

TOWN OF MERRIMACK, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2010

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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, 2010, 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 and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2010, 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 43, 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

Additional Offices:

Andover, MA • Greenfield, MA • Ellsworth, ME • Manchester, NH

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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 29, 2010 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
November 29, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Merrimack, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2010.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, health and welfare, sanitation, culture and recreation, and community development. The business-type activities include sewer activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into 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.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other governmental funds are combined into a single aggregated presentation.

An annual appropriated budget is adopted for the general fund and certain non major governmental (special revenue) funds. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with budgets.

Proprietary funds. Proprietary funds are maintained as follows:

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statement provides separate information for the sewer operations.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$118,285,197 (i.e., net assets), a decrease of \$750,037 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$14,537,554, an increase of \$1,175,761 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the governmental funds was \$12,165,755, a decrease of \$197,356 in comparison with the prior year. In addition, total unreserved general fund balance changed by \$338,181.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$5,827,395, a decrease of \$89,815 in comparison to the prior year. The Town also had a note payable in the amount of \$204,119 at the close of the current fiscal year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

	<u>NET ASSETS</u>					
	<u>Governmental</u>		<u>Business-Type</u>		<u>Totals</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 48,201	\$ 48,993	\$ 4,807	\$ 2,936	\$ 53,008	\$ 51,929
Capital Assets	<u>64,552</u>	<u>64,582</u>	<u>42,661</u>	<u>43,770</u>	<u>107,213</u>	<u>108,352</u>
Total assets	112,753	113,575	47,468	46,706	160,221	160,281
Long-term liabilities outstanding	6,321	6,614	2,277	2,016	8,598	8,630
Other liabilities	<u>32,120</u>	<u>32,567</u>	<u>1,218</u>	<u>49</u>	<u>33,338</u>	<u>32,616</u>
Total liabilities	38,441	39,181	3,495	2,065	41,936	41,246
Net assets:						
Invested in capital assets, net	61,774	61,514	40,508	41,883	102,282	103,397
Restricted	3,257	2,911	-	-	3,257	2,911
Unrestricted	<u>9,281</u>	<u>9,969</u>	<u>3,465</u>	<u>2,758</u>	<u>12,746</u>	<u>12,727</u>
Total net assets	<u>\$ 74,312</u>	<u>\$ 74,394</u>	<u>\$ 43,973</u>	<u>\$ 44,641</u>	<u>\$ 118,285</u>	<u>\$ 119,035</u>

CHANGES IN NET ASSETS						
	<u>Governmental</u>		<u>Business-Type</u>		<u>Totals</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Program revenues						
Charges for services	\$ 2,110	\$ 2,645	\$ 3,423	\$ 2,929	\$ 5,533	\$ 5,574
Operating grants and contributions	407	267	-	-	407	267
Capital grants and contributions	485	1,030	587	72	1,072	1,102
General revenues						
Property Taxes	13,865	13,475	-	-	13,865	13,475
Licenses and permits	4,323	4,278	-	-	4,323	4,278
Grants and contributions not restricted to specific programs	1,169	1,295	-	-	1,169	1,295
Investment income	502	(168)	17	24	519	(144)
Other	32	46	-	-	32	46
Total revenues	<u>22,893</u>	<u>22,868</u>	<u>4,027</u>	<u>3,025</u>	<u>26,920</u>	<u>25,893</u>
Expenses:						
General government	2,792	2,726	-	-	2,792	2,726
Public safety	10,300	10,475	-	-	10,300	10,475
Highways and streets	4,982	5,600	-	-	4,982	5,600
Health and welfare	181	185	-	-	181	185
Sanitation	1,299	1,341	-	-	1,299	1,341
Culture and recreation	2,554	2,957	-	-	2,554	2,957
Community development	717	859	-	-	717	859
Interest on long-term debt	150	158	-	-	150	158
Sewer operations	-	-	4,695	4,809	4,695	4,809
Total expenses	<u>22,975</u>	<u>24,301</u>	<u>4,695</u>	<u>4,809</u>	<u>27,670</u>	<u>29,110</u>
Change in net assets before transfers and contributions	(82)	(1,433)	(668)	(1,784)	(750)	(3,217)
Transfer in (out)	-	(448)	-	448	-	-
Increase in net assets	(82)	(1,881)	(668)	(1,336)	(750)	(3,217)
Net assets - beginning of year	<u>74,394</u>	<u>76,275</u>	<u>44,641</u>	<u>45,977</u>	<u>119,035</u>	<u>122,252</u>
Net assets - end of year	<u>\$ 74,312</u>	<u>\$ 74,394</u>	<u>\$ 43,973</u>	<u>\$ 44,641</u>	<u>\$ 118,285</u>	<u>\$ 119,035</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$118,285,197, a decrease of \$750,037 from the prior year.

