

**TOWN OF MARLOW,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012**

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TOWN OF MARLOW, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Selectmen
Town of Marlow
Marlow, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Town of Marlow as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of Marlow as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

*Town of Marlow
Independent Auditor's Report*

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Marlow'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 combining and individual fund financial schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

, 2013

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EXHIBIT A
TOWN OF MARLOW, NEW HAMPSHIRE
Statement of Net Position
December 31, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,233,093
Investments	100,862
Intergovernmental	4,878
Other receivables, net of allowances for uncollectible	190,141
Prepaid items	16,106
Tax dedeed property, subject to resale	10,380
Capital assets, not being depreciated:	
Land	62,045
Capital assets, net of accumulated depreciation:	
Buildings and building improvements	103,405
Vehicles	279,112
Equipment	47,352
Total assets	2,047,374
LIABILITIES	
Accounts payable	15,637
Intergovernmental payable	439,514
Accrued interest payable	1,277
Unearned revenue	4,074
Noncurrent liabilities:	
Due within one year:	
Capital lease	24,025
Compensated absences	877
Due in more than one year:	
Compensated absences	14,952
Total liabilities	500,356
NET POSITION	
Net investment in capital assets	467,889
Restricted	39,012
Unrestricted	1,040,117
Total net position	\$ 1,547,018

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

EXHIBIT B
TOWN OF MARLOW, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2012

	Expenses	Program Revenues		Net Expense and Change in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 258,109	\$ -	\$ -	\$ (258,109)
Public safety	102,408	57,411	7,192	(37,805)
Highways and streets	185,089	-	53,446	(131,643)
Sanitation	36,829	9,092	-	(27,737)
Health	1,747	-	-	(1,747)
Welfare	2,011	-	-	(2,011)
Culture and recreation	20,103	-	-	(20,103)
Conservation	1,600	-	736	(864)
Interest on long-term debt	1,596	-	-	(1,596)
Total governmental activities	<u>\$ 609,492</u>	<u>\$ 66,503</u>	<u>\$ 61,374</u>	<u>(481,615)</u>
General revenues:				
Taxes:				
Property				365,926
Other				24,339
Motor vehicle permit fees				106,065
Licenses and other fees				4,181
Grants and contributions not restricted to specific programs				33,323
Miscellaneous				36,540
Total general revenues				<u>570,374</u>
Change in net position				88,759
Net position, beginning				<u>1,458,259</u>
Net position, ending				<u>\$ 1,547,018</u>

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

EXHIBIT C-1
TOWN OF MARLOW, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
December 31, 2012

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,166,215	\$ 66,878	\$ 1,233,093
Investments	-	100,862	100,862
Receivables, net of allowances for uncollectible:			
Taxes	155,051	-	155,051
Accounts	449	34,641	35,090
Intergovernmental	4,878	-	4,878
Interfund receivable	27,726	-	27,726
Prepaid items	16,106	-	16,106
Tax dedeed property, subject to resale	10,380	-	10,380
Total assets	<u>\$ 1,380,805</u>	<u>\$ 202,381</u>	<u>\$ 1,583,186</u>
LIABILITIES			
Accounts payable	\$ 15,637	\$ -	\$ 15,637
Intergovernmental payable	439,514	-	439,514
Interfund payable	-	27,726	27,726
Deferred revenue	4,074	-	4,074
Total liabilities	<u>459,225</u>	<u>27,726</u>	<u>486,951</u>
FUND BALANCE			
Nonspendable	26,486	103,870	130,356
Restricted	7,178	31,834	39,012
Committed	473,684	38,951	512,635
Assigned	1,750	-	1,750
Unassigned	412,482	-	412,482
Total fund balances	<u>921,580</u>	<u>174,655</u>	<u>1,096,235</u>
Total liabilities and fund balances	<u>\$ 1,380,805</u>	<u>\$ 202,381</u>	<u>\$ 1,583,186</u>

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

*EXHIBIT C-2
TOWN OF MARLOW, NEW HAMPSHIRE
Reconciliation of Total Governmental Fund Balances to the Statement of Net Position
December 31, 2012*

