

**WEST OSSIPPEE FIRE PRECINCT**  
**ANNUAL FINANCIAL REPORT**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2011**

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# PLODZIK & SANDERSON

*Professional Association/Accountants & Auditors*

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## *INDEPENDENT AUDITOR'S REPORT*

To the Members of the Board of Commissioners  
West Ossipee Fire Precinct  
Ossipee, New Hampshire

We have audited the accompanying financial statements of the governmental activities and major fund of the West Ossipee Fire Precinct as of and for the year ended December 31, 2011, which collectively comprise the Precinct's basic financial statements as listed in the table of contents. These financial statements are the responsibility of West Ossipee Fire Precinct's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the West Ossipee Fire Precinct 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.

The West Ossipee Fire Precinct has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Ossipee Fire Precinct's basic financial statements. The individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. They 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.

*Plodzik & Sanderson  
Professional Association*

November 6, 2012

***BASIC FINANCIAL STATEMENTS***

**EXHIBIT A**  
**WEST OSS�PEE FIRE PRECINCT**  
*Statement of Net Assets*  
*December 31, 2011*

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 54,145
Other receivables	1,716
Prepaid items	1,497
Capital assets:	
Construction in progress	10,000
Capital assets, net of accumulated depreciation:	
Buildings	432,460
Machinery, equipment, and vehicles	474,120
Total assets	973,938
<b>LIABILITIES</b>	
Accounts payable	461
Accrued salaries and benefits	4,494
Accrued interest payable	219
Noncurrent obligations:	
Due within one year:	
Bond	32,000
Capital lease	29,445
Due in more than one year:	
Bond	280,000
Capital lease	64,571
Total liabilities	411,190
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	500,564
Unrestricted	62,184
Total net assets	\$ 562,748

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

**EXHIBIT B**  
**WEST OSSIPPEE FIRE PRECINCT**  
*Statement of Activities*  
*For the Fiscal Year Ended December 31, 2011*

	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
Governmental activities:			
General government	\$ 96,835	\$ -	\$ (96,835)
Public safety	273,269	579	(272,690)
Highways and streets	394	-	(394)
Interest on long-term debt	17,421	-	(17,421)
Capital outlay	10,405	-	(10,405)
Total governmental activities	<u>\$ 398,324</u>	<u>\$ 579</u>	<u>(397,745)</u>
General revenues:			
Precinct assessment			488,720
Miscellaneous			3,561
Total general revenues			<u>492,281</u>
Change in net assets			94,536
Net assets, beginning			468,212
Net assets, ending			<u>\$ 562,748</u>

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

*EXHIBIT C-1*  
*WEST OSS�PEE FIRE PRECINCT*  
*Governmental Fund*  
*Balance Sheet*  
*December 31, 2011*

	General
<b>ASSETS</b>	
Cash and cash equivalents	\$ 54,145
Accounts receivable	1,716
Prepaid items	9,182
Total assets	\$ 65,043
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities:	
Accounts payable	\$ 461
Accrued salaries and benefits	4,494
Total liabilities	4,955
Fund balance:	
Nonspendable:	
Prepaid items	9,182
Assigned:	
General government buildings	6,663
Fire	8,377
Machinery, equipment, and vehicles	16,366
Unassigned	19,500
Total fund balance	60,088
Total liabilities and fund balance	\$ 65,043

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

*EXHIBIT C-2*  
*WEST OSS�PEE FIRE PRECINCT*  
*Reconciliation of Total Governmental Fund Balance to the Statement of Net Assets*  
*December 31, 2011*

Total fund balance of governmental fund (Exhibit C-1)	\$	60,088
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	\$	1,394,560
Less accumulated depreciation		<u>(477,980)</u>
		916,580
Interest on long-term debt is not accrued in the governmental fund.		
Accrued interest payable	\$	(219)
Recognized prepaid interest expense		<u>(7,685)</u>
		(7,904)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the fund.		
Bond	\$	312,000
Capital lease		<u>94,016</u>
		<u>(406,016)</u>
Total net assets of governmental activities (Exhibit A)	\$	<u><u>562,748</u></u>

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



*EXHIBIT C-3*  
*WEST OSSIPPEE FIRE PRECINCT*  
*Governmental Fund*  
*Statement of Revenues, Expenditures, and Changes in Fund Balance*  
*For the Fiscal Year Ended December 31, 2011*