The largest portion of net assets \$102,282,373 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure); less

any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in 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 net assets \$3,256,739 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$12,746,085 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a decrease in net assets of \$ (82,583). Key elements of this change are as follows:

Excess of revenues and transfers in over expenditures and transfers out:	
General fund operations	\$ 172,246
Capital reserve fund	149,368
Special revenue funds	581,456
Capital project fund	(72,534)
Permanent funds	<u>345,225</u>
Subtotal	1,175,761
Depreciation in excess of debt service principal paydown	(2,152,708)
Capital assets acquired from current year revenues	1,005,884
Other	<u>(111,520)</u>
Total	<u>\$ (82,583)</u>

While total net assets of the governmental activities changed by \$(82,583), unrestricted net assets decreased \$(687,970) principally due to the use of previous unrestricted net assets (Capital Reserve Funds) for the acquisition of new capital assets. In addition, investment income declined due to current market, conditions and lower interest rates.

Business-type activities. Business-type activities for the year resulted in a decrease in net assets of \$(667,454). This change primarily results from a current plan to reduce the unrestricted net assets to \$2 million.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing 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.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$14,537,554, a change of \$1,175,761 in comparison with the prior year. Most of this change was attributable to the use of Capital Reserve Funds for the expenditures for various capital projects.

The General Fund is the Town's chief operating fund. At the end of the current fiscal year, undesignated fund balance of the General Fund was \$2,202,148, while total fund balance was \$2,929,021. While the undesignated fund balance changed by \$404,984, total fund balance was changed by \$172,246. The major reason for the change was the unanticipated collection of current use tax on the Mall property. The following table highlights the change in our General Fund balance accounts (in thousands):

	<u>Unreserved</u>	<u>Reserves</u>	<u>Total</u>
Beginning of year	\$ 1,863,967	\$ 892,808	\$ 2,756,775
Revenues under budget	(1,629,639)	-	(1,629,639)
Expenditures under budget	2,079,066	-	2,079,066
Other	<u>(111,246)</u>	<u>(165,935)</u>	<u>(277,181)</u>
End of Year	\$ <u>2,202,148</u>	\$ <u>726,873</u>	\$ <u>2,929,021</u>

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. Unreserved fund balance represents 10.69% of total general fund expenditures, while total fund balance represents 14.22% of that same amount.

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$3,465,361, a change of \$707,346 in comparison with the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$597,397. The majority of the overall change represents appropriations from Federal funds to help offset the two FEMA events during the fiscal year.

Unspent General Fund appropriations were due to several factors including the self-imposed reduction in expenditures so that revenues would not exceed appropriations. Below is a brief summary of the variances.

- Renewal health insurance rates were higher than appropriations, resulting in a deficit of over \$(78,700).
- A savings of over \$346,200 in wages and other benefits was realized due primarily to vacancies and attrition.
- Utilities were less than anticipated, resulting in a savings of over \$53,700
- Vehicle fuel expenditures were over budget in excess of \$(41,000).
- Consulting expenditures were in excess of budget by \$(70,700).
- Sand and salt was under spent by \$81,500.
- Appropriations for solid waste disposal at a remote site exceeded expenditures by over \$81,200 due to a reduction in solid waste tonnage.
- Outside services were greater than appropriations by \$(29,600).
- Office equipment expenditures were less than appropriations by \$28,700.
- Building improvements were over budgeted appropriations by \$(29,800).
- Uniforms appropriations exceeded expenditures by \$66,200.
- General insurance appropriations were in excess of expenditures of over \$23,800.
- Telephone expenditures exceed appropriations by \$(18,639).
- Education was under spent by \$27,900.
- Computer supplies were less than anticipated, resulting in a savings of \$29,800.
- Capital expenditures were less than appropriations by \$799,394.
- Auto registrations were \$(326,300) under estimate revenues.
- Interest income was under projections by over \$(489,100).
- Ambulance revenues were over projections by 75,629.
- Highway Block Grant exceeds projections by just under \$13,900.
- Current use taxes exceed the budget by over \$467,300.
- State revenue Sharing was under estimates by \$(243,550).
- Building permits were under projections by just over \$(33,276).