Total fund balances of governmental funds (Exhibit C-1)		\$ 1,096,235
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.		
Cost	\$ 988,390	
Less accumulated depreciation	<u>(496,476)</u>	491,914
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (27,726)	
Payables	<u>27,726</u>	-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(1,277)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Capital lease	\$ (24,025)	
Compensated absences	<u>(15,829)</u>	(39,854)
Total net position of governmental activities (Exhibit A)		<u><u>\$ 1,547,018</u></u>

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EXHIBIT C-3
TOWN OF MARLOW, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2012

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 390,265	-	\$ 390,265
Licenses and permits	110,171	-	110,171
Intergovernmental	94,697	-	94,697
Charges for services	9,167	57,966	67,133
Miscellaneous	22,879	13,106	35,985
Total revenues	<u>627,179</u>	<u>71,072</u>	<u>698,251</u>
EXPENDITURES			
Current:			
General government	256,953	5,396	262,349
Public safety	60,008	27,726	87,734
Highways and streets	167,436	-	167,436
Sanitation	35,400	-	35,400
Health	1,747	-	1,747
Welfare	2,011	-	2,011
Culture and recreation	19,363	-	19,363
Conservation	1,600	-	1,600
Debt service:			
Principal	22,666	-	22,666
Interest	2,801	-	2,801
Capital outlay	14,800	-	14,800
Total expenditures	<u>584,785</u>	<u>33,122</u>	<u>617,907</u>
Net changes in fund balances	42,394	37,950	80,344
Fund balances, beginning	879,186	136,705	1,015,891
Fund balances, ending	<u>\$ 921,580</u>	<u>\$ 174,655</u>	<u>\$ 1,096,235</u>

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

EXHIBIT C-4
TOWN OF MARLOW, 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, 2012

Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balances of governmental funds (Exhibit C-3)		\$ 80,344
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 depreciation expense exceeded capitalized capital outlay in the current period.		
Capitalized capital outlay	\$ 29,249	
Depreciation expense	<u>(44,172)</u>	(14,923)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net position.		
Repayment of capital lease principal		22,666
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	\$ 1,205	
Increase in compensated absences payable	<u>(533)</u>	
		<u>672</u>
Change in net position of governmental activities (Exhibit B)		<u><u>\$ 88,759</u></u>

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EXHIBIT D
TOWN OF MARLOW, 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, 2012

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 391,897	\$ 391,897	\$ 390,265	\$ (1,632)
Licenses and permits	104,622	104,622	110,171	5,549
Intergovernmental	90,240	93,424	94,697	1,273
Charges for services	8,050	8,050	9,167	1,117
Miscellaneous	16,386	16,386	22,311	5,925
Total revenues	<u>611,195</u>	<u>614,379</u>	<u>626,611</u>	<u>12,232</u>
EXPENDITURES				
Current:				
General government	283,395	283,395	258,703	24,692
Public safety	89,866	91,953	59,472	32,481
Highways and streets	194,550	195,647	167,436	28,211
Sanitation	44,148	44,148	35,400	8,748
Health	1,000	1,000	1,747	(747)
Welfare	9,500	9,500	2,011	7,489
Culture and recreation	600	600	743	(143)
Conservation	1,950	1,950	1,600	350
Debt service:				
Principal	22,665	22,665	22,666	(1)
Interest	2,801	2,801	2,801	-
Capital outlay	-	14,800	14,800	-
Total expenditures	<u>650,475</u>	<u>668,459</u>	<u>567,379</u>	<u>101,080</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(39,280)</u>	<u>(54,080)</u>	<u>59,232</u>	<u>113,312</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	14,800	14,800	-
Transfers out	<u>(46,220)</u>	<u>(46,220)</u>	<u>(45,025)</u>	<u>1,195</u>
Total other financing sources (uses)	<u>(46,220)</u>	<u>(31,420)</u>	<u>(30,225)</u>	<u>1,195</u>
Net change in fund balance*	<u>\$ (85,500)</u>	<u>\$ (85,500)</u>	29,007	<u>\$ 114,507</u>
Decrease in nonspendable fund balance			6,649	
Unassigned fund balance, beginning			<u>376,826</u>	
Unassigned fund balance, ending			<u>\$ 412,482</u>	

*The net change in fund balance was included in the budget as an appropriation (spenddown) of fund balance.

