

TOWN OF MERRIMACK, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	18
Proprietary Funds:	
Statement of Net Assets	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets	20
Statement of Cash Flows	21
Notes to Financial Statements	22
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress	44



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

102 Perimeter Road
Nashua, NH 03063-1301
Tel (603) 882-1111 • Fax (603) 882-9456
www.melansonheath.com

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, 2012, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 2012 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 report

Additional Offices:

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

ing 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath + Company P.C.
Nashua, New Hampshire
October 3, 2012

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, 2012.

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 \$120,704,300 (i.e., net assets), a change of \$3,605,503 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$13,556,725, a change of \$1,669,833 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the governmental funds was \$2,315,035, a change of \$508,922 in comparison to the prior year.
- Total bonds and loans payable at the close of the current fiscal year was \$4,469,999, change of \$(715,230) in comparison to the prior year. The Town also had a note payable in the amount of \$2,606,337 at the close of the current fiscal year, a change of \$394,350 from the prior 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>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 50,384	\$ 46,062	\$ 4,023	\$ 5,387	\$ 54,407	\$ 51,449
Capital assets	68,959	66,929	42,374	43,446	111,333	110,375
Total assets	119,343	112,991	46,397	48,833	165,740	161,824
Long-term liabilities outstanding	5,572	5,847	1,581	1,963	7,153	7,810
Other liabilities	35,156	32,699	2,726	4,216	37,882	36,915
Total liabilities	40,728	38,546	4,307	6,179	45,035	44,725
Net assets:						
Invested in capital assets, net	65,999	63,608	40,865	41,581	106,864	105,189
Restricted	5,070	4,817	-	-	5,070	4,817
Unrestricted	7,546	6,020	1,225	1,073	8,771	7,093
Total net assets	\$ 78,615	\$ 74,445	\$ 42,090	\$ 42,654	\$ 120,705	\$ 117,099

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,257	\$ 2,035	\$ 3,913	\$ 3,334	\$ 6,170	\$ 5,369
Operating grants and contributions	497	736	-	-	497	736
Capital grants and contributions	4,490	1,689	72	78	4,562	1,767
General revenues:						
Property taxes	14,324	13,640	-	-	14,324	13,640
Licenses and permits	4,718	4,686	-	-	4,718	4,686
Grants and contributions not restricted to specific programs	1,139	1,167	-	-	1,139	1,167
Investment income	417	687	6	21	423	708
Other	-	164	-	-	-	164
Total revenues	<u>27,842</u>	<u>24,804</u>	<u>3,991</u>	<u>3,433</u>	<u>31,833</u>	<u>28,237</u>
Expenses:						
General government	3,189	3,000	-	-	3,189	3,000
Public safety	11,015	10,951	-	-	11,015	10,951
Highways and streets	5,263	4,655	-	-	5,263	4,655
Health and welfare	150	152	-	-	150	152
Sanitation	1,301	1,231	-	-	1,301	1,231
Culture and recreation	2,073	2,450	-	-	2,073	2,450
Community development	555	1,027	-	-	555	1,027
Interest on long-term debt	126	151	-	-	126	151
Sewer operations	-	-	4,555	4,752	4,555	4,752
Total expenses	<u>23,672</u>	<u>23,617</u>	<u>4,555</u>	<u>4,752</u>	<u>28,227</u>	<u>28,369</u>
Change in net assets before transfers	<u>4,170</u>	<u>1,187</u>	<u>(564)</u>	<u>(1,319)</u>	<u>3,606</u>	<u>(132)</u>
Increase in net assets	<u>4,170</u>	<u>1,187</u>	<u>(564)</u>	<u>(1,319)</u>	<u>3,606</u>	<u>(132)</u>
Net assets - beginning of year	<u>74,445</u>	<u>73,258</u>	<u>42,654</u>	<u>43,973</u>	<u>117,099</u>	<u>117,231</u>
Net assets - end of year	<u>\$ 78,615</u>	<u>\$ 74,445</u>	<u>\$ 42,090</u>	<u>\$ 42,654</u>	<u>\$ 120,705</u>	<u>\$ 117,099</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

The largest portion of net assets \$106,862,980 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 \$5,070,346 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$8,770,974 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$4,169,435. Key elements of this change are as follows:

Excess (Deficiency) of revenues and transfers in over expenditures and transfers out:	
General fund operations	\$ 1,417,406
Special revenue funds	30,812
Permanent funds	<u>221,615</u>
Subtotal	1,669,833
Depreciation in excess of debt service principal paydown	(1,926,785)
Capital assets acquired from current and prior year revenues, non-bonded	4,317,334
Other	<u>109,053</u>
Total	<u>\$ 4,169,435</u>

While total net assets of the governmental activities changed by \$4,169,435, unrestricted net assets changed by \$1,555,696 principally due to an increase in revenues while expenses remained stable.

