

**TOWN OF DURHAM
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011**

TOWN OF DURHAM, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
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DECEMBER 31, 2011

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 6

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements	
A Statement of Net Assets	7
B Statement of Activities.....	8
Fund Financial Statements	
<i>Governmental Funds</i>	
C-1 Balance Sheet	9
C-2 Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets	10
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balances	11
C-4 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	12
<i>Budgetary Comparison Information</i>	
D Statement of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund.....	13
<i>Fiduciary Funds</i>	
E-1 Statement of Fiduciary Net Assets	14
E-2 Statement of Changes in Fiduciary Net Assets	15
NOTES TO THE BASIC FINANCIAL STATEMENTS	16 - 32

REQUIRED SUPPLEMENTARY INFORMATION

F Schedule of Funding Progress for Other Postemployment Benefit Plan	33
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION	34

COMBINING AND INDIVIDUAL FUND SCHEDULES

Governmental Funds	
<i>Major General Fund</i>	
1 Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)	35
2 Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis).....	36 - 37
3 Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis).....	38
<i>Nonmajor Governmental Funds</i>	
4 Combining Balance Sheet	39
5 Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances	40

TOWN OF DURHAM, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

TABLE OF CONTENTS

PAGES

**SINGLE AUDIT ACT SCHEDULES
AND INDEPENDENT AUDITOR'S REPORTS**

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.....	41
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	42 - 43
I Schedule of Findings and Questioned Costs	44 - 45
II Schedule of Expenditures of Federal Awards	46
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	47



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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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, 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 Durham'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.

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.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the government-wide financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Town of Durham as of December 31, 2011, or the changes in financial position thereof for the year then ended.

In addition, 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, 2011, and the respective changes in financial position for the year then ended and the respective budgetary comparison for the general fund in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3 through 6) and the Schedule of Funding Progress for Other Postemployment Benefit Plan (page 34) 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 Durham's basic financial statements. The combining and individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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

Town of Durham
Independent Auditor's Report

individual fund financial schedules 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial schedules 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.

July 20, 2012

Gregory A. Colby, CPA

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.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all 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 is improving or deteriorating.

The Statement of Activities presents information showing how the Town'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 fiscal periods.

Both of the government-wide financial statements distinguish functions 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 include general government, public safety, highways and streets, health and welfare, culture and recreation, and economic development. The business-type activities include water and sewer activities.

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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into governmental funds and fiduciary funds.

Governmental 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 a government'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 governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the 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 accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to 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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by the *Governmental Accounting Standards Board*.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended December 31, 2011 the Town of Durham's net assets are recorded at \$14,430,935.
- The Town's unassigned fund balance for the General Fund at year-end of \$992,950 reflects an increase of \$277,285 compared to the prior fiscal year's end of \$715,665.
- The Sewer Fund's fund balance at year-end is \$640,650.
- The Town's long-term obligations saw a net decrease of \$1,554,472 during the year.

TOWN AS A WHOLE GOVERNMENT-WIDE FINANCIAL STATEMENTS

In 2004 the Town began reporting on governmental activities using the new standard. The Statement of Net Assets reflects changes in net assets during 2011. 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. A condensed version of the Statement of Net Assets at December 31, 2010 and 2011 follows.

Town of Durham's Net Assets (all figures are in U.S. dollars)

	2010	2011	Increase (Decrease)	% Increase (Decrease)
Current and other assets	14,295,389	14,809,123	513,734	3.6%
Capital assets, net	16,425,517	20,874,961	4,449,444	27.1%
Total assets	30,720,906	35,684,084	4,963,178	16.2%
Long-term liabilities outstanding	12,867,170	11,926,208	(940,962)	(7.3%)
Other liabilities	9,836,454	9,326,941	(509,513)	(5.2%)
Total liabilities	22,703,624	21,253,149	(1,450,475)	(6.4%)
Net assets:				
Invested in capital assets, net of related debt	4,823,701	10,406,788	5,583,087	115.7%
Restricted	370,356	8,701	(361,655)	(97.7%)
Unrestricted	2,823,045	4,015,446	1,192,401	42.2%
Total net assets	8,017,282	14,430,935	6,413,653	80.0%

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 \$14.4 million. The non-land portion of improvements is being depreciated. As discussed in prior years, due to the modified approach of only reporting assets and infrastructure added during 2004 and moving forward, the Statement of Net Assets is beginning to project a more representative picture for the Town of Durham.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2010 AND 2011:

(all figures are in U.S. dollars)	2010	2011	Increase (Decrease)	% Increase (Decrease)
REVENUES:				
Program Revenues:				
Charges for services	2,210,638	2,320,639	110,001	5%
Operating Grants & Contributions	2,737,449	2,800,217	62,768	2%
Capital Grants and Contributions	1,206,282	4,311,406	3,105,124	354%
General Revenues:				
Taxes	6,010,784	6,728,995	718,211	11%
Licenses and Permits	935,935	1,018,827	82,892	8%
Unrestricted Grants	642,783	653,852	11,069	1%
Miscellaneous	779,016	1,329,590	550,574	70%
Total Revenues	14,522,887	19,163,526	4,664,639	30%
EXPENSES:				
General Government	1,953,302	2,069,430	116,128	5%
Public Safety	5,558,383	5,807,725	249,342	4%
Highways and Streets	1,515,205	1,610,838	95,633	6%
Sanitation	1,744,874	1,729,375	(15,499)	(10%)
Water	275,152	294,407	19,255	10%
Health	21,692	20,719	(973)	(45%)
Welfare	14,766	23,230	8,464	57.3%
Culture and Recreation	683,800	797,988	114,188	16.7%
Conservation	3,977	51,987	48,010	1201.1%
Economic Development	7,687	2,793	(4,894)	(63.3%)
Capital Outlay	0	196,672	196,672	100%
Interest in Long-Term Debt	457,355	445,159	(9,196)	(2.7%)
Total Governmental Activities	12,235,895	13,049,873	813,978	6.7%
Change in Net Assets	2,286,992	6,113,653	3,826,661	
Beginning Net Assets	5,730,290	8,317,282	2,586,992	
Ending Net Assets	8,017,282	14,430,935	6,413,653	80.0%

CAPITAL ASSETS AND DEBT ADMINISTRATION
CAPITAL ASSETS

The Town has invested \$20,874,961 in capital assets (net of depreciation), which represents an increase of \$4,449,444 as detailed in Note 8.

OUTSTANDING DEBT

As of year-end, the Town had \$11.3 million in debt outstanding compared to \$12.8 million last year. Additional detailed information on long-term obligations is available in the notes to the financial statements.

Moody's rated our bond issue in 2008 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 the Town's general operations, representing 53.9% of total governmental resources. Inter-governmental revenues from the State of New Hampshire, as well as the University of New Hampshire (UNH) and grants make up 25.4% of total resources, while motor vehicle, building permit and other permit fees comprise approximately 8.5%. Interest on investments, rental of property, fines and forfeits and other miscellaneous charges amount to the remaining 12.2%.

With the economy continuing to recover 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 2012 fiscal year General Fund Budget projects a 1.2% increase in revenues and a 2.5% increase in expenditures.

