

TOWN OF MERRIMACK, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Town Council and Town Manager
Town of Merrimack, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Merrimack, New Hampshire, as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Merrimack's management. Our responsibility is to express an opinion 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Merrimack, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information, appearing on page 42, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of

management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
November 25, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Having responsibility for the financial management of the Town of Merrimack ("Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2009.

Financial Highlights

As of June 30, 2009 the assets of the Town exceeded its liabilities by \$119,035,233 (net assets). Of this amount, \$12,726,709 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.

The Town's net assets decreased by \$3,216,494.

As of June 30, 2009, the Town's governmental funds reported combined ending fund balances of \$14,833,450, a decrease of \$2,326,253 in comparison with the prior year. Of this total amount, \$6,000,784 (40.5%) represents unreserved funds balances, excluding capital reserve funds.

As of June 30, 2008, the \$2,061,612 unreserved fund balance of the General Fund represented 9.8% of total General Fund expenditures was available for spending at the Town's discretion (unreserved fund balance). As of June 30, 2009, unreserved fund balance in General fund is \$1,863,967, which represents 8.8% of General Fund expenditures.

During the 2008-09 fiscal year, the Town's total debt decreased by \$614,937. This decrease was due solely to the scheduled principal payments for the bonds.

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The Statement of Activities presents information showing how the Town's net assets changed during 2008-09. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains ten individual governmental funds. Information for the General Fund and Capital Reserve Fund are presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Data from the other eight governmental funds are combined into a single, aggregated presentation.

Business-Type Activities are normally intended to recover all or a significant portion of their cost through user fees and charges to external users of goods and services. The Sewer Fund is the only fund of this type.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

Government-Wide Financial Analysis

As noted above, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$119,035,233 at June 30, 2009.

By far the largest portion of the Town's net assets (86.9%) reflects its investment in capital assets (e.g., land, buildings and system, other improvements, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (2.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is \$12,726,709 which may be used to meet the government's ongoing obligations to citizens and creditors.

Town of Merrimack
Net Assets
Governmental Activities and Business Type Activities

	<u>06/30/08</u>	<u>06/30/09</u>
Current assets	\$ 54,437,478	\$ 51,738,999
Capital assets	<u>109,533,979</u>	<u>108,352,315</u>
Total assets	163,971,457	160,091,314
Long-term liabilities outstanding	9,092,326	8,630,237
Current liabilities	<u>32,632,625</u>	<u>32,425,664</u>
Total liabilities	41,724,951	41,055,901
Net assets:		
Invested in capital assets, net of related debt	104,458,783	103,397,011
Restricted ¹	3,695,385	2,911,513
Unrestricted ¹	<u>14,092,338</u>	<u>12,726,709</u>
Total net assets	<u>\$ 122,246,506</u>	<u>\$ 119,035,233</u>

¹ As reclassified

At June 30, 2009, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

As indicated by the schedule below, the Town's net assets decreased by \$3,216,494 during 2008-09.

Town of Merrimack
Changes in Net Assets

	<u>2007-08</u>	<u>2008-09</u>
Revenues:		
Program revenues:		
Charges for services	\$ 5,309,248	\$ 5,573,951
Operating grants and contributions	1,326,434	267,282
Capital grants and contributions	2,616,013	1,102,818
General revenues:		
Property taxes and other taxes	10,815,138	13,474,794
Licenses and permits	4,881,715	4,278,024
Investment income	865,297	(143,369)
State shared revenues	1,255,189	1,294,577
Miscellaneous	<u>322,499</u>	<u>46,059</u>
Total revenues	27,391,533	25,894,136
Expenses:		
General government ¹	2,999,022	2,726,405
Public safety	10,081,109	10,475,816
Highways and streets	4,850,383	5,600,162
Health and welfare	176,385	185,287
Sanitation	5,780,729	6,053,453
Culture and recreation	2,863,480	2,956,611
Community development ¹	879,445	858,755
Interest and fiscal charges	<u>211,412</u>	<u>254,141</u>
Total expenses	<u>27,841,965</u>	<u>29,110,630</u>
Change in net assets	(450,432)	(3,216,494)
Net Assets - July 1	<u>122,696,938</u>	<u>122,251,727</u>
Net assets - June 30	<u>\$ 122,246,506</u>	<u>\$ 119,035,233</u>

¹ As reclassified

Financial Analysis of the Town's Funds

As noted above, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds and Proprietary Funds. The focus of the Town's governmental and proprietary funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The Proprietary Fund is the Town's Waste Water Treatment Department. As of June 30, 2009, the Town's proprietary fund reported total net assets of \$43,169,267, a decrease of \$1,335,673 in comparison to the prior year. Of this total amount, \$2,758,015 (6.4%) constitutes unreserved net assets, available for spending at the Town's discretion. The remainder of net assets is reserved to indicate that it is not available for new spending, because it has already been committed to capital assets which \$40,411,252.

As of June 30, 2009, the Town's governmental funds reported combined fund balances of \$14,833,450, a decrease of \$2,326,253 in comparison to the prior year. Of this total amount, \$6,000,784 (40.5%) constitutes unreserved fund balance (excluding Capital Reserve Funds), which is available for spending at the Town's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending, because it has already been committed to: endowments totaling \$1,577,531; encumbrances of \$701,203; other specific purposes of \$191,605.