EXHIBIT E-1
TOWN OF MARLOW, NEW HAMPSHIRE
Fiduciary Funds
Statement of Fiduciary Net Position
December 31, 2012

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 6,006	\$ 278,446
Investments	11,134	-
Total assets	<u>17,140</u>	<u>278,446</u>
LIABILITIES		
Due to other governmental units	-	276,347
Due to others	-	2,099
Total liabilities	<u>-</u>	<u>278,446</u>
NET POSITION	<u>\$ 17,140</u>	<u>\$ -</u>

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EXHIBIT E-2
TOWN OF MARLOW, NEW HAMPSHIRE
Fiduciary Funds
Statement of Changes in Net Position
For the Fiscal Year Ended December 31, 2012

	Private Purpose Trust Fund
ADDITIONS	
Investment earnings:	
Interest and dividends	\$ 514
Net change in the fair value of investments	558
New funds	100
Total additions	1,172
DEDUCTIONS	
Scholarships	(500)
Change in net position	672
Net assets, beginning	16,468
Net assets, ending	\$ 17,140

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TOWN OF MARLOW, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012

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TOWN OF MARLOW, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Marlow, 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 Marlow is a municipal corporation governed by an elected 3-member Board of Selectmen. 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 Position 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. 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 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 and statements, with an emphasis placed on the major funds within the governmental categories.

Governmental Activities – Governmental funds are identified as general, special revenue, and permanent 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.

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.

TOWN OF MARLOW, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012

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 Position and a Statement of Changes in Net Position. 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 Fund – The Town reports the following major governmental fund:

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.

Nonmajor Funds – The Town also reports two nonmajor governmental funds: the ambulance revolving fund and the permanent fund.

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.

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

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.

TOWN OF MARLOW, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012

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.

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 Board of Selectmen. 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 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-F 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.

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. These receivables are reported net of any allowances for uncollectible accounts.

1-G 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 Position.

1-H 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.

TOWN OF MARLOW, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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1-I 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 three years 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 Position. 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>
Buildings and building improvements	30-125
Vehicles	8-25
Equipment	10-20

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-J 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.

Ambulance – an allowance has been established for all receivables where collectability is in doubt.

1-K 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 Position, deferred revenue is classified as unearned revenue.

1-L 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.

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-M Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide statements.

1-N 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.

TOWN OF MARLOW, NEW HAMPSHIRE
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1-O Equity/Fund Balance Classifications

Government-wide Statements – Equity is classified as net position and displayed in three components:

- a) *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- 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* – Remaining net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

Governmental Fund Balances Classification – The Town previously implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the fiscal year ending December 31, 2011. GASB Statement No. 54 established 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, tax deeded property subject to resale, and the principal portion of permanent funds as being nonspendable.

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 library and the income portion of permanent funds as being restricted because their use is restricted by outside sources as well as State statutes.

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 removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. The ambulance revolving special revenue fund and the balance in the expendable trust funds are included in this classification.

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. The Town has assigned funds consisting of encumbrances in the general fund at year-end.

Unassigned – This classification includes the residual fund balance for the general fund.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 5). 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-P Interfund Receivables and Payables

Activities 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.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

1-Q 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.

TOWN OF MARLOW, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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1-R Impact of Recently Issued Accounting Principles

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement is effective as of January 1, 2012. The adoption of GASB Statement No. 62 does not have any impact on the District's financial statements.

In June 2011, the GASB issued Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a Statement of Financial Position and Related Disclosures. The Statement of Net Assets is renamed the Statement of Net Position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

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TOWN OF MARLOW, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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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. At its annual meeting, the Town adopts a budget for the current year for the general fund. 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.

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 2012, \$85,500 of the beginning general fund unassigned fund balance was applied for this purpose.