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$(563,932). This change primarily results from depreciation expenses recognized in excess of debt service payments raised in the rates charged to customers.

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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Most of the change in government fund balances of \$1,669,833 was attributable to the positive operating results of the General Fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,315,617; committed fund balance (non-sewer capital reserves) was \$3,659,835, while total fund balance was \$8,486,961. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
Unassigned fund balance	\$ 2,315,617	\$ 1,806,695	\$ 508,922
Committed fund balance (Capital Reserves)	3,659,835	4,007,568	(347,733)
Other fund balance	<u>2,511,509</u>	<u>1,256,055</u>	<u>1,255,454</u>
Total fund balance	<u>\$ 8,486,961</u>	<u>\$ 7,070,318</u>	<u>\$ 1,416,643</u>
Unassigned fund balance as % of total general fund expenditures	10.4%	7.8%	2.6%
Committed fund balance (Capital Reserves) as a % of total general fund expenditures	16.5%	17.3%	-0.8%
Total fund balance as % of general fund expenditures ⁽¹⁾	38.2%	30.5%	7.7%

⁽¹⁾General fund expenditures include Town expenditures only, and not the School District or County assessments.

The total fund balance of the general fund changed by \$1,416,643 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 52,914
Expenditures less than budget	1,624,218
Other	<u>(260,489)</u>
Total	<u>\$ 1,416,643</u>

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 \$1,225,267, a change of \$152,379 in comparison to 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 \$540,013. The majority of the overall change represents appropriations from Federal Emergency Management Agency (FEMA) for two events, Tropical Storm Irene and the October snowstorm, during the fiscal year.

Unspent General Fund appropriations were due to several factors including the self-imposed reduction in expenditures. Below is a brief summary of the variances.

- Renewal health insurance rates were lower than appropriations, resulting in a deficit of over \$105,395.
- A savings of over \$162,208 in wages and other benefits was realized due primarily to vacancies and attrition.
- Utilities were less than anticipated, resulting in a savings of over \$39,339.
- Vehicle fuel expenditures were under budget in excess of \$65,943.
- Welfare appropriations were under spent by \$31,173.
- Building improvements were under budgeted appropriations by \$10,086.
- Uniforms appropriations exceeded expenditures by \$33,131.
- General insurance appropriations were in excess of expenditures of under \$10,663.
- Legal was under spent by \$56,429.
- Auto registrations were \$11,197 over estimate revenues.
- Interest income was under projections by over \$303,860.
- Ambulance revenues were under projections by \$15,540.
- Property tax interest exceeds projections by \$54,507.
- Current use taxes exceed the budget by over \$60,067.
- Property taxes were over estimates by \$429,561.
- Building permits were over projections by just over \$108,766.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$111,333,561 (net of accumulated depreciation), a change of \$959,008 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 highway repaving and expansion, drainage, and dewatering upgrade.

Change in credit rating. The Town of Merrimack, New Hampshire has not had a credit rating for many 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 \$4,469,999, 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 Note 12 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 in 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. The Town could be seeing growth due to the Airport Access Road being completed in the north end of Town and the Outlet Mall being completed in the southern end of Town. In addition the Town's unemployment rate is up to 5.3% from the previous year of 4.9%, and it still compares favorably with the state and national averages of 5.7% and 8.6%, respectively. Furthermore, it appears that the Town will continue to see the 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 2012-13 budget has been adopted, and the 2012 property tax rate (Fiscal Year 2013) has will be set in October. Municipal appropriations, net of non-tax revenues, have increased slightly by \$189,903 (1.85%) compared to 2011-12 net appropriations, and the municipal portion of the tax rate is estimated to be \$5.15 per thousand. The Town's portion of the tax rate is estimated to decrease by ten cents due to \$89 million in new assessed value. If the new assessed valuation did not occur the tax rate would have increased by one cent.