The decrease of \$2,326,253 was made up of a reduction in Special Revenue Funds of \$886,152 (majority of revenue was recognized in prior year while expenditures occurred in current year), Capital Projects Fund of \$579,729 (due to drainage bond projects being completed), Endowments and Permanent Funds of \$576,377 (due mostly to investment losses).

The General Fund is the chief operating fund of the Town. As of June 30, 2009 unreserved fund balance of the General Fund was \$1,863,967, while total fund balance amounted to \$2,756,775. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures (including transfers). Unreserved fund balance represents 8.3% of total general fund expenditures, while total fund balance represents 12.2% of that same amount for the Town only.

Budgetary Highlights

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual demonstrates compliance with the adopted budget for 2008-09. The differences between the original budget and the final amended budget reflect the formal acceptance by the Town Council of unanticipated grants in accordance with Article 8-15 of the Town Charter.

Actual revenues and transfers in of the General Fund were under budgetary estimates by \$1,368,380, while appropriations exceeded expenditures and transfers by \$1,269,518. This produced an unfavorable net variance of \$98,862. Major variances are identified below.

- Renewal health insurance rates were higher than appropriations, resulting in a deficit of over \$88,400.
- Renewal workers compensation Insurance rates were less than anticipated, resulting in a savings of over \$57,800.
- A savings of over \$498,800 in wages and other benefits was realized due primarily to vacancies and attrition.
- Renewal for general insurance was lower by over \$14,000.
- Utilities were less than anticipated, resulting in a savings of over \$65,700.
- Vehicle maintenance appropriations were under budgeted in excess of \$80,864.
- Legal appropriations were in excess of \$49,200.
- Education and training was under spent by in excess of \$22,200.
- Appropriations for solid waste disposal at a remote site exceeded expenditures by over \$125,750 due to a reduction in solid waste tonnage.
- A savings resulted from crude oil prices dropping thus resulting in a savings to vehicle fuel of over \$94,400.
- Auto registrations were \$336,600 under estimate revenues.
- Interest income was under projections by over \$383,850.
- Ambulance revenues were over projections by 20,100.
- Highway Block Grant exceeds projections by just under \$13,000.
- Building permits were under projections by just over \$75,900.

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets as of June 30, 2009 amounted to \$108,352,135 (net of accumulated depreciation and related long-term debt). This investment in capital assets includes land, buildings and system,

improvements, machinery and equipment, roads, bridges, and traffic signals and represents a decrease of \$1,181,844 (1.1%) compared to the investment in capital assets at June 30, 2008.

Town of Merrimack
Investment in Capital Assets

	<u>06/30/08</u>	<u>06/30/09</u>
Land	\$ 16,640,041	\$ 16,727,990
Buildings and systems	64,896,350	65,149,169
Improvements other than buildings	2,146,379	2,181,541
Machinery, equipment and furnishing	19,015,250	19,103,293
Infrastructure	70,333,395	73,287,684
Construction in progress	<u>4,113,306</u>	<u>2,908,362</u>
Total investment in capital assets	177,144,721	179,358,039
Accumulated depreciation	<u>(67,610,742)</u>	<u>(71,005,904)</u>
Net investment in capital assets	<u>\$ 109,533,979</u>	<u>\$ 108,352,135</u>

The increase in the Town's investment in capital assets is explained below.

Financial software upgrade	\$ 136,737
Grader woods	250,984
Bishop Street property	213,109
Tinker Road improvements	273,184
Bambi Trail/Silverdoe/Forsynthia Lane/Jo Ellen Drive drainage	280,958
Bedford Road bridge	1,541,521
Other capital assets acquisitions - individually less than \$100,000	167,738
Disposals	<u>(650,913)</u>
Net increase	<u>\$ 2,213,318</u>

Additional information on the Town's capital assets can be found in Note 7 of the financial statements.

Long-term debt. As of June 30, 2009 the Town had total long-term debt outstanding of \$5,917,210. Although \$1,887,210 of this debt will be paid from sewer rents, the entire amount is backed by the full faith and credit of the Town.

Town of Merrimack
Long-Term Debt

	<u>06/30/08</u>	<u>06/30/09</u>
Land acquisition bonds	\$ 2,700,000	\$ 2,430,000
Drainage bond	1,677,300	1,600,000
Compost facility bonds	<u>2,154,847</u>	<u>1,887,210</u>
Total long-term debt	<u>\$ 6,532,147</u>	<u>\$ 5,917,210</u>

During 2008-09 the Town's total debt decreased by \$614,937. This decrease in principal payments.

Additional information on the Town's long-term debt can be found in Note 11 of the financial statements.

Economic Factors and Next Year's Budget and Tax Rate

The Town's financial position is good. The Town has sufficient cash flow, at this time, to meet its obligations. The economy in Southern New Hampshire seems to be in doing better compared to the rest of the State and The State of New Hampshire seems to be in better shape then the rest of the country's economy. In the next few years, the Town could see substantial growth due to the Airport Access Road being completed two years ahead of schedule in the north end of Town and the Outlet Mall being built in the southern end of Town. In addition the Town's unemployment rate is up to 7.0% from the previous year of 3.3%, and it still compares favorably with the state and national averages of 7.0% and 9.8%, respectively. Furthermore, it appears that the Outlet Mall project will begin within the year in addition to steady industrial, commercial, and residential growth that Merrimack has experienced in recent years. These factors will continue to increase the tax base and to provide diverse employment opportunities.

