue Funds								
	Public Library	Water Department	Conservation Commission	Parking	Police	Depot Road	Churchill Rink	Permanent Fund	Total
venues:									
Taxes	\$ -	\$ -	\$ 20,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,000
Charges for services	-	393,830	-	-	-	-	38,681	-	432,511
Miscellaneous	387,378	4,858	32,156	153,984	2,279	84,545	5,028	20,734	690,962
Total revenues	387,378	398,688	52,156	153,984	2,279	84,545	43,709	20,734	1,143,473
penditures:									
Current:									
General government	-	-	-	48,946	-	4,517	-	16,306	69,769
Public safety	-	-	-	-	2,760	-	-	-	2,760
Water distribution and treatment	-	276,115	-	-	-	-	-	-	276,115
Culture and recreation	235,466	-	-	-	-	-	21,478	-	256,944
Conservation	-	-	26,321	-	-	-	-	-	26,321
Debt service:									
Principal	-	125,597	-	-	-	-	-	-	125,597
Interest	-	60,608	-	-	-	-	-	-	60,608
Total expenditures	235,466	462,320	26,321	48,946	2,760	4,517	21,478	16,306	818,114
Excess (deficiency) of revenues over (under) expenditures	151,912	(63,632)	25,835	105,038	(481)	80,028	22,231	4,428	325,359
Other financing sources (uses):									
Transfers in	201,735	-	-	-	-	-	-	-	201,735
Transfers out	-	(26,373)	(63,206)	(105,038)	-	-	-	(6,703)	(201,320)
Total other financing sources and uses	201,735	(26,373)	(63,206)	(105,038)	-	-	-	(6,703)	415
Net change in fund balances	353,647	(90,005)	(37,371)	-	(481)	80,028	22,231	(2,275)	325,774
Fund balances, beginning	413,596	450,975	698,196	-	2,635	10,856	-	381,819	1,958,077
Fund balances, ending	\$ 767,243	\$ 360,970	\$ 660,825	\$ -	\$ 2,154	\$ 90,884	\$ 22,231	\$ 379,544	\$ 2,283,851



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX-224-1380

INDEPENDENT AUDITOR'S COMMUNICATION OF CONTROL DEFICIENCIES AND OTHER MATTERS

To the Members of the Town Council
Town of Durham
Durham, New Hampshire

In planning and reporting our audit of the financial statements of the Town of Durham as of and for the fiscal year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Durham's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Durham's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Durham's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Durham's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Durham's financial statements that is more than inconsequential will not be prevented or detected by the Town of Durham's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Town Policies

The Town's control policies should require that management and employees establish and maintain an environment throughout the Town that sets a positive and supportive attitude toward internal control and conscientious management. The control environment established by the Town Council sets the tone for how the Town employees and elected officials conduct its business.

As the Town Council, Town Manager and department heads strive to achieve the goals of the Town and provide accountability for its operations, they need to continually examine internal controls to determine how well they are performing, how they may be improved and the degree to which they help identify and address major risks for fraud, waste, abuse and mismanagement.

We noted that the Town has not yet formally adopted any policies for credit card use and anti-fraud, nor a disaster recovery plan, which are essential tools necessary to manage the Town's operations efficiently and effectively.

We strongly recommend that the Town Council review and formally adopt the above noted policies in order to clearly communicate the Town's position on these issues. Adopting the various policies is critical in preventing interruptions due to unforeseen problems, facilitating supervision and evaluation, and will also help to minimize the risk of losses.

Town of Durham
Independent Auditor's Communication of Control Deficiencies and Other Matters

Churchill Rink

During 2007, the Town took over the operation of the Churchill Rink, and set up as a special revenue fund to separately track and record all activity related to this operation. Due to the nature of the sources of revenue, most of the deposits consist of cash collections from those that come for free skate, and also from vending machines. Although weekly spreadsheets are maintained detailing the remittance of the cash collected for the week, we suggest the institution of stronger controls in the area of cash collections to provide a daily tally of all activity related to free skate, and to have a point of control over the cash collected. Monitoring the operations should also be conducted by the Finance Department to assist in the establishment and continuance of stronger controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Durham's internal control. We did not note any deficiencies that we believe constitute material weaknesses.

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

October 17, 2008

Plodzik & Sanderson
Professional Association