2-B Budgetary Reconciliation to GAAP Basis

The Town employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statement of Revenues and Expenditures-Budgetary Basis, presents the actual results to provide a comparison with the budget. The major difference between the budgetary basis and GAAP basis is as follows:

Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and commitments (encumbrances) for goods or services not received at year end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no liability exists.

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

Revenues and other financing sources:	
Per Exhibit D (budgetary basis)	\$ 641,411
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
Income earned on eliminated expendable trust funds	184
Income earned on eliminated public library	384
To eliminate transfers between general and expendable trust funds	(14,800)
Per Exhibit C-3 (GAAP basis)	\$ 627,179
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 612,404
Adjustment:	
Basis differences:	
Encumbrances	
	(1,750)
GASB Statement No. 54:	
To record expendable trust expenditures during the year	500
To eliminate transfers between general and expendable trust funds	(27,500)
To record public library expenditures during the year	18,656
To eliminate transfers between general and public library funds	(17,525)
Per Exhibit C-3 (GAAP basis)	\$ 584,785

TOWN OF MARLOW, NEW HAMPSHIRE
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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, 2012, none of the Town's bank balances of \$1,625,589 was exposed to custodial credit risk as uninsured and uncollateralized.

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 1,233,093
Cash per Statement of Net Position (Exhibit E-1)	284,452
Total cash and cash equivalents	\$ 1,517,545

NOTE 4 – INVESTMENTS

The Town maintains a portfolio of short-term maturity investments, including money market investments, which are reported at amortized cost. The Town also maintains a portfolio of intermediate maturity investments that are reported at fair value, based on quoted market prices. The Town's fiscal agent or custodian provides the fair value of all intermediate maturity investments. As of December 31, 2012, the Town's investments in the amount of \$111,996 were invested in municipal bonds.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that change could materially affect the amounts reported in the Statement of Net Position.

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As of December 31, 2012 the Town's investments had the following maturities:

	Investment Maturities (in Years)		
	1-5	6-10	Thereafter
Type of investment:			
Municipal bonds	\$ 10,388	\$ 90,474	\$ 11,134

Concentration of Credit Risk – The Town places no limit on the amount it may invest in any one issuer. More than 5% of the Town's investments are in the New Hampshire Health & Education Facilities Authority and Strafford County, New Hampshire. These investments are 82% and 18%, respectively, of the Town's total investments.

Investment reconciliation:

Investment per Statement of Net Position (Exhibit A)	\$ 100,862
Investment per Statement of Net Position (Exhibit E-1)	11,134
Total investments	\$ 111,996

NOTE 5 – 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, 2012, upon which the 2012 property tax levy was based is:

For the New Hampshire education tax	\$ 64,788,445
For all other taxes	\$ 65,685,314

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Taxes were levied on May 29 and November 26, with payments due on July 1 and December 29. Interest accrues at a rate of 12% on bills outstanding after the due dates and 18% on tax liens outstanding. 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.

TOWN OF MARLOW, NEW HAMPSHIRE
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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, Marlow School District, and Cheshire 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, 2012 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	\$6.37	\$ 418,127
School portion:		
State of New Hampshire	\$2.35	152,541
Local	\$14.13	928,286
County portion	\$2.81	184,423
Total		\$ 1,683,377

During the current fiscal year, the tax collector executed a lien on May 21 for all uncollected 2011 property taxes.

Taxes receivable at December 31, 2012, are as follows:

Property:		
Levy of 2012	\$	128,871
Unredeemed (under tax lien):		
Levy of 2011		24,432
Levy of 2010		10,615
Levies of 2009 and prior		3,309
Yield		1,824
Less: allowance for estimated uncollectible taxes		(14,000)
Net taxes receivable	\$	155,051

NOTE 6 – OTHER RECEIVABLES

Receivables at December 31, 2012, consisted of accounts (ambulance billings) and intergovernmental amounts. 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, 2012 for the Town's major fund and nonmajor funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