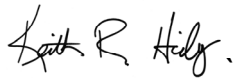
The 2009-10 budget has been adopted, and the 2009 property tax rate (Fiscal Year 2010) has been set. Municipal appropriations, net of non-tax revenues, have decreased slightly by \$17,150 (.12%) compared to 2008-09 net appropriations, and the municipal portion of the tax rate stayed level at \$4.23 per thousand. The use of fund balance for tax relief helped keep the municipal tax rate level. The Merrimack School District's portion of the tax rate increased by thirty-one cents however the County portion of the tax rate decreased by two cents while the State portion of the School tax decreased by six cents allowing the 2009 property tax rate to increase by approximately 1.2%.

Requests For Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the following address.

Town of Merrimack
6 Baboosic Lake Road
Merrimack, NH 03054

Respectfully submitted,



Keith R Hickey
Town Manager



Paul T. Micali, CPA
Finance Director

TOWN OF MERRIMACK, NEW HAMPSHIRE
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and cash equivalents	\$ 38,482,572	\$ 2,012,591	\$ 40,495,163
Investments	2,366,547	-	2,366,547
Taxes receivable, net	6,459,076	-	6,459,076
Accounts receivable, net	1,089,976	732,848	1,822,824
Prepaid expenses	68,751	-	68,751
Inventory	122,854	-	122,854
Noncurrent:			
Taxes receivable	403,784	-	403,784
Capital assets:			
Capital assets not being depreciated	18,395,540	1,240,811	19,636,351
Other assets, net of accumulated depreciation	47,658,133	41,057,651	88,715,784
TOTAL ASSETS	115,047,233	45,043,901	160,091,134
LIABILITIES			
Current:			
Accounts payable	553,373	-	553,373
Accrued expenses	757,000	22,100	779,100
Retainage payable	22,754	4,384	27,138
Deferred revenue	5,884,046	22,508	5,906,554
Taxes collected in advance	24,515,090	-	24,515,090
Due to other governments	10,000	-	10,000
Internal balances	190,452	(190,452)	-
Other liabilities	634,409	-	634,409
Current portion of long-term liabilities:			
Bonds payable	355,000	280,034	635,034
Other liabilities	665,268	-	665,268
Noncurrent:			
Bonds payable, net of current portion	3,675,000	1,607,176	5,282,176
Other liabilities, net of current portion	1,918,875	128,884	2,047,759
TOTAL LIABILITIES	39,181,267	1,874,634	41,055,901
NET ASSETS			
Invested in capital assets, net of related debt	62,985,759	40,411,252	103,397,011
Restricted for:			
Permanent funds:			
Nonexpendable	1,577,531	-	1,577,531
Expendable	1,333,982	-	1,333,982
Unrestricted	9,968,694	2,758,015	12,726,709
TOTAL NET ASSETS	\$ 75,865,966	\$ 43,169,267	\$ 119,035,233

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

		Program Revenues			Net(Expenses) Revenues and Changes in Net Assets		
		Charges for	Operating	Capital	Governmental	Business-	Total
	<u>Expenses</u>	<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Activities</u>	<u>Type</u>	
			<u>Contributions</u>	<u>Contributions</u>		<u>Activities</u>	
Governmental Activities:							
General government	\$ 2,726,405	\$ 1,179,863	\$ 105,426	\$ -	\$ (1,441,116)	\$ -	\$ (1,441,116)
Public safety	10,475,816	1,014,775	155,057	-	(9,305,984)	-	(9,305,984)
Highways and streets	5,600,162	-	-	1,030,367	(4,569,795)	-	(4,569,795)
Health and welfare	185,287	880	-	-	(184,407)	-	(184,407)
Sanitation	1,340,978	261,636	-	-	(1,079,342)	-	(1,079,342)
Culture and recreation	2,956,611	184,614	6,261	-	(2,765,736)	-	(2,765,736)
Community development	858,755	3,104	538	-	(855,113)	-	(855,113)
Interest and fiscal charges	157,428	-	-	-	(157,428)	-	(157,428)
Total Governmental Activities	24,301,442	2,644,872	267,282	1,030,367	(20,358,921)	-	(20,358,921)
Business-Type Activities:							
Sewer	4,809,188	2,929,079	-	72,451	-	(1,807,658)	(1,807,658)
Total	\$ 29,110,630	\$ 5,573,951	\$ 267,282	\$ 1,102,818	(20,358,921)	(1,807,658)	(22,166,579)
General Revenues and Transfers:							
Property and other taxes					13,474,794	-	13,474,794
Licenses and permits					4,278,024	-	4,278,024
Grants and contributions:							
State shared revenues					1,294,577	-	1,294,577
Investment income (loss)					(167,573)	24,204	(143,369)
Miscellaneous					46,059	-	46,059
Transfers					(447,781)	447,781	-
Total general revenues and transfers					18,478,100	471,985	18,950,085
Change in Net Assets					(1,880,821)	(1,335,673)	(3,216,494)
Net Assets:							
Beginning of year, as restated					77,746,787	44,504,940	122,251,727
End of year					\$ 75,865,966	\$ 43,169,267	\$ 119,035,233