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


Eileen Cabanel
Town Manager


Paul T Micali CPA
Finance Director

TOWN OF MERRIMACK, NEW HAMPSHIRE

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and cash equivalents	\$ 35,113,936	\$ 2,848,437	\$ 37,962,373
Investments	4,002,839	436,518	4,439,357
Taxes receivable, net	8,794,983	-	8,794,983
Accounts receivable, net	1,167,653	737,943	1,905,596
Inventory	109,901	-	109,901
Other assets	20,827	-	20,827
Noncurrent:			
Taxes receivable	1,173,109	-	1,173,109
Capital assets:			
Capital assets not being depreciated	20,252,915	3,128,358	23,381,273
Other assets, net of accumulated depreciation	48,706,343	39,245,945	87,952,288
TOTAL ASSETS	119,342,506	46,397,201	165,739,707
LIABILITIES			
Current:			
Accounts payable	265,528	45,869	311,397
Accrued expenses	701,056	23,117	724,173
Retainage payable	-	38,362	38,362
Deferred revenue	9,212,531	12,862	9,225,393
Taxes collected in advance	24,576,149	-	24,576,149
Due to other governments	10,000	-	10,000
Note payable	-	2,606,337	2,606,337
Other liabilities	390,874	-	390,874
Current portion of long-term liabilities:			
Bonds payable	365,000	376,600	741,600
Other liabilities	743,100	-	743,100
Noncurrent:			
Bonds payable, net of current portion	2,595,000	1,133,399	3,728,399
Other liabilities, net of current portion	1,868,539	71,084	1,939,623
TOTAL LIABILITIES	40,727,777	4,307,630	45,035,407
NET ASSETS			
Invested in capital assets, net of related debt	65,998,676	40,864,304	106,862,980
Restricted for:			
Permanent funds:			
Nonexpendable	918,783	-	918,783
Expendable	2,037,150	-	2,037,150
Other statutory restrictions	2,114,413	-	2,114,413
Unrestricted	7,545,707	1,225,267	8,770,974
TOTAL NET ASSETS	\$ 78,614,729	\$ 42,089,571	\$ 120,704,300

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net(Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 3,188,723	\$ 591,206	\$ 327,678	\$ -	\$ (2,269,839)	\$ -	\$ (2,269,839)
Public safety	11,014,842	1,189,283	167,526	650,000	(9,008,033)	-	(9,008,033)
Highways and streets	5,262,519	2,262	-	3,839,718	(1,420,539)	-	(1,420,539)
Health and welfare	150,060	4,528	-	-	(145,532)	-	(145,532)
Sanitation	1,300,797	235,129	-	-	(1,065,668)	-	(1,065,668)
Culture and recreation	2,073,312	231,796	513	-	(1,841,003)	-	(1,841,003)
Community development	554,604	2,795	1,011	-	(550,798)	-	(550,798)
Interest and fiscal charges	126,323	-	-	-	(126,323)	-	(126,323)
Total Governmental Activities	23,671,180	2,256,999	496,728	4,489,718	(16,427,735)	-	(16,427,735)
Business-Type Activities:							
Sewer	4,555,490	3,913,210	-	72,451	-	(569,829)	(569,829)
Total	\$ <u>28,226,670</u>	\$ <u>6,170,209</u>	\$ <u>496,728</u>	\$ <u>4,562,169</u>	(16,427,735)	(569,829)	(16,997,564)
General Revenues:							
Property and other taxes					14,324,243	-	14,324,243
Licenses and permits					4,717,764	-	4,717,764
Grants and contributions:							
State shared revenues					1,138,772	-	1,138,772
Investment income					416,246	5,897	422,143
Miscellaneous					145	-	145
Total general revenues					20,597,170	5,897	20,603,067
Change in Net Assets					4,169,435	(563,932)	3,605,503
Net Assets:							
Beginning of year, as restated					74,445,294	42,653,503	117,098,797
End of year					\$ <u>78,614,729</u>	\$ <u>42,089,571</u>	\$ <u>120,704,300</u>