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$107,212,354 (net of accumulated depreciation), a decrease of \$(1,139,781) from the prior year. This investment in capital assets includes land, buildings, system improvements, and machinery and equipment, park facilities, roads, highways and bridges.

Major capital asset events during the current fiscal year included completion of Interceptor restoration project, WWTF HVAC System Upgrade, Reeds Ferry Sewer Line Upgrade, purchase of a Dump Truck and Ambulance and other on-going infrastructure improvements.

Change in credit rating. The Town of Merrimack, New Hampshire has not had a credit rating for several years. The last credit rating the Town had was Moody's credit rating of Aa2.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$5,827,395, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in footnote12, of this report.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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 doing better compared to the rest of the State and the State of New Hampshire seems to be in better shape than 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 7.1% from the previous year of 7.0%, and it still compares favorably with the state and national averages of 8.8% and 9.6%, 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 2010-11 budget has been adopted, and the 2010 property tax rate (Fiscal Year 2011) has been set. Municipal appropriations, net of non-tax revenues, have decreased slightly by \$389,078 (2.6%) compared to 2009-10 net appropriations, and the municipal portion of the tax rate increased to \$4.34 per thousand. The Town's portion of the tax rate increase by eleven cents. The Merrimack School District's portion of the tax rate increased by twenty-six cents and the County portion of the tax rate increased by three cents while the State

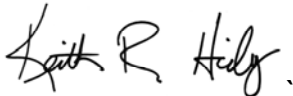
portion of the School tax decreased by four cents allowing the 2010 property tax rate to increase by approximately 1.89%.

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

Attention: Town Council
Town of Merrimack
6 Baboosic Lake Road
Merrimack, New Hampshire 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, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and cash equivalents	\$ 32,711,309	\$ 2,032,266	\$ 34,743,575
Investments	8,154,252	1,446,062	9,600,314
Taxes receivable, net	5,239,456	-	5,239,456
Accounts receivable, net	1,279,845	1,329,103	2,608,948
Inventory	89,049	-	89,049
Noncurrent:			
Taxes receivable	727,233	-	727,233
Capital assets:			
Capital assets not being depreciated	17,783,785	611,413	18,395,198
Other assets, net of accumulated depreciation	46,768,064	42,049,092	88,817,156
TOTAL ASSETS	112,752,993	47,467,936	160,220,929
LIABILITIES			
Current:			
Accounts payable	668,823	-	668,823
Accrued expenses	956,997	30,539	987,536
Retainage payable	-	30,321	30,321
Deferred revenue	4,209,416	19,293	4,228,709
Taxes collected in advance	26,664,513	-	26,664,513
Due to other governments	10,000	-	10,000
Internal balances	(933,370)	933,370	-
Note payable	-	204,119	204,119
Other liabilities	543,843	-	543,843
Current portion of long-term liabilities:			
Bonds payable	355,000	347,527	702,527
Other liabilities	703,771	-	703,771
Noncurrent:			
Bonds payable, net of current portion	3,320,000	1,804,868	5,124,868
Other liabilities, net of current portion	1,942,274	124,428	2,066,702
TOTAL LIABILITIES	38,441,267	3,494,465	41,935,732
NET ASSETS			
Invested in capital assets, net of related debt	61,774,263	40,508,110	102,282,373
Restricted for:			
Permanent funds:			
Nonexpendable	1,644,926	-	1,644,926
Expendable	1,611,813	-	1,611,813
Unrestricted	9,280,724	3,465,361	12,746,085
TOTAL NET ASSETS	\$ 74,311,726	\$ 43,973,471	\$ 118,285,197