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	General Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 30,749,319	\$ 6,334,359	\$ 1,398,893	\$ 38,482,571
Investments	-	58,206	2,308,341	2,366,547
Taxes receivable, net	6,826,660	-	36,200	6,862,860
Accounts receivable, net	1,042,764	-	47,212	1,089,976
Due from other funds	-	6,500	1,973,504	1,980,004
Prepaid expenses	68,751	-	-	68,751
Inventory	122,854	-	-	122,854
TOTAL ASSETS	\$ 38,810,348	\$ 6,399,065	\$ 5,764,150	\$ 50,973,563
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 553,373	\$ -	\$ -	\$ 553,373
Accrued expenses	686,002	-	-	686,002
Retainage payable	22,754	-	-	22,754
Deferred revenue	6,865,338	-	47,423	6,912,761
Taxes collected in advance	24,515,090	-	-	24,515,090
Due to other governments	10,000	-	-	10,000
Due to other funds	2,131,339	36,738	2,379	2,170,456
Accrued compensated absences payable	635,268	-	-	635,268
Other liabilities	634,409	-	-	634,409
TOTAL LIABILITIES	36,053,573	36,738	49,802	36,140,113
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	701,203	-	-	701,203
Perpetual (nonexpendable) permanent funds	-	-	1,577,531	1,577,531
Other specific purposes	191,605	-	-	191,605
Unreserved:				
Undesignated, reported in:				
General fund	1,863,967	-	-	1,863,967
Special revenue funds	-	6,362,327	1,840,749	8,203,076
Capital project funds	-	-	962,086	962,086
Permanent funds	-	-	1,333,982	1,333,982
TOTAL FUND BALANCES	2,756,775	6,362,327	5,714,348	14,833,450
TOTAL LIABILITIES AND FUND BALANCES	\$ 38,810,348	\$ 6,399,065	\$ 5,764,150	\$ 50,973,563

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2009

Total governmental fund balances	\$ 14,833,450
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	66,053,673
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,028,716
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(70,998)
• Long-term liabilities, including bonds payable, compensated absences, landfill liability, and other post employment benefits payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(5,978,875)</u>
Net assets of governmental activities	<u><u>\$ 75,865,966</u></u>

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 13,155,777	\$ -	\$ 76,276	\$ 13,232,053
Charges for services	2,541,510	-	103,362	2,644,872
Intergovernmental	2,063,558	528,668	-	2,592,226
Licenses and permits	4,137,795	-	140,229	4,278,024
Investment income (loss)	237,073	146,686	(551,333)	(167,574)
Miscellaneous	<u>1,525</u>	<u>-</u>	<u>44,535</u>	<u>46,060</u>
Total Revenues	22,137,238	675,354	(186,931)	22,625,661
Expenditures:				
Current:				
General government	2,592,300	326,130	340,288	3,258,718
Public safety	10,008,406	17,881	71,857	10,098,144
Highways and streets	3,281,262	1,495,131	593,216	5,369,609
Health and welfare	184,279	-	-	184,279
Sanitation	1,294,583	-	-	1,294,583
Culture and recreation	2,506,527	-	357,697	2,864,224
Community Development	904,895	-	-	904,895
Debt service:				
Principal retirement	347,300	-	-	347,300
Interest and fiscal charges	<u>182,381</u>	<u>-</u>	<u>-</u>	<u>182,381</u>
Total Expenditures	<u>21,301,933</u>	<u>1,839,142</u>	<u>1,363,058</u>	<u>24,504,133</u>
Excess (deficiency) of revenues over expenditures	835,305	(1,163,788)	(1,549,989)	(1,878,472)
Other Financing Sources (Uses):				
Transfers in	-	1,116,000	4,332	1,120,332
Transfers out	<u>(1,119,300)</u>	<u>(447,781)</u>	<u>(1,032)</u>	<u>(1,568,113)</u>
Total Other Financing Sources (Uses)	<u>(1,119,300)</u>	<u>668,219</u>	<u>3,300</u>	<u>(447,781)</u>
Change in fund balance	(283,995)	(495,569)	(1,546,689)	(2,326,253)
Fund Equity, at Beginning of Year, as reclassified	<u>3,040,770</u>	<u>6,857,896</u>	<u>7,261,037</u>	<u>17,159,703</u>
Fund Equity, at End of Year	\$ <u>2,756,775</u>	\$ <u>6,362,327</u>	\$ <u>5,714,348</u>	\$ <u>14,833,450</u>

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (2,326,253)

- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay purchases, net of disposals	2,157,635
Depreciation	(2,422,144)

- Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (e.g., property taxes) differ between the two statements. This amount represents the net change in deferred revenue.

242,778

- The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:

Repayments of debt	347,300
--------------------	---------

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.