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. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Business Manager
Town of Durham
15 Newmarket Road
Durham, NH 03824

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF DURHAM, NEW HAMPSHIRE
Statement of Net Assets
December 31, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 11,308,278
Investments	465,529
Intergovernmental receivable	1,045,182
Mortgages receivable	540,000
Other receivables, net of allowances for uncollectible	1,391,891
Prepaid items	58,243
Capital assets, not being depreciated:	
Land	2,276,891
Construction in progress	8,036,485
Capital assets, net of accumulated depreciation:	
Land improvements	425,190
Buildings and building improvements	4,231,064
Equipment and vehicles	1,151,401
Infrastructure	4,753,930
Total assets	<u>35,684,084</u>
LIABILITIES	
Accounts payable	667,946
Accrued salaries and benefits	239,876
Intergovernmental payable	7,798,622
Accrued interest payable	129,390
Retainage payable	245,352
Unearned revenue	50,969
Escrow and performance deposits	194,786
Noncurrent obligations:	
Due within one year:	
Bonds	1,067,738
Unamortized bond premium	4,167
Accrued landfill postclosure care	10,000
Due in more than one year:	
Bonds	9,321,264
Unamortized bond premium	75,004
Compensated absences	614,524
Other postemployment benefits payable	613,511
Accrued landfill postclosure care	220,000
Total liabilities	<u>21,253,149</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,406,788
Restricted for:	
Perpetual care	391,021
Capital project	(382,320)
Unrestricted	4,015,446
Total net assets	<u>\$ 14,430,935</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, 2011

		Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Assets
	Expenses				
Governmental activities:					
General government	\$ 2,069,430	\$ 113,737	\$ 141,302	\$ -	\$ (1,814,391)
Public safety	5,807,275	264,756	1,958,184	-	(3,584,335)
Highways and streets	1,610,838	65,534	278,404	-	(1,266,900)
Sanitation	1,729,375	1,277,340	393,677	-	(58,358)
Water distribution and treatment	294,407	411,548	28,650	-	145,791
Health	20,719	-	-	-	(20,719)
Welfare	23,230	-	-	-	(23,230)
Culture and recreation	797,988	187,724	-	-	(610,264)
Conservation	51,987	-	-	-	(51,987)
Economic development	2,793	-	-	-	(2,793)
Interest on long-term debt	445,159	-	-	-	(445,159)
Capital outlay	196,672	-	-	4,311,406	4,114,734
Total governmental activities	<u>\$ 13,049,873</u>	<u>\$ 2,320,639</u>	<u>\$ 2,800,217</u>	<u>\$ 4,311,406</u>	<u>(3,617,611)</u>
General revenues:					
Taxes:					
Property					6,535,067
Other					193,928
Motor vehicle permit fees					803,923
Licenses and other fees					214,904
Grants and contributions not restricted to specific programs					653,852
Miscellaneous					1,329,590
Total general revenues					<u>9,731,264</u>
Change in net assets					6,113,653
Net assets, beginning, as restated (see Note 14)					8,317,282
Net assets, ending					<u>\$ 14,430,935</u>

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

EXHIBIT C-1
TOWN OF DURHAM, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
December 31, 2011

	General	Capital Project	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 7,426,139	\$ -	\$ 1,144,555	\$ 8,570,694
Investments	-	-	312,437	312,437
Receivables, net of allowance for uncollectible:				
Taxes	1,219,694	-	8,000	1,227,694
Accounts receivable	62,358	-	101,839	164,197
Intergovernmental receivable	-	1,045,182	-	1,045,182
Interfund receivable	843,371	-	-	843,371
Voluntary tax liens	34,461	-	-	34,461
Voluntary tax liens reserved until collected	(34,461)	-	-	(34,461)
Prepaid items	48,093	-	10,150	58,243
Restricted - Cash and cash equivalents	2,172,464	-	565,119	2,737,583
Restricted- Investments	153,092	-	-	153,092
Total assets	<u>\$ 11,925,211</u>	<u>\$ 1,045,182</u>	<u>\$ 2,142,100</u>	<u>\$ 15,112,493</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 219,715	\$ 340,799	\$ 58,331	\$ 618,845
Accrued salaries and benefits	218,625	-	21,250	239,875
Intergovernmental payable	7,744,355	-	54,267	7,798,622
Interfund payable	-	841,351	2,020	843,371
Retainage payable	-	245,352	-	245,352
Escrow and performance deposits	194,786	-	-	194,786
Deferred revenue	43,173	-	7,796	50,969
Other	49,101	-	-	49,101
Total liabilities	<u>8,469,755</u>	<u>1,427,502</u>	<u>143,664</u>	<u>10,040,921</u>
Fund balances:				
Nonspendable:				
Permanent fund (principal balance)	-	-	362,435	362,435
Prepaid items	48,093	-	10,150	58,243
Restricted:				
Permanent fund (income balance)	-	-	28,586	28,586
Public library	1,071,985	-	-	1,071,985
Water distribution and treatment	-	-	321,336	321,336
Sanitation	-	-	634,650	634,650
Committed:				
Expendable trust funds	1,164,829	-	-	1,164,829
General government	-	-	168,012	168,012
Conservation	-	-	320,437	320,437
Culture and recreation	-	-	152,830	152,830
Assigned:				
General government	14,485	-	-	14,485
Public safety	11,814	-	-	11,814
Sanitation	1,300	-	-	1,300
Abatements	150,000	-	-	150,000
Unassigned	992,950	(382,320)	-	610,630
Total fund balances	<u>3,455,456</u>	<u>(382,320)</u>	<u>1,998,436</u>	<u>5,071,572</u>
Total liabilities and fund balances	<u>\$ 11,925,211</u>	<u>\$ 1,045,182</u>	<u>\$ 2,142,100</u>	<u>\$ 15,112,493</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, 2011

Total fund balances of governmental funds (Exhibit C-1)		\$ 5,071,572
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	\$ 23,436,527	
Less accumulated depreciation	<u>(2,561,566)</u>	
		20,874,961
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Assets.		
Receivables	\$ (843,371)	
Payables	<u>843,371</u>	
		-
Long term mortgage receivables are recognized on the Statement of Net Assets.		540,000
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(129,390)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bonds	\$ 10,389,002	
Unamortized bond premium	79,171	
Compensated absences	614,524	
Other postemployment benefits	613,511	
Accrued landfill postclosure care costs	<u>230,000</u>	
		(11,926,208)
Total net assets of governmental activities (Exhibit A)		<u>\$ 14,430,935</u>

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

EXHIBIT C-3
TOWN OF DURHAM, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2011

	General	Capital Project	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 6,443,125	\$ -	\$ 13,000	\$ 6,456,125
Licenses and permits	1,018,827	-	80,040	1,098,867
Intergovernmental	3,031,743	1,702,401	422,327	5,156,471
Charges for services	452,238	-	1,842,852	2,295,090
Miscellaneous	990,148	2,609,005	317,819	3,916,972
Total revenues	<u>11,936,081</u>	<u>4,311,406</u>	<u>2,676,038</u>	<u>18,923,525</u>
Expenditures:				
Current:				
General government	1,845,270	-	4,150	1,849,420
Public safety	5,746,910	-	-	5,746,910
Highways and streets	1,371,162	-	-	1,371,162
Water distribution and treatment	-	-	294,752	294,752
Sanitation	599,019	-	994,440	1,593,459
Health	20,719	-	-	20,719
Welfare	23,230	-	-	23,230
Culture and recreation	627,178	-	143,882	771,060
Conservation	1,987	-	50,000	51,987
Economic development	2,793	-	-	2,793
Debt service:				
Principal	629,685	-	499,790	1,129,475
Interest	185,751	-	271,787	457,538
Capital outlay	-	5,135,985	-	5,135,985
Total expenditures	<u>11,053,704</u>	<u>5,135,985</u>	<u>2,258,801</u>	<u>18,448,490</u>
Excess (deficiency) of revenues over (under) expenditures	<u>882,377</u>	<u>(824,579)</u>	<u>417,237</u>	<u>475,035</u>
Other financing sources (uses):				
Transfers in	158,215	513,356	58,244	729,815
Transfers out	(337,125)	(66,521)	(326,169)	(729,815)
Total other financing sources and uses	<u>(178,910)</u>	<u>446,835</u>	<u>(267,925)</u>	<u>-</u>
Net change in fund balances	703,467	(377,744)	149,312	475,035
Fund balances, beginning, as restated (see Note 14)	2,751,989	(4,576)	1,849,124	4,596,537
Fund balances, ending	<u>\$ 3,455,456</u>	<u>\$ (382,320)</u>	<u>\$ 1,998,436</u>	<u>\$ 5,071,572</u>