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

		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	\$ 2,791,744	\$ 547,895	\$ 264,999	\$ -	\$ (1,978,850)	\$ -	\$ (1,978,850)
Public safety	10,299,778	1,124,024	141,799	-	(9,033,955)	-	(9,033,955)
Highways and streets	4,981,764	5,915	-	484,685	(4,491,164)	-	(4,491,164)
Health and welfare	181,351	5,278	-	-	(176,073)	-	(176,073)
Sanitation	1,299,104	190,918	-	-	(1,108,186)	-	(1,108,186)
Culture and recreation	2,553,642	232,829	321	-	(2,320,492)	-	(2,320,492)
Community development	717,258	2,977	-	-	(714,281)	-	(714,281)
Interest and fiscal charges	149,917	-	-	-	(149,917)	-	(149,917)
Total Governmental Activities	22,974,558	2,109,836	407,119	484,685	(19,972,918)	-	(19,972,918)
Business-Type Activities:							
Sewer	4,694,860	3,422,918	-	587,277	-	(684,665)	(684,665)
Total	\$ 27,669,418	\$ 5,532,754	\$ 407,119	\$ 1,071,962	(19,972,918)	(684,665)	(20,657,583)
General Revenues:							
Property and other taxes					13,865,068	-	13,865,068
Licenses and permits					4,323,026	-	4,323,026
Grants and contributions:							
State shared revenues					1,168,710	-	1,168,710
Investment income (loss)					501,849	17,211	519,060
Miscellaneous					31,682	-	31,682
Total general revenues					19,890,335	17,211	19,907,546
Change in Net Assets					(82,583)	(667,454)	(750,037)
Net Assets:							
Beginning of year, as restated					74,394,309	44,640,925	119,035,234
End of year					\$ 74,311,726	\$ 43,973,471	\$ 118,285,197

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

	General Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 31,531,634	\$ 4,548	\$ 1,175,126	\$ 32,711,308
Investments	-	5,253,246	2,901,006	8,154,252
Taxes receivable, net	5,491,689	-	475,000	5,966,689
Accounts receivable, net	1,201,670	-	78,175	1,279,845
Due from other funds	-	-	2,004,620	2,004,620
Inventory	89,049	-	-	89,049
TOTAL ASSETS	\$ 38,314,042	\$ 5,257,794	\$ 6,633,927	\$ 50,205,763
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 668,821	\$ -	\$ -	\$ 668,821
Accrued expenses	904,417	-	-	904,417
Deferred revenue	5,081,233	-	50,361	5,131,594
Taxes collected in advance	26,664,513	-	-	26,664,513
Due to other governments	10,000	-	-	10,000
Due to other funds	838,423	225,619	7,208	1,071,250
Accrued compensated absences payable	673,771	-	-	673,771
Other liabilities	543,843	-	-	543,843
TOTAL LIABILITIES	35,385,021	225,619	57,569	35,668,209
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	571,021	-	-	571,021
Perpetual (nonexpendable) permanent funds	-	-	1,644,926	1,644,926
Other specific purposes	155,852	-	-	155,852
Unreserved:				
Undesignated, reported in:				
General fund	2,202,148	-	-	2,202,148
Special revenue funds	-	5,032,175	2,422,204	7,454,379
Capital project funds	-	-	897,415	897,415
Permanent funds	-	-	1,611,813	1,611,813
TOTAL FUND BALANCES	2,929,021	5,032,175	6,576,358	14,537,554
TOTAL LIABILITIES AND FUND BALANCES	\$ 38,314,042	\$ 5,257,794	\$ 6,633,927	\$ 50,205,763

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, 2010

Total governmental fund balances	\$ 14,537,554
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	64,551,849
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	922,177
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(52,580)
<ul style="list-style-type: none">• 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>(5,647,274)</u>
Net assets of governmental activities	<u><u>\$ 74,311,726</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, 2010