	General
Revenues:	
Taxes	\$ 488,720
Intergovernmental	582
Charges for services	579
Miscellaneous	3,561
Total revenues	493,442
Expenditures:	
Current:	
General government	96,835
Public safety	248,203
Highways and streets	394
Debt service:	
Principal	31,000
Interest	19,680
Capital outlay	54,291
Total expenditures	450,403
Net change in fund balance	43,039
Fund balance, beginning	17,049
Fund balance, ending	\$ 60,088

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

*EXHIBIT C-4*  
*WEST OSSIPEE FIRE PRECINCT*  
*Reconciliation of the Statement of Revenues, Expenditures, and*  
*Changes in Fund Balance of Governmental Fund to the Statement of Activities*  
*For the Fiscal Year Ended December 31, 2011*

Net change in fund balance of governmental fund (Exhibit C-3)		\$ 43,039
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 depreciation expense exceeded capitalized capital outlay in the current period.		
Capitalized capital outlay	\$ 10,000	
Depreciation expense	<u>(84,824)</u>	(74,824)
The net effect of various miscellaneous transactions involving capital assets is to decrease net assets.		
Loss on disposal of capital assets		(16,952)
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	\$ 31,000	
Repayment of capital lease principal	<u>110,014</u>	141,014
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 the governmental fund.		
Decrease in accrued interest expense	\$ 9,944	
Decrease in prepaid items	<u>(7,685)</u>	2,259
Changes in net assets of governmental activities (Exhibit B)		<u><u>\$ 94,536</u></u>

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

**EXHIBIT D**  
**WEST OSS�PEE FIRE PRECINCT**  
*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 and Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Taxes	\$ 487,743	\$ 488,720	\$ 977
Charges for services	-	579	579
Miscellaneous	3,524	3,561	37
Total revenues	<u>491,267</u>	<u>492,860</u>	<u>1,593</u>
<b>Expenditures:</b>			
<b>Current:</b>			
General government	104,956	103,498	1,458
Public safety	296,937	255,998	40,939
Highways and streets	360	394	(34)
<b>Debt service:</b>			
Principal	31,000	31,000	-
Interest	20,679	19,680	999
Capital outlay	37,335	70,657	(33,322)
Total expenditures	<u>491,267</u>	<u>481,227</u>	<u>10,040</u>
Net change in fund balance	<u>\$ -</u>	11,633	<u>\$ 43,039</u>
Increase in nonspendable fund balance		(9,182)	
Unassigned fund balance, beginning		17,049	
Unassigned fund balance, ending		<u>\$ 19,500</u>	

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

**WEST OSSIPPEE FIRE PRECINCT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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***DETAILED NOTES ON ALL FUNDS***

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the West Ossipee Fire Precinct (the Precinct), 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 Precinct’s accounting policies are described below.

***1-A Reporting Entity***

The West Ossipee Fire Precinct is a municipal corporation governed by an elected 3-member Board of Commissioners. By State legislative action dated June 3, 2009, the West Ossipee Fire Precinct was ratified as a Village District under RSA 52. 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 Precinct is financially accountable. The Precinct is financially accountable for an organization if the Precinct appoints a voting majority of the organization’s governing board, and (1) the Precinct is able to significantly influence the programs or services performed or provided by the organizations; or (2) the Precinct is legally entitled to or can otherwise access the organization’s resources; (3) the Precinct is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Precinct is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the Precinct’s financial reporting entity.

***1-B Basis of Presentation***

***Government-wide Financial Statements*** – The government-wide financial statements display information about the Precinct 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 Precinct at year-end. This statement includes all of the Precinct’s assets, liabilities, and net assets. Net assets are reported as two categories: invested in capital assets, net of related debt; or unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for the Precinct’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. Vehicle maintenance; pension benefit; property and liability insurance; claims and judgments; and state assessments and charges have been allocated to major functions in order to present a more accurate and complete picture of the cost of Precinct services. Program revenues include charges to customers for services rendered. Revenues that are not classified as program revenues are presented as general revenues.

***Fund Financial Statements*** – The Precinct uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Precinct has only one fund, the general fund, which is a major governmental fund and accounts for all financial resources.