24,953

- Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

Compensated absences	132,948
Other post employment benefits liability	(68,038)
Landfill liability	<u>30,000</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (1,880,821)

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES,
AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2009

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts (Budgetary <u>Basis</u>)	Variance with Final Budget Positive (Negative)
Revenues and other sources:				
Property taxes	\$ 12,834,082	\$ 12,834,082	\$ 12,834,082	\$ -
Charges for services	3,010,642	3,010,642	2,543,035	(467,607)
Intergovernmental	1,879,123	2,178,684	2,063,558	(115,126)
Licenses and permits	4,560,515	4,560,515	4,137,795	(422,720)
Investment income	600,000	600,000	237,073	(362,927)
Other financing sources	<u>971,734</u>	<u>971,734</u>	<u>971,734</u>	<u>-</u>
Total Revenues	23,856,096	24,155,657	22,787,277	(1,368,380)
Expenditures and other uses:				
Current:				
General government	2,944,444	2,790,275	2,669,656	120,619
Public safety	10,529,590	10,528,441	9,872,547	655,894
Highways and streets	4,280,480	3,670,480	3,678,149	(7,669)
Health and welfare	184,998	184,998	183,520	1,478
Sanitation	1,555,908	1,465,908	1,303,738	162,170
Culture and recreation	2,712,672	2,627,251	2,544,278	82,973
Community development	1,118,319	1,118,319	985,270	133,049
Debt service	529,685	529,685	529,681	4
Other financing uses:				
Transfers out	<u>-</u>	<u>1,240,300</u>	<u>1,119,300</u>	<u>121,000</u>
Total Expenditures	<u>23,856,096</u>	<u>24,155,657</u>	<u>22,886,139</u>	<u>1,269,518</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(98,862)</u>	\$ <u>(98,862)</u>

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

PROPRIETARY FUND

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Sewer Fund
<u>ASSETS</u>	
Current:	
Cash and investments	\$ 2,012,591
User charges receivable	585,481
Intergovernmental receivable	147,367
Due from other funds	190,452
Total current assets	<u>2,935,891</u>
Noncurrent:	
Nondepreciable capital assets	1,240,811
Other capital assets, net of accumulated depreciation	<u>41,057,651</u>
Total noncurrent assets	<u>42,298,462</u>
TOTAL ASSETS	45,234,353
<u>LIABILITIES</u>	
Current:	
Accrued liabilities	22,100
Retainage payable	4,384
Deferred revenue	22,508
Current portion of long-term liabilities:	
Bonds payable	<u>280,034</u>
Total current liabilities	<u>329,026</u>
Noncurrent:	
Bonds payable, net of current portion	1,607,176
Compensated absences	<u>128,884</u>
Total noncurrent liabilities	<u>1,736,060</u>
TOTAL LIABILITIES	2,065,086
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	40,411,252
Unrestricted	<u>2,758,015</u>
TOTAL NET ASSETS	\$ <u>43,169,267</u>

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

	Sewer Fund
Operating Revenues:	
Charges for services	\$ 2,908,144
Licenses and permits	1,250
Other	<u>19,685</u>
Total Operating Revenues	2,929,079
Operating Expenses:	
Personnel services	1,723,866
Non-personnel services	1,588,295
Depreciation	<u>1,400,314</u>
Total Operating Expenses	<u>4,712,475</u>
Operating Income (Loss)	(1,783,396)
Nonoperating Revenues (Expenses):	
Intergovernmental grants	72,451
Investment income	24,204
Interest expense	<u>(96,713)</u>
Total Nonoperating Revenues (Expenses), Net	(58)
Transfer In	<u>447,781</u>
Change in Net Assets	(1,335,673)
Net Assets at Beginning of Year, as restated	<u>44,504,940</u>
Net Assets at End of Year	<u><u>\$ 43,169,267</u></u>

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2009

	Sewer Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 3,635,114
Payments of employee salaries and related expenses	(1,594,982)
Payments to vendors and suppliers	<u>(1,984,351)</u>
Net Cash Provided By (Used For) Operating Activities	55,781
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Acquisition and construction of capital assets	(477,722)
Principal payments on bonds and notes	(267,637)
Interest expense	(96,713)
Transfer in	447,781
Intergovernmental subsidy	<u>72,451</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(321,840)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>24,204</u>
Net Cash Provided By Investing Activities	<u>24,204</u>
Net Change in Cash and Short-Term Investments	(241,855)
Cash and Short-Term Investments, Beginning of Year	<u>2,254,446</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 2,012,591</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income (loss)	\$ (1,783,396)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	1,400,314
Changes in assets and liabilities:	
Accounts receivable	684,826
Interfund payables/receivables	24,425
Accounts payable	(350,545)
Accrued liabilities	(49,895)
Retainage payable	4,384
Unearned revenues	(3,216)
Compensated absences	<u>128,884</u>
Net Cash Provided By (Used For) Operating Activities	<u><u>\$ 55,781</u></u>

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Merrimack (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Town of Merrimack, New Hampshire (the Town) was incorporated in 1746. The Town operates under the Town Meeting/Town Manager form of government and performs local governmental functions authorized by State law.

As required by generally accepted accounting principles, these financial statements present the government and applicable organizations for which the government is considered to be financially accountable, including the Town Trustees of Trust funds and the Trustees of the Merrimack Public Library.

In fiscal year 2009, it was determined that no other entities met the required GASB-39 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items

not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and major enterprise fund are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund financial statements. 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

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 both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *capital reserve fund* is used to report resources that are legally restricted to the extent that both earnings and principal may be used for purposes that support the reporting government's programs.