	General Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 13,439,797	\$ -	\$ 531,809	\$ 13,971,606
Charges for services	1,983,363	-	127,072	2,110,435
Intergovernmental	2,059,915	-	-	2,059,915
Licenses and permits	4,033,312	-	289,715	4,323,027
Investment income	110,882	17,294	373,674	501,850
Miscellaneous	31,303	-	377	31,680
Total Revenues	21,658,572	17,294	1,322,647	22,998,513
Expenditures:				
Current:				
General government	2,723,571	9,191	41,880	2,774,642
Public safety	9,915,702	159,622	69,054	10,144,378
Highways and streets	3,123,763	468,515	76,291	3,668,569
Health and welfare	180,998	-	-	180,998
Sanitation	1,150,048	122,598	-	1,272,646
Culture and recreation	2,232,685	-	283,575	2,516,260
Community Development	741,924	-	-	741,924
Debt service:				
Principal retirement	355,000	-	-	355,000
Interest and fiscal charges	168,335	-	-	168,335
Total Expenditures	20,592,026	759,926	470,800	21,822,752
Excess (deficiency) of revenues over expenditures	1,066,546	(742,632)	851,847	1,175,761
Other Financing Sources (Uses):				
Transfers in	-	892,000	4,175	896,175
Transfers out	(894,300)	-	(1,875)	(896,175)
Total Other Financing Sources (Uses)	(894,300)	892,000	2,300	-
Change in fund balance	172,246	149,368	854,147	1,175,761
Fund Equity, at Beginning of Year, as restated	2,756,775	4,882,807	5,722,211	13,361,793
Fund Equity, at End of Year	\$ 2,929,021	\$ 5,032,175	\$ 6,576,358	\$ 14,537,554

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, 2010

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 1,175,761
<ul style="list-style-type: none"> 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	1,005,884
Depreciation	(2,507,708)
<ul style="list-style-type: none"> 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. 	
	(106,537)
<ul style="list-style-type: none"> 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	355,000
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	
	18,418
<ul style="list-style-type: none"> 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	14,637
Other post employment benefits liability	(68,038)
Landfill liability	30,000
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(82,583)</u>

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, 2010

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues and other sources:				
Property taxes	\$ 12,641,106	\$ 12,641,106	\$ 12,641,106	\$ -
Charges for services	2,338,155	2,460,262	1,983,363	(476,899)
Intergovernmental	1,912,947	2,388,237	2,059,915	(328,322)
Licenses and permits	4,399,915	4,399,915	4,033,312	(366,603)
Investment income	600,000	600,000	110,882	(489,118)
Miscellaneous	-	-	31,303	31,303
Total Revenues	21,892,123	22,489,520	20,859,881	(1,629,639)
Expenditures and other uses:				
Current:				
General government	2,405,097	2,831,205	2,229,631	601,574
Public safety	10,437,175	10,607,589	9,856,586	751,003
Highways and streets	3,083,321	3,083,321	2,875,935	207,386
Health and welfare	183,591	183,591	180,998	2,593
Sanitation	1,239,901	1,239,901	1,156,378	83,523
Culture and recreation	2,360,596	2,361,471	2,214,729	146,742
Community development	764,806	764,806	478,561	286,245
Debt service	523,336	523,336	523,336	-
Other financing uses:				
Transfers out	894,300	894,300	894,300	-
Total Expenditures	21,892,123	22,489,520	20,410,454	2,079,066
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 449,427	\$ 449,427

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

PROPRIETARY FUND

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Sewer Fund
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ 2,032,266
Investments	1,446,062
User charges receivable	1,030,013
Intergovernmental receivable	299,090
Total current assets	<u>4,807,431</u>
Noncurrent:	
Nondepreciable capital assets	611,413
Other capital assets, net of accumulated depreciation	<u>42,049,092</u>
Total noncurrent assets	<u>42,660,505</u>
TOTAL ASSETS	47,467,936
<u>LIABILITIES</u>	
Current:	
Accrued liabilities	30,539
Retainage payable	30,321
Deferred revenue	19,293
Due to other funds	933,370
Note payable	204,119
Current portion of long-term liabilities:	
Bonds payable	<u>347,527</u>
Total current liabilities	1,565,169
Noncurrent:	
Bonds payable, net of current portion	1,804,868
Compensated absences	<u>124,428</u>
Total noncurrent liabilities	<u>1,929,296</u>
TOTAL LIABILITIES	3,494,465
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	40,508,110
Unrestricted	<u>3,465,361</u>
TOTAL NET ASSETS	\$ <u>43,973,471</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, 2010

	Sewer Fund
Operating Revenues:	
Charges for services	\$ 3,328,724
Licenses and permits	1,326
Other	<u>92,868</u>
Total Operating Revenues	3,422,918
Operating Expenses:	
Personnel services	1,618,927
Non-personnel services	1,514,353
Depreciation	<u>1,469,523</u>
Total Operating Expenses	<u>4,602,803</u>
Operating Income (Loss)	(1,179,885)
Nonoperating Revenues (Expenses):	
Intergovernmental grants	587,277
Investment income	17,211
Interest expense	<u>(92,057)</u>
Total Nonoperating Revenues (Expenses), Net	<u>512,431</u>
Change in net assets	(667,454)
Net Assets at Beginning of Year, as restated	<u>44,640,925</u>
Net Assets at End of Year	<u><u>\$ 43,973,471</u></u>