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 32,878,269	\$ 2,235,668	\$ 35,113,937
Investments	1,406,447	2,596,392	4,002,839
Taxes receivable, net	9,968,092	-	9,968,092
Accounts receivable, net	900,311	267,342	1,167,653
Inventory	109,901	-	109,901
Other assets	20,823	4	20,827
TOTAL ASSETS	<u>\$ 45,283,843</u>	<u>\$ 5,099,406</u>	<u>\$ 50,383,249</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 247,075	\$ 18,454	\$ 265,529
Accrued expenses	657,402	-	657,402
Deferred revenue	10,202,282	11,188	10,213,470
Taxes collected in advance	24,576,149	-	24,576,149
Due to other governments	10,000	-	10,000
Accrued compensated absences payable	713,100	-	713,100
Other liabilities	390,874	-	390,874
TOTAL LIABILITIES	36,796,882	29,642	36,826,524
Fund Balances:			
Nonspendable	549,251	918,783	1,468,034
Restricted	650,000	4,151,563	4,801,563
Committed	3,659,835	-	3,659,835
Assigned	1,312,258	-	1,312,258
Unassigned	2,315,617	(582)	2,315,035
TOTAL FUND BALANCES	<u>8,486,961</u>	<u>5,069,764</u>	<u>13,556,725</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 45,283,843</u>	<u>\$ 5,099,406</u>	<u>\$ 50,383,249</u>

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, 2012

Total governmental fund balances	\$ 13,556,725
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	68,959,258
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,000,939
<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.	(43,654)
<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>(4,858,539)</u>
Net assets of governmental activities	\$ <u><u>78,614,729</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, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 14,279,614	\$ 3,625	\$ 14,283,239
Charges for services	2,121,337	135,662	2,256,999
Intergovernmental	2,218,324	1,444,894	3,663,218
Licenses and permits	4,276,199	441,565	4,717,764
Investment income	65,790	350,456	416,246
Contributions	650,000	-	650,000
Miscellaneous	-	148	148
Total Revenues	23,611,264	2,376,350	25,987,614
Expenditures:			
Current:			
General government	3,214,231	21,032	3,235,263
Public safety	10,667,462	83,506	10,750,968
Highways and streets	4,291,672	1,565,389	5,857,061
Health and welfare	150,220	-	150,220
Sanitation	1,220,044	-	1,220,044
Culture and recreation	1,609,740	453,996	2,063,736
Community development	548,766	-	548,766
Debt service:			
Principal retirement	360,000	-	360,000
Interest and fiscal charges	131,723	-	131,723
Total Expenditures	22,193,858	2,123,923	24,317,781
Excess (deficiency) of revenues over expenditures	1,417,406	252,427	1,669,833
Other Financing Sources (Uses):			
Transfers in	-	763	763
Transfers out	(763)	-	(763)
Total Other Financing Sources (Uses)	(763)	763	-
Change in fund balance	1,416,643	253,190	1,669,833
Fund Equity, at Beginning of Year, as restated	7,070,318	4,816,574	11,886,892
Fund Equity, at End of Year	\$ 8,486,961	\$ 5,069,764	\$ 13,556,725

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, 2012

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1,669,833

- 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	4,317,334
Depreciation, net	(2,286,785)

- 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.

41,005

- 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	360,000
--------------------	---------

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

5,400

- 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	92,641
Other post employment benefits liability	(59,993)
Landfill liability	<u>30,000</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 4,169,435

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, 2012

	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	\$ 13,943,537	\$ 13,943,537	\$ 13,943,537	\$ -
Charges for services	2,396,170	2,526,242	2,121,337	(404,905)
Intergovernmental	1,834,800	2,244,741	2,218,324	(26,417)
Licenses and permits	4,138,103	4,138,103	4,276,199	138,096
Investment income	364,480	364,480	60,620	(303,860)
Contributions	-	-	650,000	650,000
Total Revenues	22,677,090	23,217,103	23,270,017	52,914
Expenditures and other uses:				
Current:				
General government	2,786,281	3,212,235	3,204,788	7,447
Public safety	11,532,448	11,590,905	10,356,944	1,233,961
Highways and streets	3,741,871	3,777,670	3,736,002	41,668
Health and welfare	180,861	180,861	149,639	31,222
Sanitation	1,159,527	1,169,760	1,210,865	(41,105)
Culture and recreation	1,699,989	1,701,334	1,573,633	127,701
Community development	540,129	548,354	324,567	223,787
Debt service	491,724	491,724	491,724	-
Other financing uses:				
Transfers out	544,260	544,260	544,723	(463)
Total Expenditures	22,677,090	23,217,103	21,592,885	1,624,218
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,677,132	\$ 1,677,132