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, 2011

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 475,035
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	\$ 4,939,313	
Depreciation expense	<u>(489,868)</u>	
		4,449,445
Transfers in and out between governmental funds are eliminated on the Statement of Activities		
Transfers in	\$ (729,815)	
Transfers out	<u>729,815</u>	
		-
Revenue related to additions to the long term mortgages receivable is recognized in the Statement of Activities		240,000
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	\$ 1,129,476	
Amortization of bond premium	<u>4,167</u>	
		1,133,643
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	\$ 8,211	
Increase in compensated absences payable	(11,498)	
Increase in postemployment benefits payable	(191,183)	
Decrease in accrued landfill postclosure care costs	<u>10,000</u>	
		(184,470)
Changes in net assets of governmental activities (Exhibit B)		<u>\$ 6,113,653</u>

EXHIBIT D
TOWN OF DURHAM, NEW HAMPSHIRE
Statement of Revenues, Expenditures, and Change in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Taxes	\$ 6,590,315	\$ 6,590,315	\$ 6,443,126	\$ (147,189)
Licenses and permits	932,550	932,550	995,839	63,289
Intergovernmental	2,879,236	2,879,236	2,945,435	66,199
Charges for services	240,657	271,525	397,746	126,221
Miscellaneous	142,337	142,337	186,203	43,866
Total revenues	<u>10,785,095</u>	<u>10,815,963</u>	<u>10,968,349</u>	<u>152,386</u>
Expenditures:				
Current:				
General government	1,864,261	1,864,261	1,729,830	134,431
Public safety	5,524,992	5,555,860	5,657,782	(101,922)
Highways and streets	1,326,269	1,326,269	1,337,752	(11,483)
Sanitation	597,231	597,231	598,019	(788)
Health	22,219	22,219	20,719	1,500
Welfare	10,000	10,000	23,230	(13,230)
Culture and recreation	286,429	286,429	277,718	8,711
Conservation	3,767	3,767	1,987	1,780
Economic development	4,765	4,765	2,792	1,973
Debt service:				
Principal	629,686	629,686	629,686	-
Interest	190,589	190,589	185,750	4,839
Total expenditures	<u>10,460,208</u>	<u>10,491,076</u>	<u>10,465,265</u>	<u>25,811</u>
Excess of revenues over expenditures	<u>324,887</u>	<u>324,887</u>	<u>503,084</u>	<u>178,197</u>
Other financing sources (uses):				
Transfers in	213,677	213,677	253,765	40,088
Transfers out	(538,564)	(538,564)	(551,038)	(12,474)
Total other financing sources and uses	<u>(324,887)</u>	<u>(324,887)</u>	<u>(297,273)</u>	<u>27,614</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	205,811	<u>\$ 205,811</u>
Increase in nonspendable fund balance			(41,226)	
Decrease in committed fund balance			112,700	
Unassigned fund balance, beginning			715,665	
Unassigned fund balance, ending			<u>\$ 992,950</u>	

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

EXHIBIT E-1
TOWN OF DURHAM, NEW HAMPSHIRE
Fiduciary Funds
Statement of Fiduciary Net Assets
December 31, 2011

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ 211,400	\$ 775,115
LIABILITIES		
Due to other governmental units	-	775,115
NET ASSETS		
Held in trust for special purposes	\$ 211,400	\$ -

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

EXHIBIT E-2
TOWN OF DURHAM, NEW HAMPSHIRE
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended December 31, 2011

	Private Purpose Trust
ADDITIONS	
Contributions:	
New funds	\$ 10,005
Investment earnings:	
Interest	153
Total additions	<u>10,158</u>
DEDUCTIONS	
Scholarships	<u>(19,471)</u>
Change in net assets	(9,313)
Net assets, beginning	<u>220,713</u>
Net assets, ending	<u><u>\$ 211,400</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
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

	<u>NOTE</u>
Summary of Significant Accounting Policies	1
Reporting Entity.....	1-A
Basis of Presentation.....	1-B
Measurement Focus	1-C
Cash and Cash Equivalents.....	1-D
Restricted Assets.....	1-E
Investments.....	1-F
Receivables.....	1-G
Interfund Balances	1-H
Prepaid Items	1-I
Capital Assets	1-J
Allowances for Uncollectible Accounts.....	1-K
Deferred/Unearned Revenue.....	1-L
Compensated Absences	1-M
Long-Term Obligations	1-N
Claims and Judgments	1-O
Equity/Fund Balance Classifications	1-P
Interfund Activities	1-Q
Use of Estimates	1-R
Stewardship, Compliance, and Accountability	2
Budgetary Information.....	2-A
Budgetary Reconciliation to GAAP Basis	2-B

DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents	3
Investments	4
Restricted Assets.....	5
Taxes Receivable.....	6
Other Receivables.....	7
Capital Assets.....	8
Interfund Balances and Transfers	9
Intergovernmental Payables.....	10
Deferred/Unearned Revenue	11
Long-Term Liabilities	12
Governmental Activities Net Assets	13
Prior Period Adjustments	14
Deficit Fund Balances	15
Employee Retirement Plan	16
Other Postemployment Benefits (OPEB)	17
Risk Management.....	18
Contingent Liabilities.....	19
Implementation of New GASB Pronouncements.....	20
Subsequent Events.....	21

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Durham, New Hampshire (the Town), are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

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 (*component units*) 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 organizations; or (2) the Town is legally entitled to or can otherwise access the organization's resources; (3) the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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

Government-wide Financial Statements – The government-wide financial statements display information about the Town as a whole. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. The effect of interfund activity has been eliminated from these statements.

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. Net assets are reported as one of three categories: invested in capital assets, net of related debt; restricted; or unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different functions of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function, and therefore, are clearly identifiable to a particular function. Program revenues include (1) charges to customers or applicants for goods received, services rendered or privileges provided, and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Financial statements of the Town are organized into funds, each of which is considered to be a separate accounting entity. Each fund has a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized as major funds or nonmajor funds within the governmental statements, with an emphasis placed on the major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- (a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10% of the corresponding total for all funds of that category or type;
- (b) Total assets, liabilities, revenues or expenditures of the individual governmental fund are at least 5% of the corresponding total for all governmental funds combined; and
- (c) In addition, any other governmental fund that the Town believes is particularly important to the financial statement users may be reported as a major fund.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

Governmental Activities – Governmental funds are identified as general, special revenue, capital projects, permanent, and debt service funds, based upon the following guidelines:

General Fund – is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purpose other than capital projects.

Capital Projects Funds – are used to account for and report financial that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Funds – are used to account for resources legally held in trust. All resources of the fund, including earnings on invested resources, may be used to support the Town.

Debt Service Fund – is used to account for funds established for the accumulation of resources for, and the payment of, general long-term debt for specific projects.

Fiduciary Fund Types – These funds account for assets held by the Town as a trustee or agent for individuals, private organizations, and other units of governments. Fiduciary fund types are not part of the reporting entity in the government-wide financial statements, but are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds are as follows:

Private Purpose Trust Funds – are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Agency Funds – are used to account for resources held by the Town in a purely custodial capacity, for individuals, private organizations, and/or governmental units.