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2010

	Sewer Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 2,975,171
Interfund receipts for services provided	1,061,331
Payments of employee salaries and related expenses	(1,623,383)
Payments to vendors and suppliers	<u>(1,479,978)</u>
Net Cash Provided By (Used For) Operating Activities	933,141
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Acquisition and construction of capital assets	(1,831,566)
Issuance of short term loans	204,119
Issuance of long term loans	545,219
Principal payments on bonds and notes	(280,033)
Interest expense	(92,057)
Intergovernmental subsidy	<u>435,555</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(1,018,763)
<u>Cash Flows From Investing Activities:</u>	
Investment income	17,211
Purchase of investments	<u>88,086</u>
Net Cash Provided By Investing Activities	<u>105,297</u>
Net Change in Cash and Short-Term Investments	19,675
Cash and Short-Term Investments, Beginning of Year	<u>2,012,591</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 2,032,266</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income (loss)	\$ (1,179,885)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	1,469,523
Changes in assets and liabilities:	
Accounts receivable	(444,532)
Interfund payables/receivables	1,061,331
Accrued liabilities	8,438
Retainage payable	25,937
Unearned revenues	(3,215)
Compensated absences	<u>(4,456)</u>
Net Cash Provided By (Used For) Operating Activities	<u><u>\$ 933,141</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 2010, 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.

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.

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	\$ 21,658,572	\$ 20,592,026
Other financing sources (uses) as reported on the financial statements	<u>-</u>	<u>894,300</u>
Subtotal (GAAP Basis)	21,658,572	21,486,326
To adjust property tax revenue to the budgetary basis	(798,691)	-
To reverse expenditures of prior year appropriation carryforwards	-	(1,646,893)
To book current year appropriation carryforwards	<u>-</u>	<u>571,021</u>
Budgetary basis	\$ <u><u>20,859,881</u></u>	\$ <u><u>20,410,454</u></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."

As of June 30, 2010, \$ 26,298,106 of the Town's bank balance of \$ 34,786,172 was exposed to custodial credit risk as uninsured deposit in repurchase agreement with underlying securities being held by the counterparty, not in the Town's name.

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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
U.S. Treasury notes	\$ 1,724,493	<1 yr	Aaa
U.S. Treasury notes	457,875	1-5 yrs	Aaa
Federal agencies	1,072,268	<1 yr	Aaa
Corporate equities	2,498,260	N/A	N/A
Mutual funds	<u>3,847,418</u>	N/A	N/A
Total investments	<u>\$ 9,600,314</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. All of 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:

U.S. Treasury notes	\$ 2,182,369
FHLM	\$ 1,011,677

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, 2010 consist of the following (in thousands):

Real Estate Levy 2010	\$ 3,935
Current Use	950
Tax Liens	1,234
Deferred Taxes	30
Less Allowance for Doubtful Accounts	<u>(182)</u>
Total	<u>\$ 5,967</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, 2010 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	\$ 838,423
Major Funds:		
Capital reserve fund	-	225,619
Nonmajor Funds:		
Fire protection fund	50,973	-
Cable television fund	348,978	-
Heritage commission fund	23,932	-
Conservation fund	35,030	-
Special conservation fund	-	6,983
Current use fund	719,695	-
Drainage fund	826,012	-
Permanent fund	-	225
Enterprise Funds:		
Sewer	-	933,370
Total	<u>\$ 2,004,620</u>	<u>\$ 2,004,620</u>

7. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and systems	\$ 7,945,972	\$ 50,749	\$ -	\$ 7,996,721
Improvements other than buildings	1,733,989	59,417	-	1,793,406
Machinery, equipment, and furnishings	9,892,753	580,385	-	10,473,138
Infrastructure	<u>73,287,684</u>	<u>927,088</u>	<u>-</u>	<u>74,214,772</u>
Total capital assets, being depreciated	92,860,398	1,617,639	-	94,478,037
Less accumulated depreciation for:				
Buildings and systems	(2,952,702)	(182,507)	-	(3,135,209)
Improvements other than buildings	(708,462)	(56,300)	-	(764,762)
Machinery, equipment, and furnishings	(6,086,313)	(791,307)	-	(6,877,620)
Infrastructure	<u>(35,454,788)</u>	<u>(1,477,594)</u>	<u>-</u>	<u>(36,932,382)</u>
Total accumulated depreciation	<u>(45,202,265)</u>	<u>(2,507,708)</u>	<u>-</u>	<u>(47,709,973)</u>
Total capital assets, being depreciated, net	47,658,133	(890,069)	-	46,768,064
Capital assets, not being depreciated:				
Land	16,489,220	67,598	-	16,556,818
Construction in progress	<u>1,906,320</u>	<u>261,058</u>	<u>(940,411)</u>	<u>1,226,967</u>
Total capital assets, not being depreciated	<u>18,395,540</u>	<u>328,656</u>	<u>(940,411)</u>	<u>17,783,785</u>
Governmental activities capital assets, net	<u>\$ 66,053,673</u>	<u>\$ (561,413)</u>	<u>\$ (940,411)</u>	<u>\$ 64,551,849</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities (Sewer):				
Capital assets, being depreciated:				
Buildings and systems	\$ 57,203,197	\$ 2,405,281	\$ -	\$ 59,608,478
Machinery, equipment, and furnishings	9,245,702	55,684	-	9,301,386
Improvements other than buildings	<u>412,390</u>	<u>-</u>	<u>-</u>	<u>412,390</u>
Total capital assets, being depreciated	66,861,289	2,460,965	-	69,322,254
Less accumulated depreciation for:				
Buildings and systems	(19,398,354)	(1,060,483)	-	(20,458,837)
Machinery, equipment, and furnishings	(6,018,143)	(405,295)	-	(6,423,438)
Improvements other than buildings	<u>(387,142)</u>	<u>(3,745)</u>	<u>-</u>	<u>(390,887)</u>
Total accumulated depreciation	<u>(25,803,639)</u>	<u>(1,469,523)</u>	<u>-</u>	<u>(27,273,162)</u>
Total capital assets, being depreciated, net	41,057,650	991,442	-	42,049,092
Capital assets, not being depreciated:				
Land	238,770	-	-	238,770
Construction in progress	<u>1,002,042</u>	<u>321,278</u>	<u>(950,677)</u>	<u>372,643</u>
Total capital assets, not being depreciated	<u>1,240,812</u>	<u>321,278</u>	<u>(950,677)</u>	<u>611,413</u>
Business-type activities capital assets, net	<u>\$ 42,298,462</u>	<u>\$ 1,312,720</u>	<u>\$ (950,677)</u>	<u>\$ 42,660,505</u>

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

Governmental Activities:

General government	\$ 95
Public safety	403
Highway and streets	1,775
Sanitation	72
Culture and recreation	<u>163</u>
Total depreciation expense - governmental activities	\$ <u>2,508</u>

Business-Type Activities:

Sewer	\$ <u>1,470</u>
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8. Accounts Payable and Accrued Expenses

Accounts payable represent additional 2010 expenditures paid after June 30, 2010.

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, 2010 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, 2010.

11. Note Payable

The Town has a Dewatering Upgrade State Revolving Loan outstanding in the amount of \$ 204,119 at June 30, 2010 in the sewer fund. The note accrues at 1% during the construction phase and will be permanently financed upon completion.