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

PROPRIETARY FUND

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Sewer Fund
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ 2,848,437
Investments	436,518
User charges receivable	699,856
Intergovernmental receivable	<u>38,087</u>
Total current assets	4,022,898
Noncurrent:	
Nondepreciable capital assets	3,128,358
Other capital assets, net of accumulated depreciation	<u>39,245,945</u>
Total noncurrent assets	<u>42,374,303</u>
TOTAL ASSETS	46,397,201
<u>LIABILITIES</u>	
Current:	
Accounts payable	45,869
Accrued liabilities	23,117
Retainage payable	38,362
Deferred revenue	12,862
Note payable	2,606,337
Current portion of long-term liabilities:	
Bonds payable	<u>376,600</u>
Total current liabilities	3,103,147
Noncurrent:	
Bonds payable, net of current portion	1,133,399
Compensated absences	<u>71,084</u>
Total noncurrent liabilities	<u>1,204,483</u>
TOTAL LIABILITIES	4,307,630
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	40,864,304
Unrestricted	<u>1,225,267</u>
TOTAL NET ASSETS	<u>\$ 42,089,571</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, 2012

	<u>Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 3,912,052
Licenses and permits	1,000
Other	<u>158</u>
Total Operating Revenues	3,913,210
Operating Expenses:	
Personnel services	1,649,425
Non-personnel services	1,425,806
Depreciation	<u>1,414,479</u>
Total Operating Expenses	<u>4,489,710</u>
Operating Income (Loss)	(576,500)
Nonoperating Revenues (Expenses):	
Intergovernmental grants	72,451
Investment income	5,897
Interest expense	<u>(65,780)</u>
Total Nonoperating Revenues (Expenses), Net	<u>12,568</u>
Change in net assets	(563,932)
Net Assets at Beginning of Year	<u>42,653,503</u>
Net Assets at End of Year	<u>\$ 42,089,571</u>

See notes to financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

	Sewer Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 3,716,248
Payments of employee salaries and related expenses	(1,676,070)
Payments to vendors and suppliers	<u>(1,540,690)</u>
Net Cash Provided By (Used For) Operating Activities	499,488
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Acquisition and construction of capital assets	(342,938)
Issuance of short term loans	1,635,547
Principal payments on bonds and notes	(355,230)
Interest expense	(65,780)
Intergovernmental reimbursements	<u>72,451</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	944,050
<u>Cash Flows From Investing Activities:</u>	
Investment income	5,897
Sale (purchase) of investments	<u>114,830</u>
Net Cash Provided By Investing Activities	<u>120,727</u>
Net Change in Cash and Short-Term Investments	1,564,265
Cash and Short-Term Investments, Beginning of Year	<u>1,284,172</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 2,848,437</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income (loss)	\$ (576,500)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	1,414,479
Changes in assets and liabilities:	
Accounts receivable	(193,748)
Accounts payable	(50,698)
Accrued liabilities	(8,291)
Retainage payable	(55,893)
Unearned revenues	(3,216)
Compensated absences	<u>(26,645)</u>
Net Cash Provided By (Used For) Operating Activities	<u><u>\$ 499,488</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 2012, 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 *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.

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. 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.

G. 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

H. 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.

I. 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.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or noncurrent accounts receivable) or can never be spent (i.e. perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.

- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government, the Town Meeting.
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for.
- 5) Unassigned funds are available to be spent in future periods. Individual fund deficits, if any, are classified as unassigned.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

K. 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.

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 to 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	\$ 23,611,264	\$ 22,193,858
Other financing sources (uses) as reported on the financial statements	-	763
Subtotal (GAAP Basis)	23,611,264	22,194,621
To adjust property tax revenue to the budgetary basis	(336,077)	-
To reverse expenditures of prior year appropriation carryforwards	-	(1,561,088)
To book current year appropriation carryforwards	-	1,312,258
To remove capital reserve funds	(5,170)	(352,906)
Budgetary Basis	\$ <u>23,270,017</u>	\$ <u>21,592,885</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 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>	Fair <u>Value</u>	<u>Maturity</u>	<u>Rating</u> ⁽¹⁾
U.S. Treasury notes	\$ 50,307	<1 yr	Aaa
Federal agencies	1,610,470	<1 yr	Aaa
Federal agencies	182,188	1-5 yrs	Aaa
Corporate equities	1,997,906	N/A	N/A
Mutual funds	598,486	N/A	N/A
Total investments	<u>\$ 4,439,357</u>		

⁽¹⁾ As of June 30, 2012

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. There are no investments in any one issuer, other than U.S. Treasury notes, that represent 5% or more of total investments.

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, 2012 consist of the following (in thousands):

Real Estate Levy 2012	\$ 8,886
Current Use	15
Yield Tax	2
Tax Liens	1,305
Deferred Taxes	28
Payments in lieu of taxes	3
Less Allowance for Doubtful Accounts	<u>(271)</u>
Total	<u>\$ 9,968</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. Accounts Receivable

Accounts receivables, as reported in the governmental activities, represent the following receivables:

	<u>Ambulance</u>	<u>Police Detail</u>	<u>Cable Franchise Fees</u>	<u>Turkey Hill Bridge Federal Reimbursement</u>	<u>Other</u>	<u>Total</u>
Gross	\$ 689,848	\$ 89,503	\$ 83,544	\$ 183,798	\$ 392,119	\$ 1,438,812
Less: Allowance for doubtful accounts	<u>(250,498)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,661)</u>	<u>(271,159)</u>
Total	<u>\$ 439,350</u>	<u>\$ 89,503</u>	<u>\$ 83,544</u>	<u>\$ 183,798</u>	<u>\$ 371,458</u>	<u>\$ 1,167,653</u>

7. Capital Assets

Capital asset activity for the year ended June 30, 2012 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 improvements	\$ 8,640,123	\$ 29,725	\$ -	\$ 8,669,848
Improvements other than buildings	1,793,406	-	-	1,793,406
Machinery, equipment, and furnishings	11,385,570	299,628	(273,812)	11,411,386
Infrastructure	<u>75,712,910</u>	<u>3,613,171</u>	<u>-</u>	<u>79,326,081</u>
Total capital assets, being depreciated	97,532,009	3,942,524	(273,812)	101,200,721
Less accumulated depreciation for:				
Buildings and improvements	(3,332,014)	(198,290)	-	(3,530,304)
Improvements other than buildings	(821,059)	(56,060)	-	(877,119)
Machinery, equipment, and furnishings	(7,615,988)	(643,366)	187,873	(8,071,481)
Infrastructure	<u>(38,438,532)</u>	<u>(1,576,942)</u>	<u>-</u>	<u>(40,015,474)</u>
Total accumulated depreciation	<u>(50,207,593)</u>	<u>(2,474,658)</u>	<u>187,873</u>	<u>(52,494,378)</u>
Total capital assets, being depreciated, net	47,324,416	1,467,866	(85,939)	48,706,343
Capital assets, not being depreciated:				
Land	16,850,117	-	-	16,850,117
Construction in progress	<u>2,754,176</u>	<u>1,655,953</u>	<u>(1,007,331)</u>	<u>3,402,798</u>
Total capital assets, not being depreciated	<u>19,604,293</u>	<u>1,655,953</u>	<u>(1,007,331)</u>	<u>20,252,915</u>
Governmental activities capital assets, net	<u>\$ 66,928,709</u>	<u>\$ 3,123,819</u>	<u>\$ (1,093,270)</u>	<u>\$ 68,959,258</u>

(continued)

(continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and systems	\$ 59,625,420	\$ -	\$ -	\$ 59,625,420
Improvements other than buildings	412,390	56,985	-	469,375
Machinery, equipment, and furnishings	9,261,378	-	-	9,261,378
Total capital assets, being depreciated	69,299,188	56,985	-	69,356,173
Less accumulated depreciation for:				
Buildings and systems	(21,519,812)	(1,046,928)	-	(22,566,740)
Improvements other than buildings	(748,754)	(1,973)	-	(750,727)
Machinery, equipment, and furnishings	(6,427,183)	(365,578)	-	(6,792,761)
Total accumulated depreciation	(28,695,749)	(1,414,479)	-	(30,110,228)
Total capital assets, being depreciated, net	40,603,439	(1,357,494)	-	39,245,945
Capital assets, not being depreciated:				
Land	238,770	-	-	238,770
Construction in progress	2,603,635	365,810	(79,857)	2,889,588
Total capital assets, not being depreciated	2,842,405	365,810	(79,857)	3,128,358
Business-type activities capital assets, net	\$ 43,445,844	\$ (991,684)	\$ (79,857)	\$ 42,374,303

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

Governmental Activities:	
General government	\$ 136
Public safety	367
Highway and streets	1,762
Sanitation	90
Culture and recreation	120
Total depreciation expense - governmental activities	\$ 2,475
Business-Type Activities:	
Sewer	\$ 1,414
Total depreciation expense - business-type activities	\$ 1,414

8. Accounts Payable and Accrued Expenses

Accounts payable represent additional 2012 expenditures paid after June 30, 2012.

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, 2012 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 2013 taxes collected on or before June 30, 2012.

11. Note Payable

The Town has a Dewatering Upgrade State Revolving Loan outstanding in the amount of \$2,606,337 at June 30, 2012 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>6/30/12</u>
<u>Governmental Activities:</u>			
Green's Pond Land Bond	08/15/17	3.0 - 4.5%	\$ 1,620,000
Drainage Improvement Bond	08/15/22	4.0 - 4.75%	<u>1,340,000</u>
Total Governmental Activities:			<u>\$ 2,960,000</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/12</u>
Organic Waste Composting			
Facility Bonds	04/01/15	4.63%	\$ 1,007,595
Interceptor Repair	12/01/19	1.85%	<u>502,404</u>
Total Business-Type Activities:			<u>\$ 1,509,999</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 365,000	\$ 117,104	\$ 482,104
2014	370,000	102,026	472,026
2015	375,000	86,397	461,397
2016	380,000	69,873	449,873
2017	385,000	50,466	435,466
2018 - 2022	930,000	119,706	1,049,706
2023	<u>155,000</u>	<u>3,681</u>	<u>158,681</u>
Total	<u>\$ 2,960,000</u>	<u>\$ 549,253</u>	<u>\$ 3,509,253</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, 2012.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 376,600	\$ 56,419	\$ 433,019
2014	391,459	40,477	431,936
2015	407,005	23,848	430,853
2016	55,823	6,498	62,321
2017	55,823	5,415	61,238
2018 - 2022	<u>223,289</u>	<u>10,828</u>	<u>234,117</u>
Total	<u>\$ 1,509,999</u>	<u>\$ 143,485</u>	<u>\$ 1,653,484</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities:

	Total Balance <u>7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/12</u>	Less Current Portion <u>6/30/12</u>	Equals Long-Term Portion <u>6/30/12</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 3,320,000	\$ -	\$ (360,000)	\$ 2,960,000	\$ (365,000)	\$ 2,595,000
Other:						
Landfill closure	660,000	-	(30,000)	630,000	(30,000)	600,000
Accrued employee benefits	1,670,818	68,788	(14,029)	1,725,577	(713,100)	1,012,477
Net OPEB obligation	196,069	59,993	-	256,062	-	256,062
Totals	<u>\$ 5,846,887</u>	<u>\$ 128,781</u>	<u>\$ (404,029)</u>	<u>\$ 5,571,639</u>	<u>\$ (1,108,100)</u>	<u>\$ 4,463,539</u>
	Total Balance <u>7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/12</u>	Less Current Portion <u>6/30/12</u>	Equals Long-Term Portion <u>6/30/12</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,865,229	\$ -	\$ (355,230)	\$ 1,509,999	\$ (376,600)	\$ 1,133,399
Other:						
Accrued employee benefits	97,729	-	(26,645)	71,084	-	71,084
Totals	<u>\$ 1,962,958</u>	<u>\$ -</u>	<u>\$ (381,875)</u>	<u>\$ 1,581,083</u>	<u>\$ (376,600)</u>	<u>\$ 1,204,483</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 \$630,000 as of June 30, 2012, 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, 2012. 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. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2012:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, capital reserve funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2012