	General Fund	Nonmajor Funds	Total
Receivables:			
Accounts	\$ 449	\$ 46,104	\$ 46,553
Intergovernmental	4,878	-	4,878
Gross receivables	5,327	46,104	51,431
Less: allowance for uncollectible	-	(11,463)	(11,463)
Net total receivables	\$ 5,327	\$ 34,641	\$ 39,968

TOWN OF MARLOW, NEW HAMPSHIRE
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NOTE 7 – PREPAID ITEMS

Prepaid items at December 31, 2012 consisted of the following:

Insurance	\$ 9,622
Annual maintenance fees	3,499
Annual support fees	1,872
Membership dues	1,113
	<u>\$ 16,106</u>

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 consisted of the following:

	Balance, beginning	Additions	Balance, ending
At cost:			
Not being depreciated:			
Land	\$ 62,045	\$ -	\$ 62,045
Being depreciated:			
Buildings and building improvements	184,960	-	184,960
Vehicles	655,719	14,800	670,519
Equipment	56,417	14,449	70,866
Total capital assets being depreciated	897,096	29,249	926,345
Total all capital assets	959,141	29,249	988,390
Less accumulated depreciation:			
Buildings and building improvements	(77,136)	(4,419)	(81,555)
Vehicles	(356,086)	(35,321)	(391,407)
Equipment	(19,082)	(4,432)	(23,514)
Total accumulated depreciation	(452,304)	(44,172)	(496,476)
Net book value, capital assets being depreciated	444,792	(14,923)	429,869
Net book value, all capital assets	\$ 506,837	\$ (14,923)	\$ 491,914

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	\$ 826
Public safety	23,524
Highways and streets	17,653
Sanitation	1,429
Culture and recreation	740
Total depreciation expense	\$ 44,172

NOTE 9 – INTERFUND BALANCES

Interfund receivable and payable balances consisting of overdrafts in pooled cash at December 31, 2012, are as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor	\$ 27,726

TOWN OF MARLOW, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 – INTERGOVERNMENTAL PAYABLES

Amounts due of \$715,861 to other governments at December 31, 2012, consist of the following:

General fund:		
Balance of 2012-2013 district assessment due to the Marlow School District	\$ 438,827	
Miscellaneous fees due to the State of New Hampshire	687	
Total intergovernmental payables due from the general fund	<u>439,514</u>	
Agency fund:		
Balance of trust funds belonging to the Marlow School District	276,347	
Total intergovernmental payables due	<u>\$ 715,861</u>	

NOTE 11 – LONG-TERM LIABILITIES

Changes in the Town’s long-term obligations consisted of the following for the year ended December 31, 2012:

	Capital Lease Payable	Compensated Absences Payable	Total
Balance, beginning	\$ 46,691	\$ 15,296	\$ 61,987
Additions	-	533	533
Reductions	(22,666)	-	(22,666)
Balance, ending	<u>\$ 24,025</u>	<u>\$ 15,829</u>	<u>\$ 39,854</u>

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2012	Current Portion
Capital lease payable:						
Fire truck	\$ 196,204	2004	2013	6.00	<u>\$ 24,025</u>	<u>\$ 24,025</u>
Compensated absences payable:						
Vested sick leave					9,215	22
Accrued vacation leave					<u>6,614</u>	<u>855</u>
					<u>15,829</u>	<u>877</u>
Total					<u>\$ 39,854</u>	<u>\$ 24,902</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.

NOTE 12 – CAPITAL LEASE

The Town has entered into a capital lease agreement under which the related equipment will become the property of the Town when all the terms of the lease agreements are met.

Leased equipment under the capital lease, included in capital assets, is as follows:

Equipment:	
Fire truck	\$ 197,000
Less: accumulated depreciation	<u>(88,650)</u>
Total leased equipment	<u>\$ 108,350</u>

Amortization of lease equipment under capital assets is included with depreciation expense.

The final payments on the capital lease payable are due in 2013 and consist of \$24,025 principal and \$1,442 interest, for a total of \$25,467.