Major Funds – The Town reports the following major governmental funds:

General Fund – all general revenues and other receipts that are not allocated by law or contracted 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.

Capital Project Fund – the capital project fund accounts for the activity pertaining to various construction/renovation projects of the Town.

Nonmajor Funds – The Town also reports six nonmajor governmental funds.

1-C Measurement Focus

Government-wide and Fiduciary Fund Financial Statements – The government-wide and fiduciary fund financial statements, except for agency funds which have no measurement focus, are reported using the economic resources measurement focus. Under this concept, revenues and expenses are matched using the accrual basis of accounting. 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 as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are susceptible to accrual, that is, when they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues (except property taxes mentioned below) to be available if they are collected within 60 days of the end of the current period. Property taxes, grants and contracts, and interest associated with the current period are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Town. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

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 in the fiscal year in which the resources are measurable and become available.

Revenues – Nonexchange Transactions – Nonexchange transactions in which the Town receives value without directly giving equal value in return include property taxes, certain fees, 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 before it can be recognized (Interpretation No. 1, as modified, 60-day rule), with the exception of property taxes which are committed and recognized as revenue in order to offset the liability due the school district to be paid in monthly installments over the next six months. This practice is consistent with the previous years.

1-D Cash and Cash Equivalents

The Town considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents."

New Hampshire statutes require that the Town Treasurer have custody of all money 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 New Hampshire 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.

1-E Restricted Assets

Certain cash balances are classified as restricted assets on the balance sheet because their use is legally restricted for specific purposes in accordance with State statutes.

1-F Investments

State statutes place certain limitations on the nature of deposits and investments available as follows:

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-G Receivables

Receivables in the government-wide and governmental fund financial statements represent amounts due to the Town at December 31, recorded as revenue, which will be collected in the future and consist primarily of taxes, accounts, and intergovernmental receivables.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

Tax revenue is recorded when a warrant for collection is committed to the tax collector. 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 two 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-H Interfund Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds are eliminated in the Statement of Net Assets.

1-I Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

1-J Capital Assets

General capital assets are those assets of a capital nature which the Town owns. All capital assets are capitalized at cost (or estimated at 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 useful 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.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. 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	10-50
Buildings and building improvements	10-50
Equipment and vehicles	5-20
Infrastructure	15-25

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

1-K Allowances for Uncollectible Accounts

Allowances for uncollectible accounts have been recorded for the following purposes:

Taxes – an allowance has been established by management where collectability is in doubt.

Liens – an allowance has been established for the entire balance due to uncertainty of the time of collection.

1-L Deferred/Unearned Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables, or other assets are recorded prior to their being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. On the government-wide statements of net assets, deferred revenue is classified as unearned revenue.

1-M Compensated Absences

The Town's policy allows certain employees to earn varying amounts of vacation and sick pay based on the employee's length of employment. Upon retirement or termination of employment, employees are paid in full for any accrued leave earned as set forth by personnel policy.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

All compensated absence liabilities include salary-related payments, where applicable. The total compensated absence liability is reported on the government-wide fund financial statements. Governmental funds report the compensated absence liability at the fund reporting level only "when due."

1-N Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide statements. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premiums.

In the governmental fund financial statements, bond premiums are recognized during the current period. The face amount of debt issued and any premiums received are reported as other financing sources.

1-O Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. Claims and judgments are recorded in the government-wide financial statements as expense when the related liabilities are incurred. There were no significant claims or judgments at year-end.

1-P Equity/Fund Balance Classifications

Government-wide statements – Equity is classified as net assets and displayed in three components:

- a) *Invested in capital assets, net of related debt* – Consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested capital assets, net of related debt.
- b) *Restricted net assets* – Consists of net assets with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) *Unrestricted net assets* – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Governmental Fund Balances Classification – The Town of Durham has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for this fiscal year ending December 31, 2011. GASB Statement No. 54 establishes fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) are legally or contractually required to be maintained intact. The Town has classified prepaid items and the principal portion of permanent funds as being nonspendable, as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year. These items were previously reported as reserved for special purposes, and reserved for endowments.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. The Town has classified its water department, sewer department, library, and the income portion of permanent funds as being restricted because their use is restricted by Federal/State statutes for expenditures. These items were previously reported as reserved for special purposes or unreserved-undesignated or unreserved-designated for special purposes.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the legislative body (Town Meeting). These amounts cannot be used for any other purpose unless the legislative body (Town Meeting) removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. Expendable trust, conservation commission, and depot road funds are included in this classification. These items were previously reported as reserved for special purposes or unreserved-designated for special purposes.

Assigned – This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Selectmen through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund. The Town also has assigned funds consisting of encumbrances and a contingency for abatements in the general fund at year-end. This amount was previously reported as reserved for encumbrances and reserved for contingency.

Unassigned – This classification includes the residual fund balance for the general fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts. This amount was previously reported as unreserved-undesignated.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 9). As discussed in Note 1-C, restricted funds are used first as appropriate, followed by committed resources, and then assigned resources, as appropriate opportunities arise. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

1-Q Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Interfund receivables and payables between funds are eliminated in the Statement of Net Assets.

Interfund Transfers – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In the government-wide financial statements, all interfund transfers between individual governmental funds have been eliminated.

1-R Use of Estimates

The preparation of the 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 and disclosures in the financial statements. Actual results could differ from those estimates and the differences could be material.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

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. Town Council adopts a budget for the current year for the general and capital project funds, as well as several nonmajor funds. Except as reconciled below, the budget was adopted on a basis consistent with US 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.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

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 assigned 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 unassigned fund balance to achieve that end. In the fiscal year 2011, none of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

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

Revenues and other financing sources:

Per Exhibit D (budgetary basis) \$ 11,222,114

Adjustment:

Basis difference:

GASB Statement No. 54:

To record parking fund revenue recognized during the year 149,465

To record expendable trust fund revenue recognized during the year 5,728

To record library fund revenue recognized during the year 726,231

To eliminate transfer between general and parking fund (81,450)

To eliminate transfers between general and expendable trust funds (14,100)

On-behalf retirement contributions made by the State of New Hampshire

recognized as revenue on the GAAP basis, but not on the budgetary basis 86,308

Per Exhibit C-3 (GAAP basis) \$ 12,094,296

Expenditures and other financing uses:

Per Exhibit D (budgetary basis) \$ 11,016,303

Adjustment:

Basis differences:

Encumbrances, beginning 121,000

Encumbrances, ending (26,315)

GASB Statement No. 54:

To record parking fund expenditures during the year 58,016

To record expendable trust fund expenditures during the year 120

To record police fund expenditures during the year 851

To record library fund expenditures during the year 348,460

To eliminate transfers between general and library fund (263,864)

To eliminate transfers between general and expendable trust funds (157,745)

To recognize transfer between general and capital projects fund 207,695

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 86,308

Per Exhibit C-3 (GAAP basis) \$ 11,390,829

DETAILED NOTES ON ALL FUNDS

NOTE 3 – CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2011, none of the Town's bank balances of \$12,294,792 was exposed to custodial credit risk as uninsured and uncollateralized.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

Cash and cash equivalents reconciliation:

Cash per Statement of Net Assets (Exhibit A)	\$ 11,308,278
Cash per Statement of Fiduciary Net Assets (Exhibit E-1)	986,514
Total cash and cash equivalents	<u>\$ 12,294,792</u>

NOTE 4 – INVESTMENTS

The Town's investments of \$465,529 at December 31, 2011 consist of balances on deposit with the New Hampshire Public Deposit Investment Pool and certificates of deposit.