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Inventory	\$ 109,901	\$ -	\$ 109,901
Long-term receivable	439,350	-	439,350
Nonexpendable permanent funds	<u>-</u>	<u>918,783</u>	<u>918,783</u>
Total Nonspendable	549,251	918,783	1,468,034
Restricted			
Capital projects	650,000	-	650,000
Library fines	-	155,865	155,865
Fire protection	-	44,717	44,717
Cable television	-	497,194	497,194
Heritage commission	-	25,403	25,403
Conservation	-	52,114	52,114
Current use	-	1,339,120	1,339,120
Expendable permanent funds	<u>-</u>	<u>2,037,150</u>	<u>2,037,150</u>
Total Restricted	650,000	4,151,563	4,801,563
Committed			
Capital reserve funds	<u>3,659,835</u>	<u>-</u>	<u>3,659,835</u>
Total Committed	3,659,835	-	3,659,835
Assigned - encumbrances			
General government	45,234	-	45,234
Public safety	106,600	-	106,600
Highways and streets	1,102,950	-	1,102,950
Culture and recreation	29,581	-	29,581
Community development	<u>27,893</u>	<u>-</u>	<u>27,893</u>
Total Assigned	1,312,258	-	1,312,258
Unassigned	<u>2,315,617</u>	<u>(582)</u>	<u>2,315,035</u>
Total Unassigned	<u>2,315,617</u>	<u>(582)</u>	<u>2,315,035</u>
Total Fund Balance	\$ <u>8,486,961</u>	\$ <u>5,069,764</u>	\$ <u>13,556,725</u>

16. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues 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 Healthcare 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 Activities 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 healthcare and life insurance benefits for retired employees through the Town's single employer defined benefit plan. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of July 1, 2010, the actuarial valuation date, approximately 43 retirees and 184 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 2011 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, 2012, 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, 2010.

Annual Required Contribution (ARC)	\$ 64,615
Interest on net OPEB obligation	8,165
Adjustment to ARC	<u>(12,787)</u>
Annual OPEB cost	59,993
Contributions made	<u>-</u>
Increase in net OPEB obligation	59,993
Net OPEB obligation - beginning of year	<u>196,069</u>
Net OPEB obligation - end of year	<u>\$ 256,062</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:

Fiscal year ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 59,993	0%	\$ 256,062
2011	\$ 59,993	0%	\$ 196,069
2010	\$ 68,038	0%	\$ 136,076
2009	\$ 68,038	0%	\$ 68,038

The Town's net OPEB obligation as of June 30, 2012 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, 2010, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 1,076,514
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,076,514</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, 2010 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 54 Regional Drive, Concord, New Hampshire 03301-8507.

B. Funding Policy

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 9.16% for employees, 14.63% for police and 18.52% for fire. The Town makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and is 9.16% for all other covered employees. The Town's contributions to the System for the years ended June 30, 2012, 2011, and 2010 were \$1,714,339, \$1,496,808, and \$1,324,320, 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, 2012, was \$10,879,199. Employee contributions for the year ended June 30, 2012 were \$1,027,851.

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 Restatement

The beginning (July 1, 2011) fund balances/net assets of the Town's fund basis financial statements have been restated to reflect the transfer of a school permanent fund to the Merrimack School District's financial statements:

	Fund Equity Net Assets 6/30/11 (as previously reported)	Transfer to School District	Fund Equity Net Assets 6/30/11 (as restated)
Governmental Fund Basis:			
Nonmajor governmental funds	\$ <u>6,145,562</u>	\$ <u>(1,328,988)</u>	\$ <u>4,816,574</u>
Governmental Activities	\$ <u>75,774,282</u>	\$ <u>(1,328,988)</u>	\$ <u>74,445,294</u>

21. Implementation of New GASB Standards

- The GASB has issued Statement 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by eliminating the deferred charges. The Town anticipates that by eliminating the deferred charges, its net assets will be reduced accordingly.
- The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Town of Merrimack's actuarially accrued liability.

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

June 30, 2012
(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
07/01/10	\$ -	\$ 1,076,514	\$ 1,076,514	0.0%	N/A	N/A

See Independent Auditors' Report.