TOWN OF MARLOW, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 – GOVERNMENTAL ACTIVITIES NET POSITION

Governmental activities net position reported on the government-wide Statement of Net Position at December 31, 2012 include the following:

Net investment in capital assets:	
Capital assets, net of accumulated depreciation	\$ 491,914
Less:	
Capital lease payable	(24,025)
Total net investment in capital assets	467,889
Restricted for:	
Perpetual care	31,834
Public library	7,178
Total restricted	39,012
Unrestricted	1,040,117
Total net position	\$ 1,547,018

NOTE 14 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2012 include the following:

Nonspendable:	
Major fund:	
General:	
Prepaid items	\$ 16,106
Tax deeded property, subject to resale	10,380
	26,486
Nonmajor fund:	
Permanent:	
Principal portion	103,870
Total nonspendable fund balance	\$ 130,356
Restricted:	
Major fund:	
General:	
Public library	\$ 7,178
Nonmajor fund:	
Permanent:	
Income portion	31,834
Total restricted fund balance	39,012
Committed:	
Major fund:	
General:	
Expendable trust	\$ 473,684
Nonmajor fund:	
Special revenue:	
Ambulance revolving	38,951
Total committed fund balance	512,635

(Continued)

TOWN OF MARLOW, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Governmental fund balances continued:

Assigned:	
Major fund:	
General:	
Encumbrances	1,750
Unassigned:	
Major fund:	
General	412,482
Total governmental fund balances	\$ 1,096,235

NOTE 15 – 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. During fiscal year 2012, employees were required to contribute 7% of earnable compensation. The Town's contribution rate for 2012 was 8.80%.

The contribution requirements for the Town of Marlow for the fiscal years 2010, 2011, and 2012 were \$8,815, \$10,141, and \$10,012, respectively, which were paid in full in each year.

NOTE 16 – 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 2012, the Town was a member of the Local Government Center Property-Liability Trust, LLC, which 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 July 1 to June 30. 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 \$1,000 deductible.

Contributions paid in fiscal year ending December 31, 2012, to be recorded as an insurance expenditure totaled \$15,121. There were no unpaid contributions for the year ended December 31, 2012. The Town also paid \$8,744 for workers' compensation for the year ended December 31, 2012.

NOTE 17 – CONTINGENT LIABILITIES

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

NOTE 18 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

The following GASB pronouncements were effective for the Town for the fiscal year ended December 31, 2012; however, neither GASB Statement impacted these financial statements:

GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple Employee Plans, issued in December 2009, and

TOWN OF MARLOW, NEW HAMPSHIRE
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GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), issued July 2011.

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the Town beginning with its year ending December 31, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and Amendments of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the Town beginning with its year ending December 31, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012, will be effective for the Town beginning with its fiscal year ending December 31, 2014. This Statement is intended to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

GASB Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, issued March 2012, will be effective for the Town beginning with its fiscal year ending December 31, 2014. This Statement is intended to resolve conflicting accounting and financial report and guidance that emerged from two recent standards, Statement No. 54 and Statement No. 62. These standards conflicted with existing guidance in Statements No. 10, 13, and 48.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued in June 2012, will be effective for the Town beginning with its fiscal year ending December 31, 2014. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued in June 2012, will be effective for the Town beginning with its fiscal year ending December 31, 2015. The guidance contained in these two statements will change how governments calculate and report the costs and obligations associated with pensions. They replace the requirements of Statement Nos. 27 and 50.

NOTE 19 – 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 _____, 2013, the date the December 31, 2012 financial statements were issued, and no events occurred that require recognition or disclosure.

SCHEDULE 1
TOWN OF MARLOW, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2012