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

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

The government reports the following major proprietary fund:

- The *sewer fund* accounts for all revenues and expenses pertaining to the Town's sewer operations.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Interfund Receivables and Payables

Transactions between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due from/to other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase

of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	50
Improvements other than buildings	7 - 50
Buildings and systems	20 - 45
Machinery, equipment and furnishings	6 - 20

I. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

M. Reclassification

Certain amounts in prior year were reclassified to conform to current year presentation.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public.

Formal budgetary integration is employed as a management control device during the year for the General Fund.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations. Original and final budget amounts also include \$ 971,734 carryforwards in grant revenue and related appropriations, which were budgeted in previous years.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles

(GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues, as reported on the accompanying financial statements	\$ 22,137,238	\$ 21,301,933
Other financing sources (uses) as reported on the financial statements	<u>-</u>	<u>1,119,300</u>
Subtotal (GAAP Basis)	22,137,238	22,421,233
To adjust property tax revenue to the budgetary basis	(321,695)	-
To reverse expenditures of prior year appropriation carryforwards	-	(236,297)
To book current year appropriation carryforwards	-	701,203
To add prior year budget carryforwards	<u>971,734</u>	<u>-</u>
Budgetary basis	\$ <u>22,787,277</u>	\$ <u>22,886,139</u>

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus, exception that a Town with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank." The Town's deposit in repurchase agreements of \$ 12,820,655 is held by the investment's counterparty, not in the name of the Town.

The Town's investment policy applies to all public funds held by the Town Treasurer in accordance with RSA 41:29 and to capital reserve funds held by the Trustees of Trust Funds in accordance with RSA 35:9. Deposits shall be made only in the New Hampshire Public Deposit Investment Pool (NHPDIP) and in New Hampshire banks that are FDIC insured. No more than \$ 2,000,000 shall be deposited without perfected collateral, in any one bank.

Unsecured deposits of more than \$ 100,000 in banks that do not meet at least six of the creditworthiness ratios adopted by the Town Council, are prohibited. Unsecured deposits of more than \$ 1,000,000 may be made only in banks that meet at least seven of the creditworthiness ratios adopted by the Council.

The NHPDIP is not registered with the United States Securities and exchange Commission as an investment company. The NHPDIP was created by State law and is administered by a public body of state, local and banking officials.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The Town does not have a credit risk policy.

Presented below are the investments of the Town, which are exempt from credit risk disclosure:

<u>Investment Type</u>	<u>Fair Value</u>
Corporate equities	\$ 2,346,453
Mutual funds	<u>20,094</u>
Total investments	<u>\$ 2,366,547</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's policy on custodial credit risk states that investments shall be made only in obligations of the United States, or no more than \$ 2,000,000 shall be invested, without perfected collateral, in any one financial institution. Unsecured investments of more than \$ 100,000 that do not meet at least six of the creditworthiness ratios adopted by Town Council, are prohibited. Unsecured investments of more than \$ 1,000,000 may be made only in financial institutions that meet at least seven of the adopted creditworthiness ratios. The Town's investments are exposed to custodial credit risk. The Town manages this risk with Securities Investor Protection Corporation (SIPC) and excess SIPC coverage.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer that represent 5% or more of total investments are as follows:

Proctor & Gamble Co.	\$ 136,948
Kellogg Co.	\$ 160,201
AT&T	\$ 125,964

D. Interest Rate Risk

Interest rate risk 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. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk.

5. Taxes Receivable

The Town bills property taxes semi-annually, in May and November. Property tax revenues are recognized in the fiscal year for which taxes have been levied. Property taxes are due on July 1 and December 1. Delinquent accounts are charged 12% interest. In March of the next year, a lien is recorded on delinquent property at the Registry of Deeds. The Town purchases all the delinquent accounts by paying the delinquent balance, recording costs and accrued interest. The accounts that are liened by the Town will be reclassified from property taxes receivable to unredeemed tax liens receivable. After this date, delinquent accounts will be charged interest at a rate of 18%. The Town annually budgets amounts (overlay for abatements) for property tax abatements and refunds.

Taxes receivable at June 30, 2009 consist of the following (in thousands):

Real Estate		
Levy 2009	\$ 5,686	
Levy 2008	<u>7</u>	
		5,693
Current Use		72
Tax Liens		1,230
Deferred Taxes		<u>31</u>
Subtotal		7,026
Less Allowance for Doubtful Accounts		<u>(163)</u>
Total		<u>\$ 6,863</u>

Taxes Collected for Others

The Town collects property taxes for the State of New Hampshire, the Merrimack School District and the County of Hillsborough. Payments to the other taxing units are normally made throughout the year. The ultimate responsibility for the collection of taxes rests with the Town.

6. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2009 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	\$ 2,131,339
Special Revenue Funds:		
Capital reserve fund	6,500	36,738
Fire protection fund	35,437	-
Cable television fund	333,167	-
Heritage commission fund	21,318	-
Conservation fund	-	2,154
Special conservation fund	41,899	-
Current use fund	647,247	-
Capital Project Funds:		
Drainage fund	894,436	-
Permanent fund	-	225
Enterprise Funds:		
Sewer	<u>190,452</u>	<u>-</u>
Total	<u>\$ 2,170,456</u>	<u>\$ 2,170,456</u>

7. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and systems	\$ 7,926,653	\$ 19,319	\$ -	\$ 7,945,972
Improvements other than buildings	1,733,989	-	-	1,733,989
Machinery, equipment, and furnishings	9,804,710	236,494	(148,451)	9,892,753
Infrastructure	<u>70,333,395</u>	<u>3,456,751</u>	<u>(502,462)</u>	<u>73,287,684</u>
Total capital assets, being depreciated	89,798,747	3,712,564	(650,913)	92,860,398
Less accumulated depreciation for:				
Buildings and systems	(2,984,679)	(181,667)	-	(3,166,346)
Improvements other than buildings	(665,175)	(59,533)	-	(724,708)
Machinery, equipment, and furnishings	(5,241,384)	(720,730)	105,728	(5,856,386)
Infrastructure	<u>(34,316,179)</u>	<u>(1,460,214)</u>	<u>321,568</u>	<u>(35,454,825)</u>
Total accumulated depreciation	<u>(43,207,417)</u>	<u>(2,422,144)</u>	<u>427,296</u>	<u>(45,202,265)</u>
Total capital assets, being depreciated, net	46,591,330	1,290,420	(223,617)	47,658,133
Capital assets, not being depreciated:				
Land	16,401,271	509,661	(421,712)	16,489,220
Construction in progress	<u>3,325,545</u>	<u>1,787,849</u>	<u>(3,207,074)</u>	<u>1,906,320</u>
Total capital assets, being depreciated, net	<u>19,726,816</u>	<u>2,297,510</u>	<u>(3,628,786)</u>	<u>18,395,540</u>
Governmental activities capital assets, net	<u>\$ 66,318,146</u>	<u>\$ 3,587,930</u>	<u>\$ (3,852,403)</u>	<u>\$ 66,053,673</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities (Sewer):				
Capital assets, being depreciated:				
Buildings and systems	\$ 56,969,697	\$ 233,500	\$ -	\$ 57,203,197
Machinery, equipment, and furnishings	9,210,540	-	-	9,210,540
Improvements other than buildings	<u>412,390</u>	<u>35,162</u>	<u>-</u>	<u>447,552</u>
Total capital assets, being depreciated	66,592,627	268,662	-	66,861,289
Less accumulated depreciation for:				
Buildings and systems	(18,402,894)	(995,460)	-	(19,398,354)
Machinery, equipment, and furnishings	(5,617,034)	(3,745)	-	(5,620,779)
Improvements other than buildings	<u>(383,397)</u>	<u>(401,109)</u>	<u>-</u>	<u>(784,506)</u>
Total accumulated depreciation	<u>(24,403,325)</u>	<u>(1,400,314)</u>	<u>-</u>	<u>(25,803,639)</u>
Total capital assets, being depreciated, net	42,189,302	(1,131,652)	-	41,057,650
Capital assets, not being depreciated:				
Land	238,770	-	-	238,770
Construction in progress	<u>787,761</u>	<u>447,782</u>	<u>(233,501)</u>	<u>1,002,042</u>
Total capital assets, not being depreciated, net	<u>1,026,531</u>	<u>447,782</u>	<u>(233,501)</u>	<u>1,240,812</u>
Business-type activities capital assets, net	<u>\$ 43,215,833</u>	<u>\$ (683,870)</u>	<u>\$ (233,501)</u>	<u>\$ 42,298,462</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 52
Public safety	378
Highway and streets	1,760
Sanitation	145
Culture and recreation	77
Community development	<u>10</u>
Total depreciation expense - governmental activities	\$ <u>2,422</u>
Business-Type Activities:	
Sewer	\$ <u>1,400</u>

8. **Accounts Payable and Accrued Expenses**

Accounts payable represent additional 2009 expenditures paid after June 30, 2009.

9. **Deferred Revenue**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2009 receivable balances, except property taxes that are accrued for subsequent 60 day collections.

10. **Taxes Collected in Advance**

Taxes collected in advance represent fiscal year 2010 taxes collected on or before June 30, 2009.

11. **Long-Term Debt**

A. **General Obligation Bonds**

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds

have been issued for both governmental and business-type activities.
General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2009
<u>Governmental Activities:</u>			
Green's Pond Land Bond	08/15/17	3.0 - 4.5%	\$ 2,430,000
Drainage Improvement Bond	08/15/22	4.0 - 4.75%	<u>1,600,000</u>
Total Governmental Activities:			<u>\$ 4,030,000</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2009
<u>Business-Type Activities:</u>			
Organic Waste Composting Facility Bonds	04/01/15	4.63%	\$ <u>1,887,210</u>
Total Business-Type Activities:			<u>\$ 1,887,210</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 355,000	\$ 168,335	\$ 523,335
2011	355,000	154,135	509,135
2012	360,000	139,835	499,835
2013	365,000	125,216	490,216
2014	370,000	110,137	480,137
2015-2019	1,655,000	306,359	1,961,359
2020-2023	<u>570,000</u>	<u>56,213</u>	<u>626,213</u>
Total	<u>\$ 4,030,000</u>	<u>\$ 1,060,230</u>	<u>\$ 5,090,230</u>