NOTE 5 – RESTRICTED ASSETS

Certain Town cash and investment balances are restricted for the following purposes:

General fund:	
Expendable trusts	\$ 1,240,594
Library	1,084,962
Nonmajor funds:	
Expendable trusts	565,119
Total	<u>\$ 2,890,675</u>

NOTE 6 – 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, 2011, upon which the 2011 property tax levy was based is:

For the New Hampshire education tax	\$ 885,453,539
For all other taxes	\$ 898,172,169

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Taxes were levied on May 16, 2011 and November 14, 2011, with payments due on June 15, 2011 and December 14, 2011. Interest accrues at a rate of 12% on bills outstanding after the due dates. 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 allowance 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, 2011 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$7.57	\$ 6,803,074
School portion:		
State of New Hampshire	\$2.33	2,062,013
Local	\$15.69	14,089,125
County portion	\$2.61	2,344,608
Total		<u>\$ 25,298,820</u>

During the current fiscal year, the tax collector executed a lien on August 30, 2011 for all uncollected 2010 property taxes.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

Taxes receivable at December 31, 2011, are as follows:

Property:	
Levy of 2011	\$ 1,013,329
Unredeemed (under tax lien):	
Levy of 2010	180,888
Levy of 2009	137,695
Levy of 2008	454
Yield	1,481
Land use change	8,000
Less: allowance for estimated uncollectible taxes	(114,153)
Net taxes receivable	<u>\$ 1,227,694</u>

NOTE 7 – OTHER RECEIVABLES

Receivables at December 31, 2011, consisted of accounts (billings for police details, water and sewer reimbursements, 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 collectability.

Receivables as of December 31, 2011 for the Town's individual major funds and nonmajor funds in the aggregate including applicable allowances for uncollectible accounts are as follows:

	General Fund	Capital Project Fund	Nonmajor Funds	Total
Receivables:				
Accounts	\$ 62,358	\$ -	\$ 101,839	\$ 164,197
Intergovernmental	-	1,045,182	-	1,045,182
Liens	34,461	-	-	34,461
Gross receivables	<u>96,819</u>	<u>1,045,182</u>	<u>101,839</u>	<u>1,243,840</u>
Less: allowance for uncollectible	(34,461)	-	-	(34,461)
Net total receivables	<u>\$ 62,358</u>	<u>\$ 1,045,182</u>	<u>\$ 101,839</u>	<u>\$ 1,209,379</u>

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 consisted of the following:

	Balance, beginning	Additions	Reductions	Balance, ending
At cost:				
Not being depreciated:				
Land	\$ 2,276,891	\$ -	\$ -	\$ 2,276,891
Construction in progress	6,647,412	3,985,013	(2,595,940)	8,036,485
Total capital assets not being depreciated	8,924,303	3,985,013	(2,595,940)	10,313,376
Being depreciated:				
Land improvements	184,347	318,181	-	502,528
Buildings and building improvements	5,019,472	-	-	5,019,472
Equipment and vehicles	1,792,671	312,451	-	2,105,122
Infrastructure	2,576,421	2,919,608	-	5,496,029
Total capital assets being depreciated	9,572,911	3,550,240	-	13,123,151
Total all capital assets	18,497,214	7,535,253	(2,595,940)	23,436,527
Less accumulated depreciation:				
Land improvements	(66,623)	(10,715)	-	(77,338)
Buildings and building improvements	(682,855)	(105,553)	-	(788,408)
Equipment and vehicles	(754,495)	(199,226)	-	(953,721)
Infrastructure	(567,724)	(174,375)	-	(742,099)
Total accumulated depreciation	(2,071,697)	(489,869)	-	(2,561,566)
Net book value, capital assets being depreciated	7,501,214	3,060,371	-	10,561,585
Net book value, all governmental activities capital assets	\$ 16,425,517	\$ 7,045,384	\$ (2,595,940)	\$ 20,874,961

Depreciation expense was charged to functions of the Town based on their usage of the related assets. The amounts allocated to each function are as follows:

General government	\$ 14,503
Public safety	68,697
Highways and streets	230,580
Water distribution and treatment	23,057
Sanitation	129,184
Culture and recreation	23,848
Total depreciation expense	<u>\$ 489,869</u>

NOTE 9 – INTERFUND BALANCES AND TRANSFERS

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at December 31, 2011, are as follows:

Receivable Fund	Payable Fund	Amount
General	Capital project	\$ 841,351
	Nonmajor	2,020
		<u>\$ 843,371</u>

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

Interfund transfers during the year ended December 31, 2011 are as follows:

	Transfers In:			
	General Fund	Capital Project Fund	Nonmajor Funds	Total
Transfers out:				
General fund	\$ -	\$ 337,125	\$ -	\$ 337,125
Capital project fund	8,277	-	58,244	66,521
Nonmajor funds	149,938	176,231	-	326,169
Total	<u>\$ 158,215</u>	<u>\$ 513,356</u>	<u>\$ 58,244</u>	<u>\$ 729,815</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 10 – INTERGOVERNMENTAL PAYABLES

Amounts due of \$7,798,622 to other governments at December 31, 2011, consist of the following:

General fund:		
Balance of 2011-2012 district assessment due to the Oyster River Cooperative School District		\$ 7,740,899
Fees due to the State of New Hampshire		<u>3,456</u>
Total intergovernmental payables due from the general fund		<u>7,744,355</u>
Nonmajor fund:		
Annual portion of wastewater budget due to University of New Hampshire		<u>54,267</u>
Total intergovernmental payables due		<u>\$ 7,798,622</u>

NOTE 11 – DEFERRED/UNEARNED REVENUE

Deferred/unearned revenue of \$50,969 at December 31, 2011 consists of the following:

General fund:		
Other		\$ 43,173
Nonmajor fund:		
Churchill rink user charges collected in advance		<u>7,796</u>
Total deferred/unearned revenue		<u>\$ 50,969</u>

NOTE 12– LONG-TERM LIABILITIES

Changes in the Town's long-term obligations consisted of the following for the year ended December 31, 2011:

	General Obligation Bonds Payable	Unamortized Bond Premium	Compensated Absences Payable	Accrued Landfill Postclosure Care Costs	Total
Balance, beginning	\$ 11,518,478	\$ 83,338	\$ 603,026	\$ 240,000	\$ 12,444,842
Additions	-	-	11,498	-	11,498
Reductions	(1,129,476)	(4,167)	-	(10,000)	(1,143,643)
Balance, ending	<u>\$ 10,389,002</u>	<u>\$ 79,171</u>	<u>\$ 614,524</u>	<u>\$ 230,000</u>	<u>\$ 11,312,697</u>

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2011	Current Portion
General obligation bonds payable:						
Capital improvements	\$ 3,279,458	2002	2019	3.00-4.50	\$ 980,000	\$ 230,000
Water improvements	\$ 828,554	2002	2016	3.4725	324,427	60,533
Landfill closure	\$ 802,756	2004	2024	3.6880	521,792	40,138
Capital improvements	\$ 3,290,757	2005	2024	3.6880	2,397,783	147,067
Capital improvements	\$ 3,800,154	2006	2026	3.9494	2,325,000	235,000
Capital improvements	\$ 315,364	2006	2013	5.7499	70,000	35,000
Capital improvements	\$ 3,115,000	2008	2028	3.00-4.50	2,490,000	205,000
Capital improvements	\$ 1,384,000	2010	2030	3.5512	1,280,000	115,000
					<u>10,389,002</u>	<u>1,067,738</u>
Unamortized bond premium					<u>79,171</u>	<u>4,167</u>
					<u>10,468,173</u>	<u>1,071,905</u>
Compensated absences payable:						
Vested sick leave					241,350	-
Accrued vacation leave					<u>373,174</u>	<u>-</u>
					<u>614,524</u>	<u>-</u>
Accrued landfill postclosure care costs					<u>230,000</u>	<u>10,000</u>
Total					<u>\$ 11,312,697</u>	<u>\$ 1,081,905</u>