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 375,398	\$ 366,824	\$ (8,574)
Land use change	560	560	-
Yield	2,790	3,058	268
Excavation	184	184	-
Payment in lieu of taxes	1,165	1,165	-
Interest and penalties on taxes	11,800	18,474	6,674
Total from taxes	<u>391,897</u>	<u>390,265</u>	<u>(1,632)</u>
Licenses, permits, and fees:			
Business licenses, permits, and fees	2,700	3,726	1,026
Motor vehicle permit fees	101,602	106,065	4,463
Building permits	320	380	60
Total from licenses, permits, and fees	<u>104,622</u>	<u>110,171</u>	<u>5,549</u>
Intergovernmental:			
State:			
Meals and rooms distribution	33,329	33,323	(6)
Highway block grant	52,349	52,349	-
State and federal forest land reimbursement	736	736	-
Other	3,184	3,185	1
Federal:			
FEMA	-	1,278	1,278
Other	3,826	3,826	-
Total from intergovernmental	<u>93,424</u>	<u>94,697</u>	<u>1,273</u>
Charges for services:			
Income from departments	8,050	9,167	1,117
Miscellaneous:			
Interest on investments	2,431	2,389	(42)
Other	13,955	19,922	5,967
Total from miscellaneous	<u>16,386</u>	<u>22,311</u>	<u>5,925</u>
Other financing sources:			
Transfers in	14,800	14,800	-
Total revenues and other financing sources	629,179	<u>\$ 641,411</u>	<u>\$ 12,232</u>
Unassigned fund balance used to reduce tax rate	85,500		
Total revenues, other financing sources, and use of fund balance	<u>\$ 714,679</u>		

SCHEDULE 2
TOWN OF MARLOW, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2012

	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:				
General government:				
Executive	\$ 66,097	\$ 57,294	\$ -	\$ 8,803
Election and registration	27,895	25,771	-	2,124
Financial administration	38,700	32,042	-	6,658
Revaluation of property	18,000	16,738	-	1,262
Legal	5,000	3,220	-	1,780
Personnel administration	78,848	70,098	-	8,750
Planning and zoning	300	176	-	124
General government buildings	28,600	33,579	1,750	(6,729)
Cemeteries	3,955	2,994	-	961
Insurance, not otherwise allocated	16,000	15,041	-	959
Total general government	<u>283,395</u>	<u>256,953</u>	<u>1,750</u>	<u>24,692</u>
Public safety:				
Police	23,500	23,617	-	(117)
Ambulance	30,500	4,320	-	26,180
Fire	27,427	31,359	-	(3,932)
Building inspection	1,000	-	-	1,000
Emergency management	9,526	176	-	9,350
Total public safety	<u>91,953</u>	<u>59,472</u>	<u>-</u>	<u>32,481</u>
Highways and streets:				
Highways and streets	190,647	162,279	-	28,368
Street lighting	5,000	5,157	-	(157)
Total highways and streets	<u>195,647</u>	<u>167,436</u>	<u>-</u>	<u>28,211</u>
Sanitation:				
Solid waste disposal	38,548	29,800	-	8,748
Solid waste clean-up	5,600	5,600	-	-
Total sanitation	<u>44,148</u>	<u>35,400</u>	<u>-</u>	<u>8,748</u>
Health	1,000	1,747	-	(747)
Welfare	9,500	2,011	-	7,489
Culture and recreation:				
Parks and recreation	200	193	-	7
Patriotic purposes	400	550	-	(150)
Total culture and recreation	<u>600</u>	<u>743</u>	<u>-</u>	<u>(143)</u>
Conservation	1,950	1,600	-	350
Debt service:				
Principal of long-term debt	22,665	22,666	-	(1)
Interest on long-term debt	2,801	2,801	-	-
Total debt service	<u>25,466</u>	<u>25,467</u>	<u>-</u>	<u>(1)</u>
Capital outlay:				
Dump truck	8,300	8,300	-	-
Bucket truck	6,500	6,500	-	-
Total capital outlay	<u>14,800</u>	<u>14,800</u>	<u>-</u>	<u>-</u>

(Continued)

SCHEDULE 2 (Continued)
TOWN OF MARLOW, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2012

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Encumbered to Subsequent Year</u>	<u>Variance Positive (Negative)</u>
Other financing uses:				
Transfers out:				
Special revenue:				
Library	18,720	17,525	-	1,195
Expendable trust	27,500	27,500	-	-
Total other financing uses	<u>46,220</u>	<u>45,025</u>	<u>-</u>	<u>1,195</u>
Total appropriations, expenditures, encumbrances and other financing uses	<u>\$ 714,679</u>	<u>\$ 610,654</u>	<u>\$ 1,750</u>	<u>\$ 102,275</u>