The general fund has been designated as the source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2009.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 280,034	\$ 87,416	\$ 367,450
2011	293,005	74,444	367,449
2012	306,577	60,872	367,449
2013	320,777	46,672	367,449
2014	335,635	31,813	367,448
2015	<u>351,182</u>	<u>16,267</u>	<u>367,449</u>
Total	\$ <u>1,887,210</u>	\$ <u>317,484</u>	\$ <u>2,204,694</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2009, the following changes occurred in long-term liabilities:

	<u>Total Balance 7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/09</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/09</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 4,377,300	\$ -	\$ (347,300)	\$ 4,030,000	\$ (355,000)	\$ 3,675,000
Other:						
Landfill closure	750,000	-	(30,000)	720,000	(30,000)	690,000
Accrued employee benefits	1,810,179	-	(14,074)	1,796,105	(635,268)	1,160,837
OPEB obligation	<u>-</u>	<u>68,038</u>	<u>-</u>	<u>68,038</u>	<u>-</u>	<u>68,038</u>
Totals	\$ <u>6,937,479</u>	\$ <u>68,038</u>	\$ <u>(391,374)</u>	\$ <u>6,614,143</u>	\$ <u>(1,020,268)</u>	\$ <u>5,593,875</u>

	<u>Total Balance 7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/09</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/09</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 2,154,847	\$ -	\$ (267,637)	\$ 1,887,210	\$ (280,034)	\$ 1,607,176
Other:						
Accrued employee benefits	<u>-</u>	<u>128,884</u>	<u>-</u>	<u>128,884</u>	<u>-</u>	<u>128,884</u>
Totals	\$ <u>2,154,847</u>	\$ <u>128,884</u>	\$ <u>(267,637)</u>	\$ <u>2,016,094</u>	\$ <u>(280,034)</u>	\$ <u>1,736,060</u>

12. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The Town has been completing post-closure monitoring on the "Winter Dump" Landfill and the MSW Landfill since 2003. The estimated liability for post-

closure care costs has a balance of \$ 720,000 as of June 30, 2009, which is based on the amount that would be paid if all equipment, facilities and services required to monitor and maintain the landfill were acquired as of June 30, 2009. However, the actual cost of post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The remaining post-closure care costs are expected to be financed in the General fund.

13. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

14. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2009:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Reserved for Other Purposes - Represents a reserve for prepaid expenses and inventory.

15. Subsequent Events

On July 15, 2009, The Town entered into a loan agreement with the State of New Hampshire for a \$ 1,600,000 Water Pollution Control Revolving loan at an interest rate of 1% per annum, and the lesser of 2.34% or adjusted market rate upon completion of the project. The Town is eligible for up to 50%

forgiveness of the principal and related interest in the form of federal financial assistance from the American Recovery and Reinvestment Act of 2009.

16. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

17. Post-Employment Health Care and Life Insurance Benefits

Other Post-Employment Benefits

During the year, the Town implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of July 1, 2008, the actuarial valuation date, approximately 49 retirees and 181 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All

active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 100% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2009 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2009, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2008.

Annual Required Contribution (ARC)	\$ 68,038
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	68,038
Contributions made	-
Increase in net OPEB obligation	68,038
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 68,038

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 68,038	0%	\$ 68,038

The Town's net OPEB obligation as of June 30, 2009 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2008, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 1,081,415
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,081,415</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.5% investment rate of return and an initial annual healthcare cost trend rate of 9% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3%.

18. Retirement System

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description

Full-time employees participate in the State of New Hampshire Retirement System (the System), a 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. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are available to each group, funding policies, vesting requirements, contribution requirements and plan assets available to pay benefits are disclosed in the System's annual report available from the New Hampshire Retirement System located at 4 Chenell Drive, Concord, New Hampshire 03301-8509.

B. Funding Policy

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 5% for employees and 9.3% for police and fire. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and is 6.81% for all other covered employees. The Town's contributions to the System for the years ended June 30, 2009, 2008, and 2007 were \$ 1,216,169, \$ 1,338,043, and \$ 945,227, respectively, which were equal to its annual required contributions for each of these years.

The payroll for employees covered by the System for the year ended June 30, 2009, was \$ 10,751,911. Employee contributions for the year ended June 30, 2009 were \$ 776,450.

19. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

20. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2009, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/08 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/08 (as restated)
Nonmajor funds	\$ 6,051,543	\$ 1,209,494	\$ 7,261,037
Capital reserve fund	<u>8,067,390</u>	<u>(1,209,494)</u>	<u>6,857,896</u>
Total	<u>\$ 14,118,933</u>	<u>\$ -</u>	<u>\$ 14,118,933</u>

21. Beginning Fund Balance Net Assets Restatement

The beginning (July 1, 2008) fund balances of the Town have been restated as follows:

Government-Wide Financial Statements:

	Governmental <u>Activities</u>	<u>Business-Type Activities</u>	
		<u>Sewer Fund</u>	<u>Total</u>
As previously reported	\$ 77,980,288	\$ 44,271,439	\$ 122,251,727
Reclass capital assets	<u>(233,501)</u>	<u>233,501</u>	<u>-</u>
As restated	<u>\$ 77,746,787</u>	<u>\$ 44,504,940</u>	<u>\$ 122,251,727</u>

TOWN OF MERRIMACK, NEW HAMPSHIRE
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009
(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/08	\$ -	\$ 1,081,415	\$ 1,081,415	0.0%	N/A	N/A

See Independent Auditors' Report.