The annual requirements to amortize all general obligation bonds outstanding as of December 31, 2011, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2012	\$ 1,067,738	\$ 410,682	\$ 1,478,420
2013	985,264	371,761	1,357,025
2014	878,063	335,030	1,213,093
2015	876,144	302,053	1,178,197
2016	869,520	269,495	1,139,015
2017-2021	3,134,446	898,743	4,033,189
2022-2026	2,257,827	319,844	2,577,671
2027-2030	320,000	27,288	347,288
Totals	<u>\$ 10,389,002</u>	<u>\$ 2,934,896</u>	<u>\$ 13,323,898</u>

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 place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site after closure. A liability is being recognized based on the postclosure care costs that will be incurred. The estimated liability for landfill postclosure care costs has a balance of \$130,000 as of December 31, 2011, which is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfill were acquired as of December 31, 2011. 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.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

Bonds/Notes Authorized and Unissued - Bonds and notes authorized and unissued as of December 31, 2011 were as follows:

Per Town Council Vote of	Purpose	Unissued Amount
March 11, 2003	Land Purchase	\$ 880,000
December 17, 2007	Capital Improvements	970,000
December 21, 2009	Capital Improvements	59,263
December 7, 2010	Capital Improvements	2,143,920

NOTE 13 – GOVERNMENTAL ACTIVITIES NET ASSETS

Governmental activities net assets reported on the government-wide statement of net assets at December 31, 2011 include the following:

Invested in capital assets, net of related debt:	
Capital assets, net of accumulated depreciation	\$ 20,874,961
Less:	
General obligation bonds payable	(10,389,002)
Unamortized bond premium payable	(79,171)
Total invested in capital assets, net of related debt	<u>10,406,788</u>
Restricted for special purposes:	
Perpetual care	391,021
Capital projects	(382,320)
Total restricted for special purposes	<u>8,701</u>
Unrestricted	<u>4,015,446</u>
Total net assets	<u><u>\$ 14,430,935</u></u>

NOTE 14 – PRIOR PERIOD ADJUSTMENTS

Fund equity at January 1, 2011 was restated to give retroactive effect to the following prior period adjustments:

	Government- wide Statements	General Fund	Expendable Trust Fund	Other Governmental Funds
To record:				
Funds previously recorded as special revenue funds, that under GASB Statement No. 54 are now considered part of the general fund:				
Expendable trust funds	\$ -	\$ 1,122,422	\$ (1,122,422)	\$ -
Public library	-	528,068	-	-
Police	-	2,134	-	-
Funds, that under GASB Statement No. 54 are now considered part of the sewer department fund:				
Sewer department related trust funds	-	-	(402,811)	402,811
Water department related trust funds	-	-	(165,978)	165,978
The value of long term mortgages receivable, not previously reported	300,000	-	-	-
Net assets/fund balance, as previously reported	<u>8,017,282</u>	<u>1,099,365</u>	<u>1,691,211</u>	<u>80,924</u>
Net assets/fund balance, as restated	<u><u>\$ 8,317,282</u></u>	<u><u>\$ 2,751,989</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 649,713</u></u>

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

NOTE 15 – DEFICIT FUND BALANCES

The capital project fund had a deficit fund balance of \$382,320 at December 31, 2011. This deficit will be financed through future revenues of the fund, or bond proceeds that will be issued in subsequent years.

NOTE 16 – EMPLOYEE RETIREMENT PLAN

The Town participates in the New Hampshire Retirement System (the System) which is the administrator 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. Provision 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. Through June 30, 2011, all employees except police officers and firefighters were required to contribute 5% of earnable compensation. Police officers and firefighters were required to contribute 9.3% of gross earnings. Effective July 1, 2011, the contribution rates changed to 7% for employees other than police officers and firefighters, 11.55% for police officers, and 11.80% for firefighters. The Town's contribution rates for 2011 were as follows:

	<u>Police</u>	<u>Firefighters</u>	<u>Other Employees</u>
January 1 through June 30	14.63%	18.52%	9.16%
July 1 through July 31	16.62%	20.08%	11.09%
August 1 through December 31	19.95%	22.89%	8.80%

The contribution requirements for the Town of Durham for the fiscal years 2009, 2010, and 2011 were \$663,871, \$695,118, and \$850,573, respectively, which were paid in full in each year.

For the first six months of 2011, the State of New Hampshire funded 25% of the total employer normal contribution rate for police officers and firefighters employed by the Town. As of July 1, the funding rate increased to 35% of the total employer normal contribution rate. House Bill 2 (Chapter 0224, *Laws of 2011*) amended RSA 100-A:16 by eliminating the State's cost sharing, thereby requiring employers to fund 100% of the total employer contributions, effective August 1, 2011. HB 2 further authorized the State to pay \$3.5 million in the State's FY 2012 towards political subdivision employer contributions for their Group I Teacher and Group II Police and Fire members. The total amount contributed by the State for 2011, \$86,308, 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.

NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45, was implemented by the Town during fiscal year 2011, and 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 similar to pension plans. GASB Statement No. 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

The Town has only partially funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty-years.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2011:

Annual required contribution/OPEB cost	\$ 257,068
Contributions made (pay-as-you-go)	<u>(65,885)</u>
Increase in net OPEB obligation	191,183
Net OPEB obligation, beginning	422,328
Net OPEB obligation, ending	<u>\$ 613,511</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 was as follows:

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
December 31, 2011	\$ 257,068	\$ 65,885	25.63%	\$ 613,511

As of December 31, 2009 the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$2,165,559 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,165,559. The covered payroll (annual payroll of active employees covered by the plan) was \$2,883,514 during fiscal year 2011, and the ratio of the UAAL to the covered payroll was 75.1%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for Other Postemployment Benefits Plan, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2009 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% investment rate of return per annum. The projected annual healthcare cost trend is 10% initially, reduced by decrements to an ultimate rate of 5% after 5 years. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2011 was 28 years.

NOTE 18 – 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 2011, the Town was a member of the Local Government Center Property-Liability Trust, LLC, and the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation Program. These entities are public entity risk pools, currently operating as common risk management and insurance programs for member Towns and cities.

The Local Government Center Property-Liability Trust, LLC, is a Trust organized to provide certain property and liability insurance coverages to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the Local Government Center Property-Liability Trust, LLC, the Town shares in contributing to the cost of, and receiving benefits from, a self-insured pooled risk management program. The membership and coverage run from January 1 to December 31. The program maintains a self-insured retention above which it purchases reinsurance and excess insurance. This policy covers property, auto physical damage, crime, general liability, and public officials' liability subject to a \$2,000 deductible.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

Contributions paid in fiscal year ending December 31, 2011, to be recorded as an insurance expenditure totaled \$85,392. There were no unpaid contributions for the year ended December 31, 2011. The trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. At this time, the Trust foresees no likelihood of any additional assessments for past years.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation Program is a pooled risk management program under RSAs 5-B and 281-A. Coverage was provided from January 1, 2011 to December 31, 2011 by Primex³, which retained \$1,000,000 of each workers' compensation loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Town of Durham billed and paid for the year ended December 31, 2011 was \$92,442 for workers' compensation. The workers' compensation section of the self-insurance membership agreement permits Primex³ 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. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex³ foresees no likelihood of any additional assessment for this or any prior year.

NOTE 19 – CONTINGENT LIABILITIES

There are various legal claims and suits pending against the Town which arose in the normal course of the Town's activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the Town.

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.

NOTE 20 – 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 fiscal year ended December 31, 2011 and accordingly have been implemented. GASB Statement Nos. 60 through No. 64 issued during 2010 and 2011, but are not effective for financial statements until the subsequent years.