***1-C Measurement Focus***

***Government-wide Financial Statements*** – The government-wide financial statements 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. Taxes (precinct assessment) are recognized as revenues in the year for which they are levied.

***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 Precinct considers revenues to be available if they are collected within 60 days of the end of the current period. The Precinct assessment and interest associated

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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 Precinct. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which is recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the Precinct’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 Precinct receives value without directly giving equal value in return include the Precinct assessment.

**1-D Cash and Cash Equivalents**

The Precinct 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.

New Hampshire statutes require that the Precinct Treasurer have custody of all money belonging to the Precinct and pay out the same only upon orders of the Board of Commissioners. 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 Receivables**

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

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

**1-F Prepaid Items**

Prepaid items consist of interest paid that is not due until January 30, 2012. The entire balance of this payment is recognized as prepaid in the governmental fund. In the government-wide statements, prepaid interest has been expended to the extent that it has come due.

**1-G Capital Assets**

General capital assets are those assets of a capital nature which the Precinct 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 Precinct maintains a capitalization threshold of \$10,000 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:

	Years
Buildings	50
Machinery, equipment, and vehicles	5-45

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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-H Long-Term Obligations***

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

***1-I 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-J Equity/Fund Balance Classifications***

***Government-wide Statements*** – Equity is classified as net assets and displayed in two components:

- a) *Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) *Unrestricted net assets* – All other net assets that do not meet the definition of “invested in capital assets, net of related debt.”

***Governmental Fund Balances Classification*** – The Precinct 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 Precinct 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 Precinct has classified prepaid items as being nonspendable, as these items are not expected to be converted to cash. These items were previously reported as unreserved-undesignated.

***Assigned*** – This classification includes amounts that are constrained by the Precinct’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Commissioners through the budgetary process. The Precinct has assigned funds consisting of encumbrances in the general fund at year-end. This amount was previously reported as reserved for encumbrances.

***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 4). 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-K 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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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 Precinct’s operations. At its annual meeting, the Precinct adopts a budget for the current year for the general fund. 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 2011, none of the beginning general fund unassigned fund balance was applied for this purpose.

**2-B Budgetary Reconciliation to GAAP Basis**

Revenues:	
Per Exhibit D (budgetary basis)	\$ 492,860
Adjustment:	
Basis difference:	
On-behalf retirement contributions made by the State of New Hampshire recognized as revenue on the GAAP basis, but not on the budgetary basis	582
Per Exhibit C-3 (GAAP basis)	<u>\$ 493,442</u>
Expenditures:	
Per Exhibit D (budgetary basis)	\$ 481,227
Adjustment:	
Basis differences:	
Encumbrances, ending	(31,406)
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	582
Per Exhibit C-3 (GAAP basis)	<u>\$ 450,403</u>

**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 Precinct’s bank balance of \$106,474 was exposed to custodial credit risk as uninsured and uncollateralized.

**NOTE 4 – RECEIVABLES**

Receivables at December 31, 2011, consisted of accounts receivable. Receivables are recorded on the Precinct’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.



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**NOTE 5 – PREPAID ITEMS**

Prepaid items at December 31, 2011 consisted of \$9,182 in prepaid interest in the governmental funds. In the government-wide financial statements, prepaid interest of \$7,685 is recognized as expense to the extent it has come due, leaving a prepaid balance of \$1,497.

**NOTE 6 – CAPITAL ASSETS**

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

	Balance, beginning	Additions	Disposals	Balance, ending
Construction in progress	\$ -	\$ 10,000	\$ -	\$ 10,000
At cost:				
Buildings	517,020	-	-	517,020
Machinery, equipment, and vehicles	939,416	-	(71,876)	867,540
Total capital assets	<u>1,456,436</u>	<u>10,000</u>	<u>(71,876)</u>	<u>1,394,560</u>
Less accumulated depreciation:				
Buildings	(74,220)	(10,340)	-	(84,560)
Machinery, equipment, and vehicles	(373,860)	(74,484)	54,924	(393,420)
Total accumulated depreciation	<u>(448,080)</u>	<u>(84,824)</u>	<u>54,924</u>	<u>(477,980)</u>
Net book value, all capital assets	<u>\$ 1,008,356</u>	<u>\$ (74,824)</u>	<u>\$ (16,952)</u>	<u>\$ 916,580</u>

Depreciation expense of \$84,824 was charged to the public safety function of the Precinct.