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SCHEDULE 3
TOWN OF MARLOW, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2012

Unassigned fund balance, beginning		\$ 376,826
Changes:		
Unassigned fund balance used to reduce 2012 tax rate		(85,500)
2012 Budget summary:		
Revenue surplus (Schedule 1)	\$ 12,232	
Unexpended balance of appropriations (Schedule 2)	<u>102,275</u>	
2012 Budget surplus		114,507
Decrease in nonspendable fund balance		<u>6,649</u>
Unassigned fund balance, ending		<u><u>\$ 412,482</u></u>

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SCHEDULE 4
TOWN OF MARLOW, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2012

	Special Revenue Fund		
	Ambulance Revolving	Permanent Fund	Total
ASSETS			
Cash and cash equivalents	\$ 32,036	\$ 34,842	\$ 66,878
Investments	-	100,862	100,862
Accounts receivable, net of allowance for uncollectable	34,641	-	34,641
Total assets	\$ 66,677	\$ 135,704	\$ 202,381
LIABILITIES AND FUND BALANCES			
Liabilities:			
Interfund payable	\$ 27,726	\$ -	\$ 27,726
Fund balances:			
Nonspendable	-	103,870	103,870
Restricted	-	31,834	31,834
Committed	38,951	-	38,951
Total fund balances	38,951	135,704	174,655
Total liabilities and fund balances	\$ 66,677	\$ 135,704	\$ 202,381

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SCHEDULE 5
TOWN OF MARLOW, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2012

	Special Revenue Fund		Total
	Ambulance Revolving	Permanent Fund	
Revenues:			
Charges for services	\$ 57,966	\$ -	\$ 57,966
Miscellaneous	-	13,106	13,106
Total revenues	<u>57,966</u>	<u>13,106</u>	<u>71,072</u>
Expenditures:			
Current:			
General government	-	5,396	5,396
Public safety	27,726	-	27,726
Total expenditures	<u>27,726</u>	<u>5,396</u>	<u>33,122</u>
Net change in fund balances	30,240	7,710	37,950
Fund balances, beginning	8,711	127,994	136,705
Fund balances, ending	<u>\$ 38,951</u>	<u>\$ 135,704</u>	<u>\$ 174,655</u>

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PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S COMMUNICATION OF SIGNIFICANT DEFICIENCIES

To the Members of the Board of Selectmen
Town of Marlow
Marlow, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Town of Marlow as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Marlow's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in the Town of Marlow's internal control to be significant deficiencies:

Town Policies

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

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

We noted that while there is an effort to do so, the Town has not yet established a code of ethics policy, which is an essential tool to manage the Town's operations efficiently and effectively. The absence of this policy does not mean that the Board of Selectmen does not have a strong commitment to an environment that stresses integrity in the conduct of the Town's operations, nor does it suggest that the Board of Selectmen have little regard for internal control procedures.

Town of Marlow
Independent Auditor's Communication of Significant Deficiencies

We strongly recommend that the Board of Selectmen develop and formally adopt the above noted policy in order to clearly communicate the Town's position on this issue.

Town Treasurer

During our audit we noted that the Treasurer is not reconciling her records with the Executive Administrator on a monthly basis, which should be done to ensure that the respective cash account balances in the general ledger system are accurate.

We recommend that the Treasurer meet with the Executive Administrator, Town Clerk, and Tax Collector monthly and reconcile with these individuals so that any issues found can be addressed and resolved immediately.

GASB No. 54 Fund Balance Policy

In March 2009 the Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement became effective December 31, 2011, and requires that the Town adopt a fund balance policy. As of December 31, 2012, the Town had not yet done so. We recommend that the Board of Selectmen develop and formally approve such a policy.

Credit Card Disbursements

During our test of controls over disbursements made using the Town's credit card, two instances were noted where supporting documentation was not retained for charges incurred.

We recommend that supporting documentation be retained for all charges made on the Town's credit card, in accordance with the Town's formally adopted credit card policy.

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

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, 2013