NOTE 21 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through July 20, 2012, the date the December 31, 2011 financial statements were issued, and no events occurred that required recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT F
TOWN OF DURHAM, NEW HAMPSHIRE
Schedule of Funding Progress for Other Postemployment Benefit Plan
For the Fiscal Year Ended December 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (a)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
January 1, 2009	\$ -	\$ 2,165,559	\$ 2,165,559	0.00%	\$ 2,883,514	75.10%

The note to the required supplementary information is an integral part of this schedule.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

As required by GASB Statement No. 45, Exhibit F represents the actuarial determined costs associated with the Town's other postemployment benefits for the fiscal year ended December 31, 2011.

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, 2011

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 6,438,133	\$ 6,262,197	\$ (175,936)
Yield	8,059	9,540	1,481
Boat and railroad	15	666	651
Payment in lieu of taxes	59,108	61,563	2,455
Interest and penalties on taxes	85,000	109,160	24,160
Total from taxes	6,590,315	6,443,126	(147,189)
Licenses, permits, and fees:			
Motor vehicle permit fees	789,300	803,923	14,623
Building permits	120,000	159,410	39,410
Other	23,250	32,506	9,256
Total from licenses, permits, and fees	932,550	995,839	63,289
Intergovernmental:			
State:			
Meals and rooms distribution	653,852	653,852	-
Highway block grant	278,404	278,404	-
University of New Hampshire	1,859,278	1,881,957	22,679
Other	31,702	54,995	23,293
Other Governments:			
ORCSD	56,000	56,000	-
Federal:			
FEMA	-	20,227	20,227
Total from intergovernmental	2,879,236	2,945,435	66,199
Charges for services:			
Income from departments	271,525	397,746	126,221
Miscellaneous:			
Sale of municipal property	2,500	-	(2,500)
Interest on investments	5,000	3,421	(1,579)
Rent of property	49,350	42,895	(6,455)
Fines and forfeits	80,987	126,594	45,607
Other	4,500	13,293	8,793
Total from miscellaneous	142,337	186,203	43,866
Other financing sources:			
Transfers in:	213,677	253,765	40,088
Total revenues and other financing sources	\$ 11,029,640	\$ 11,222,114	\$ 192,474

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, 2011

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 400,729	\$ 360,237	\$ 2,485	\$ 38,007
Election and registration	-	208,178	205,828	-	2,350
Financial administration	-	266,837	268,311	-	(1,474)
Revaluation of property	8,000	69,447	86,843	-	(9,396)
Legal	-	55,000	75,765	-	(20,765)
Planning and zoning	61,250	270,261	222,077	-	109,434
General government buildings	-	115,096	122,510	-	(7,414)
Cemeteries	-	16,382	14,719	-	1,663
Advertising and regional associations	-	10,875	10,874	-	1
Other	2,540	451,456	420,046	12,000	21,950
Total general government	71,790	1,864,261	1,787,210	14,485	134,356
Public safety:					
Police	-	2,194,953	2,319,504	-	(124,551)
Ambulance	-	18,363	18,362	-	1
Fire	12,500	3,168,171	3,137,427	10,530	32,714
Building inspection	-	144,373	151,825	-	(7,452)
Emergency management	-	10,000	10,854	-	(854)
Communications	-	20,000	21,780	-	(1,780)
Total public safety	12,500	5,555,860	5,659,752	10,530	(101,922)
Highways and streets:					
Administration	-	441,844	437,496	-	4,348
Highways and streets	33,410	884,425	933,666	-	(15,831)
Total highways and streets	33,410	1,326,269	1,371,162	-	(11,483)
Sanitation:					
Administration	-	175,517	172,165	-	3,352
Solid waste collection	-	307,319	316,080	-	(8,761)
Solid waste disposal	2,300	99,258	91,487	1,300	8,771
Solid waste clean-up	-	15,137	19,287	-	(4,150)
Total sanitation	2,300	597,231	599,019	1,300	(788)
Health:					
Administration	-	1,500	-	-	1,500
Other	-	20,719	20,719	-	-
Total health	-	22,219	20,719	-	1,500
Welfare:					
Direct assistance	-	10,000	23,230	-	(13,230)
Culture and recreation:					
Parks and recreation	1,000	284,929	277,917	-	8,012
Patriotic purposes	-	1,500	801	-	699
Total culture and recreation	1,000	286,429	278,718	-	8,711
Conservation	-	3,767	1,987	-	1,780
Economic development	-	4,765	2,792	-	1,973

(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, 2011

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Debt service:					
Principal of long-term debt	-	629,686	629,686	-	-
Interest on long-term debt	-	190,589	185,750	-	4,839
Total debt service	-	820,275	815,436	-	4,839
Other financing uses:					
Transfers out	-	538,564	550,963	-	(12,399)
Total appropriations, expenditures, other financing uses, and encumbrances	\$ 121,000	\$ 11,029,640	\$ 11,110,988	\$ 26,315	\$ 13,337

SCHEDULE 3
TOWN OF DURHAM, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2011

Unassigned fund balance, beginning		\$ 715,665
Changes:		
2011 Budget summary:		
Revenue surplus (Schedule 1)	\$ 192,474	
Unexpended balance of appropriations (Schedule 2)	<u>13,337</u>	
2011 Budget surplus		205,811
Increase in nonspendable fund balance		(41,226)
Decrease in committed fund balance		<u>112,700</u>
Unassigned fund balance, ending		<u>\$ 992,950</u>

SCHEDULE 4
TOWN OF DURHAM, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2011

	Special Revenue Funds					Permanent Fund	Total
	Sewer Department	Water Department	Conservation Commission	Depot Road	Churchill Rink		
ASSETS							
Cash and cash equivalents	\$ 276,462	\$ 137,144	\$ -	\$ 168,174	\$ 169,663	\$ 393,112	\$ 1,144,555
Investments	-	-	312,437	-	-	-	312,437
Receivables, net of allowance for uncollectable:							
Taxes	-	-	8,000	-	-	-	8,000
Accounts	60,726	37,873	-	-	3,240	-	101,839
Prepaid items	6,000	3,350	-	-	800	-	10,150
Restricted - Cash and cash equivalents	403,072	162,047	-	-	-	-	565,119
Total assets	\$ 746,260	\$ 340,414	\$ 320,437	\$ 168,174	\$ 173,703	\$ 393,112	\$ 2,142,100
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 37,774	\$ 11,558	\$ -	\$ 162	\$ 8,766	\$ 71	\$ 58,331
Accrued salaries and benefits	13,569	4,170	-	-	3,511	-	21,250
Intergovernmental payable	54,267	-	-	-	-	-	54,267
Interfund payable	-	-	-	-	-	2,020	2,020
Deferred revenue	-	-	-	-	7,796	-	7,796
Total liabilities	105,610	15,728	-	162	20,073	2,091	143,664
Fund balances:							
Nonspendable:							
Permanent fund (principal balance)	-	-	-	-	-	362,435	362,435
Prepaid items	6,000	3,350	-	-	800	-	10,150
Restricted:							
Permanent fund (income balance)	-	-	-	-	-	28,586	28,586
Water distribution and treatment	-	321,336	-	-	-	-	321,336
Sanitation	634,650	-	-	-	-	-	634,650
Committed:							
General government	-	-	-	168,012	-	-	168,012
Conservation	-	-	320,437	-	-	-	320,437
Culture and recreation	-	-	-	-	152,830	-	152,830
Total fund balances	640,650	324,686	320,437	168,012	153,630	391,021	1,998,436
Total liabilities and fund balances	\$ 746,260	\$ 340,414	\$ 320,437	\$ 168,174	\$ 173,703	\$ 393,112	\$ 2,142,100