**NOTE 7 – SHORT-TERM DEBT**

Short-term debt provides financing for governmental activities. In 2010, the Precinct issued tax anticipation notes, in the amount of \$80,000. This debt was issued for interim financing of general fund operations. On January 14, 2012, the Precinct repaid the note plus \$950 in interest.

The following is a summary of changes in short-term debt for the year ended December 31, 2011:

Balance, January 1, 2011	\$ 80,000
Reductions	<u>(80,000)</u>
Balance, December 31, 2011	<u>\$ -</u>

**NOTE 8 – LONG-TERM LIABILITIES**

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

	General Obligation Bond Payable	Capital Leases Payable	Total
Balance, beginning	\$ 343,000	\$ 204,030	\$ 547,030
Reductions	(31,000)	(110,014)	(141,014)
Balance, ending	<u>\$ 312,000</u>	<u>\$ 94,016</u>	<u>\$ 406,016</u>

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 bond payable:						
Jewell Hill Fire Station	\$ 373,000	2009	2019	5.96	\$ 312,000	\$ 32,000
Capital lease payable:						
Fire equipment	\$ 150,000	2010	2015	4.95	94,016	29,445
Total					<u>\$ 406,016</u>	<u>\$ 61,445</u>

**WEST OSS�PEE FIRE PRECINCT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2011**

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

Fiscal Year Ending December 31,	Principal	Interest	Total
2012	\$ 32,000	\$ 9,182	\$ 41,182
2013	34,000	16,845	50,845
2014	35,000	15,097	50,097
2015	37,000	13,186	50,186
2016	40,000	11,070	51,070
2017-2019	134,000	17,902	151,902
Totals	<u>\$ 312,000</u>	<u>\$ 83,282</u>	<u>\$ 395,282</u>

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

**NOTE 9 – CAPITAL LEASE**

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

	Standard Interest Rate	Present Value of Remaining Payments as of December 31, 2011
Capital lease obligation:		
Fire equipment	4.95%	<u>\$ 94,016</u>

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

	Governmental Activities
Equipment:	
Fire equipment	\$ 150,000
Less: accumulated depreciation	(45,000)
Total capital lease net of depreciation	<u>\$ 105,000</u>

The annual requirements to amortize the capital lease payable as of December 31, 2011, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2012	\$ 29,445	\$ 4,441	\$ 33,886
2013	30,920	2,966	33,886
2014	32,470	1,416	33,886
2015	1,181	114	1,295
Totals	<u>\$ 94,016</u>	<u>\$ 8,937</u>	<u>\$ 102,953</u>

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

**WEST OSS�PEE FIRE PRECINCT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**DECEMBER 31, 2011**

**NOTE 10 – 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	\$ 906,580
Less:	
General obligation bond payable	(312,000)
Capital lease payable	<u>(94,016)</u>
Total invested in capital assets, net of related debt	500,564
Unrestricted	<u>62,184</u>
Total net assets	<u><u>\$ 562,748</u></u>

**NOTE 11 – EMPLOYEE RETIREMENT PLAN**

The Precinct 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 Precinct. 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, firefighters were required to contribute 9.3% of gross earnings. Effective July 1, 2011, the contribution rates changed to 11.80%. The Precinct’s contribution rates for 2011 were as follows:

	<u>Firefighters</u>
January 1 through June 30	18.52%
July 1 through July 31	30.90%
August 1 through December 31	22.89%

The contribution requirements for the Precinct for the fiscal years 2009, 2010, and 2011 were \$9,875, \$10,754, and \$2,557, 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 firefighters employed by the Precinct. As of July 1, 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. The total amount contributed by the State for 2011, \$582, 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 12 – RISK MANAGEMENT**

The Precinct 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 Precinct was a member of the Local Government Center Property-Liability Trust, LLC. This entity is considered a public entity risk pool, currently operating as common risk management and insurance programs for member towns, cities and other qualified political subdivisions of New Hampshire.

The Local Government Center Property-Liability Trust, LLC, is a Trust organized to provide certain property and liability insurance coverages to members. As a member of the Local Government Center Property-Liability Trust, LLC, the Precinct 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.