12. 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 <u>Through</u>	Interest Rate(s) % <u>Rate(s) %</u>	Amount Outstanding as of <u>6/30/10</u>
<u>Governmental Activities:</u>			
Green's Pond Land Bond	08/15/17	3.0 - 4.5%	\$ 2,160,000
Drainage Improvement Bond	08/15/22	4.0 - 4.75%	<u>1,515,000</u>
Total Governmental Activities:			<u>\$ 3,675,000</u>
	Serial Maturities <u>Through</u>	Interest Rate(s) % <u>Rate(s) %</u>	Amount Outstanding as of <u>6/30/10</u>
<u>Business-Type Activities:</u>			
Organic Waste Composting Facility Bonds	04/01/15	4.63%	\$ 1,607,176
Interceptor Repair	12/01/19	1.85%	<u>545,219</u>
Total Business-Type Activities:			<u>\$ 2,152,395</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 355,000	\$ 154,135	\$ 509,135
2012	360,000	139,835	499,835
2013	365,000	125,216	490,216
2014	370,000	140,138	510,138
2015	375,000	94,509	469,509
2016-2020	1,410,000	236,000	1,646,000
2021-2024	<u>440,000</u>	<u>32,063</u>	<u>472,063</u>
Total	<u>\$ 3,675,000</u>	<u>\$ 921,896</u>	<u>\$ 4,596,896</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, 2010.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 347,527	\$ 86,364	\$ 433,891
2012	361,099	69,925	431,024
2013	375,299	54,719	430,018
2014	390,158	38,855	429,013
2015	405,704	22,303	428,007
2016 - 2020	<u>272,608</u>	<u>15,090</u>	<u>287,698</u>
Total	<u>\$ 2,152,395</u>	<u>\$ 287,256</u>	<u>\$ 2,439,651</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2010, the following changes occurred in long-term liabilities:

	<u>Total Balance 7/1/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/10</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/10</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 4,030,000	\$ -	\$ (355,000)	\$ 3,675,000	\$ (355,000)	\$ 3,320,000
Other:						
Landfill closure	720,000	-	(30,000)	690,000	(30,000)	660,000
Accrued employee benefits	1,796,105	23,864		1,819,969	(673,771)	1,146,198
OPEB obligation	<u>68,038</u>	<u>68,038</u>	<u>-</u>	<u>136,076</u>	<u>-</u>	<u>136,076</u>
Totals	<u>\$ 6,614,143</u>	<u>\$ 91,902</u>	<u>\$ (385,000)</u>	<u>\$ 6,321,045</u>	<u>\$ (1,058,771)</u>	<u>\$ 5,262,274</u>

	Total Balance 7/1/09	Additions	Reductions	Total Balance 6/30/10	Less Current Portion	Equals Long-Term Portion 6/30/10
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,887,210	\$ 545,219	\$ (280,034)	\$ 2,152,395	\$ (347,527)	\$ 1,804,868
Other:						
Accrued employee benefits	128,884	-	(4,456)	124,428	-	124,428
Totals	<u>\$ 2,016,094</u>	<u>\$ 545,219</u>	<u>\$ (284,490)</u>	<u>\$ 2,276,823</u>	<u>\$ (347,527)</u>	<u>\$ 1,929,296</u>

13. 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 \$ 690,000 as of June 30, 2010, 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, 2010. 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.

14. 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.

15. 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, 2010:

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 inventory and other balances.

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

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, 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, 2010, 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	68,038
Net OPEB obligation - end of year	\$ <u>136,076</u>

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>
2010	\$ 68,038	0%	\$ 136,076
2009	\$ 68,308	0%	\$ 68,038

The Town's net OPEB obligation as of June 30, 2010 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, 2010, 2009, and 2008 were \$ 1,324,320, \$ 1,216,169, and \$ 1,338,043, 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, 2010, was \$ 10,730,752. Employee contributions for the year ended June 30, 2010 were \$ 775,936.

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/Net Assets Reclassification**

The beginning (July 1, 2009) fund balances/net assets of the Town's fund basis financial statements have been reclassified as follows:

	Fund Equity 6/30/09 (as previously <u>reported</u>)	<u>Reclassification</u>	Fund Equity 6/30/09 (as restated)
Nonmajor funds	\$ 5,714,348	\$ 7,863	\$ 5,722,211
Capital reserve fund	6,362,327	(1,479,520)	4,882,807
Sewer fund	<u>43,169,268</u>	<u>1,471,657</u>	<u>44,640,925</u>
Total	\$ <u>55,245,943</u>	\$ <u>-</u>	\$ <u>55,245,943</u>

21. **Beginning Net Assets Restatement**

The beginning (July 1, 2009) net assets of the Town's government-wide financial statements have been restated as follows:

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
As previously reported	\$ 75,865,966	\$ 43,169,268	\$ 119,035,234
Reclass capital projects	<u>(1,471,657)</u>	<u>1,471,657</u>	<u>-</u>
As restated	<u>\$ 74,394,309</u>	<u>\$ 44,640,925</u>	<u>\$ 119,035,234</u>

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

June 30, 2010
(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.