SCHEDULE 5
TOWN OF DURHAM, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2011

	Special Revenue Funds					
	Sewer Department	Water Department	Conservation Commission	Depot Road	Churchill Rink	Permanent Fund
Revenues:						
Taxes	\$ -	\$ -	\$ 13,000	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	80,040	-	-
Intergovernmental	393,677	28,650	-	-	-	-
Charges for services	1,277,340	411,548	-	-	153,964	-
Miscellaneous	176,396	121,569	290	565	999	18,000
Total revenues	1,847,413	561,767	13,290	80,605	154,963	18,000
Expenditures:						
Current:						
General government	-	-	-	2,452	-	1,698
Water distribution and treatment	-	294,752	-	-	-	-
Sanitation	994,440	-	-	-	-	-
Culture and recreation	-	-	-	-	143,882	-
Conservation	-	-	50,000	-	-	-
Debt service:						
Principal	332,332	164,108	-	-	3,350	-
Interest	202,792	67,967	-	-	1,028	-
Total expenditures	1,529,564	526,827	50,000	2,452	148,260	1,698
Excess (deficiency) of revenues over (under) expenditures	317,849	34,940	(36,710)	78,153	6,703	16,302
Other financing sources (uses):						
Transfers in	-	58,244	-	-	-	-
Transfers out	(58,096)	(37,314)	(157,821)	(72,545)	-	(393)
Total other financing sources and uses	(58,096)	20,930	(157,821)	(72,545)	-	(393)
Net change in fund balances	259,753	55,870	(194,531)	5,608	6,703	15,909
Fund balances, beginning (as restated, see Note 14)	380,897	268,816	514,968	162,404	146,927	375,112
Fund balances, ending	\$ 640,650	\$ 324,686	\$ 320,437	\$ 168,012	\$ 153,630	\$ 391,021
						\$ 1,998,436

***SINGLE AUDIT ACT SCHEDULES
AND INDEPENDENT AUDITOR'S REPORTS***



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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

We have audited the 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, 2011, which collectively comprise the Town of Durham's basic financial statements and have issued our report thereon dated July 20, 2012. Our report on the financial statements of 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 Durham is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Durham'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 Durham's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Durham'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town'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 deficiencies 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency in internal control over financial reporting at item 11-01. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Durham'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town of Durham'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 of Durham's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Town Council, 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.

July 20, 2012

Gregory A. Colby, CPA

PLODZIK & SANDERSON
Professional Association



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

Compliance

We have audited the Town of Durham'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 Durham's major federal programs for the year ended December 31, 2011. The Town of Durham'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 programs is the responsibility of the Town of Durham's management. Our responsibility is to express an opinion on the Town of Durham'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 Durham'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 Durham's compliance with those requirements.

In our opinion, the Town of Durham 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 11-01.

Internal Control over Compliance

Management of the Town of Durham 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 Durham'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 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 Durham'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 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 deficiencies 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

Town of Durham

*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*

weaknesses, as defined above. The Town of Durham'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 of Durham's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Town Council, 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.

Gregory A. Colby, CPA

July 20, 2012

PLODZIK & SANDERSON
Professional Association

SCHEDULE I
TOWN OF DURHAM, NEW HAMPSHIRE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

1. The auditor's report expresses an unqualified opinion on the financial statements of each major fund and the aggregate remaining fund information, and an adverse opinion on the financial statements of the governmental activities.
2. There were no material weaknesses identified relating to the internal control over financial reporting.
3. There was one significant deficiency identified that was not considered a material weakness relating to the internal control over financial reporting.
4. There were no instances of noncompliance material to the financial statements identified.

B. Federal Awards

1. There were no material weaknesses identified relating to the internal control over major programs.
2. There were no significant deficiencies identified that were not considered material weaknesses relating to the internal control over major programs.
3. The auditor's report on compliance for major programs expresses an unqualified opinion.
4. There is one audit finding required to be reported in accordance with section 510(a) of OMB Circular A-133.
5. The programs tested as major programs are: CFDA No. 10.914: Wildlife Habitat Incentive Program; and CFDA No. 66.458: Capitalization Grants for Clean Water State Revolving Funds.
6. The threshold for distinguishing between Types A and B programs was \$300,000.
7. The Town of Durham was determined not to be a low-risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

**Auditor
Reference
Number**

11-01 **Criteria:** Town policy requires that purchase orders be acquired for all purchases and that purchase orders be completed and properly approved prior to the procuring of goods and services.

Condition: During expenditure testing for the federal compliance audit, we noted one instance where no purchase order existed related to an expenditure for the Wildlife Habitat Incentive Program, and another instance where a purchase order was completed and approved after the invoice date for the Capitalization Grants for Clean Water State Revolving Funds program.

Cause: The Town appears to have a weakness in oversight related to purchase orders.

Effect: The Town is not following its purchasing policies and is not in compliance with the procurement requirements.

Recommendation: We recommend that the Town follow its policies regarding purchase orders without exception.

Management Response: The Town has reinforced its policy with all departments regarding approval of purchases in excess of \$5,000 and submitting appropriate paperwork in a timely manner.

SCHEDULE I (continued)
TOWN OF DURHAM, NEW HAMPSHIRE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- 11-01** U.S. Department of Agriculture: CFDA No. 10.914: Wildlife Habitat Incentive Program; and U.S. Environmental Protection Agency passed through the State of New Hampshire Department of Environmental Services: CFDA No. 66.458: Capitalization Grants to Clean Water State Revolving Funds

See description in Section II above.

SCHEDULE II
TOWN OF DURHAM, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the State of New Hampshire Department of Transportation			
ARRA - Highway Planning and Construction	20.205	14453	\$ 4,928
Passed Through the New Hampshire Highway Safety Agency			
<i>HIGHWAY SAFETY CLUSTER</i>			
State and Community Highway Safety	20.600	315-11A-191	3,949
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	308-11A-172	3,438
<i>CLUSTER TOTAL</i>			<u>7,387</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Passed through the State of New Hampshire Department of Environmental Services			
ARRA - Capitalization Grants for Clean Water State Revolving Funds:			
Dover Road Pump Station (note 3)	66.458	CS-333161-09	1,890,351
Aeration Blowers (note 3)	66.458	CS-333161-09	654,676
<i>PROGRAM TOTAL</i>			<u>2,545,027</u>
ARRA - Capitalization Grants for Drinking Water State Revolving Funds (note 3)	66.468	0691010-01 ARRA	63,438
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through the State of New Hampshire Department of Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters):			
2006 Flood	97.036	FEMA-1643-DR-NH	247,894
Tropical Storm Irene	97.036	FEMA-4026-DR-NH	9,258
<i>PROGRAM TOTAL</i>			<u>257,152</u>
Homeland Security Grant Program	97.067	N/A	22,172
DIRECT FUNDING			
U.S. DEPARTMENT OF AGRICULTURE			
Wildlife Habitat Incentive Program	10.914	6814280822	1,045,182
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-9718901-1	185,706
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Early Retiree Reinsurance Program	93.546	N/A	10,970
<i>Total Expenditures of Federal Awards</i>			<u>\$ 4,141,962</u>

The accompanying notes are an integral part of this schedule.

TOWN OF DURHAM, NEW HAMPSHIRE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED
DECEMBER 31, 2011

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal grant activity of the Town of Durham 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 Durham, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Town of Durham.

Note 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. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3. Loan Outstanding

The Town of Durham had the following loan balances outstanding at December 31, 2011. The loans made during the year are included in the federal expenditures presented in the Schedule.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balances at December 31, 2011</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 2,545,026.51
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$ 184,586.82