**WEST OSS�PEE FIRE PRECINCT**  
**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 \$8,309. The Precinct also paid \$4,879 for workers' compensation insurance in 2011. 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.

**NOTE 13 – 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 Precinct for fiscal year ended December 31, 2011 and accordingly have been implemented, with the exception of adoption of a formal fund balance policy. GASB Statements No. 60 through No. 64 were issued during 2010 and 2011 and are not effective for financial statements until the subsequent years.

**NOTE 14 – 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 November 6, 2012, the date the December 31, 2011 financial statements were issued, and no events occurred that require recognition or disclosure.

*INDIVIDUAL FUND SCHEDULES*

**SCHEDULE 1**  
**WEST OSSIPPEE FIRE PRECINCT**  
**Major General Fund**  
*Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)*  
*For the Fiscal Year Ended December 31, 2011*

	<u>Estimated</u>	<u>Actual</u>	Variance Positive (Negative)
Taxes:			
Precinct assessment	<u>\$ 487,743</u>	<u>\$ 488,720</u>	<u>\$ 977</u>
Charges for services:			
Income from departments	<u>-</u>	<u>579</u>	<u>579</u>
Miscellaneous:			
Sale of municipal property	3,515	3,515	-
Interest on investments	6	10	4
Other	<u>3</u>	<u>36</u>	<u>33</u>
Total from miscellaneous	<u>3,524</u>	<u>3,561</u>	<u>37</u>
Total revenues	<u>\$ 491,267</u>	<u>\$ 492,860</u>	<u>\$ 1,593</u>

**SCHEDULE 2**  
**WEST OSSIPPEE FIRE PRECINCT**  
**Major General Fund**  
*Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)*  
**For the Fiscal Year Ended December 31, 2011**

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Encumbered to Subsequent Year</u>	<u>Variance Positive (Negative)</u>
Current:				
General government:				
Executive	\$ 20,550	\$ 15,626	\$ -	\$ 4,924
Financial administration	7,000	7,000	-	-
Legal	2,000	8,408	-	(6,408)
General government buildings	33,880	38,554	6,663	(11,337)
Insurance, not otherwise allocated	41,526	27,247	-	14,279
Total general government	<u>104,956</u>	<u>96,835</u>	<u>6,663</u>	<u>1,458</u>
Public safety:				
Fire	<u>296,937</u>	<u>247,621</u>	<u>8,377</u>	<u>40,939</u>
Highways and streets:				
Street lighting	<u>360</u>	<u>394</u>	<u>-</u>	<u>(34)</u>
Debt service:				
Principal of long-term debt	31,000	31,000	-	-
Interest on long-term debt	19,679	19,680	-	(1)
Interest on tax anticipation notes	1,000	-	-	1,000
Total debt service	<u>51,679</u>	<u>50,680</u>	<u>-</u>	<u>999</u>
Capital outlay:				
Equipment lease	34,000	43,886	-	(9,886)
Machinery, equipment, and vehicles	<u>3,335</u>	<u>10,405</u>	<u>16,366</u>	<u>(23,436)</u>
Total capital outlay	<u>37,335</u>	<u>54,291</u>	<u>16,366</u>	<u>(33,322)</u>
Total appropriations, expenditures, and encumbrances	<u>\$ 491,267</u>	<u>\$ 449,821</u>	<u>\$ 31,406</u>	<u>\$ 10,040</u>

*SCHEDULE 3  
WEST OSSIPPEE FIRE PRECINCT  
Major General Fund  
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended December 31, 2011*

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Unassigned fund balance, beginning		\$ 17,049
2011 Budget summary:		
Revenue surplus (Schedule 1)	\$ 1,593	
Unexpended balance of appropriations (Schedule 2)	<u>10,040</u>	
2011 Budget surplus		11,633
Increase in nonspendable fund balance		<u>(9,182)</u>
Unassigned fund balance, ending		<u><u>\$ 19,500</u></u>





## **PLODZIK & SANDERSON**

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### ***COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES***

To the Members of the Board of Commissioners  
West Ossipee Fire Precinct  
Ossipee, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, and major fund of the West Ossipee Fire Precinct as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the West Ossipee Fire Precinct's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the West Ossipee Fire Precinct's internal control. Accordingly, we do not express an opinion on the effectiveness of the West Ossipee Fire Precinct'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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the West Ossipee Fire Precinct's internal control to be material weaknesses:

#### ***Precinct Treasurer***

As noted in the prior year, the Precinct Treasurer is not maintaining a separate cash book for the bank accounts as required by State law, nor does the Treasurer retain copies of signed manifests after they are approved. Consequently, the monthly bank reconciliations are being prepared by the administrative assistant, thereby eliminating a major internal accounting control over cash. Also, the Treasurer has access to the general ledger system and is responsible for recording adjusting journal entries. There is no indication that these entries require approval or have been approved by anyone. Likewise, the administrative assistant has access to the Precinct's bank accounts via the internet and can transfer funds without the knowledge or approval of the Treasurer.

There is a need for administrators to recognize the importance of segregation of duties for internal accounting control purposes. The Treasurer should be maintaining a separate cash book and preparing the monthly bank reconciliations, as well as retaining copies of manifests. Likewise, he should not have access to the general ledger system, nor should the administrative assistant initiate bank transfers without approval of the Treasurer.

It should be noted that at the beginning of June 2011 the Treasurer submitted his resignation and a new Treasurer took over at the end of June 2011. Since the new Treasurer has taken over the above noted findings have been corrected. She is using a separate software program to track and reconcile the Precinct's receipt and disbursement activity. In addition, she does not have any access to the general ledger system. Finally, the new Treasurer also is retaining a copy of all approved manifests.

#### ***Precinct Debit Card***

In the prior year we noted that stricter controls over the use of the Precinct's debit card needed to be instituted, including requiring Board approval and supporting documentation for each purchase. A formal policy requiring pre-approval by the Board including a "not to exceed" dollar amount should be instituted. In our examination of debit card purchases since our last audit we noted that the debit card is now in the custody of the Board of Commissioners, but a formal policy requiring pre-approval of expenditures still has not been approved and should be.

*West Ossipee Fire Precinct  
Communication of Significant Deficiencies and Material Weaknesses*

***Purchase Orders***

The Precinct is not complying with its current purchase order policy, which states that purchase orders are required for all purchases. During our testing of the internal controls over purchase orders we again noted this year, two instances out of forty whereby a purchase order should have been obtained but was not. We again strongly recommend that the Board consider revising the policy or enforcing the existing policy.

***Payroll***

In the prior year controls over payroll processing needed to be implemented or enforced, including requiring proper approval of payroll expenditures by the Board of Commissioners and Fire Chief, and the payment of firefighters' wages in accordance with State and Department of Labor guidelines. In 2011 there are no longer any full-time employees and the Board of Commissioners are now complying with State and Department of Labor guidelines.

It should also be noted that in 2011 we found that the May 2011 payroll manifest was not approved by the Board of Commissioners. We recommend that the Board of Commissioners review and approve all payroll manifests prior to the disbursement of funds.

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 deficiency in the West Ossipee Fire Precinct's internal control to be a significant deficiency:

***Cash Disbursements***

We noted in the prior year that controls over vendor payments needed to be implemented and enforced including requiring of vendor payments by the Board of Commissioners and Fire Chief, and retention of supporting documentation for all payments made. In 2011, we noted the following conditions when reviewing the internal controls over a sampling of forty cash disbursements:

- Nine instances were noted where there was no supporting documentation for the disbursement.
- Two instances where the invoice information was not properly entered into the accounting software system.
- Two instances were identified of payments that were not approved by the majority of the Board of Commissioners.
- Two instances were identified where the disbursement was not charged to the proper expenditure account.
- Four instances were found where the payment was not made in a timely manner.

In order to have effective internal controls over disbursements we are recommending the following:

- Precinct policies need to be strengthened and enforced.
- Supporting documentation should be retained on file for all disbursements made out of the Precinct.
- All manifests should be properly approved by the majority of the Board of Commissioners prior to the disbursement of funds.
- Greater care should be taken to ensure that cash disbursements are properly coded in the computer system to the correct account.
- All cash disbursement should be paid in a timely manner.

It has been noted that the Board of Commissioners has had two new members in 2011 who are working to ensure that Precinct policies are being adhered to. The Commissioners should also ensure that its review process includes identification of misclassified expenditures.

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

*Plodyk & Sanderson  
Professional Association*

November 6, 2012