

**TOWN OF MERRIMACK, NEW HAMPSHIRE**

**Annual Financial Statements**

**For the Year Ended June 30, 2013**

## **TABLE OF CONTENTS**

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



MELANSON HEATH & COMPANY, PC  
CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

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 (the Town), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress 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  
November 26, 2013

## **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, 2013.

### **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 Position presents information on all assets and liabilities and deferred inflows of resources, with the difference being reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 \$117,979,403 (i.e., net position), a change of \$(1,494,854) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$12,851,484, a change of \$524,801 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the governmental funds was \$2,877,174, a change of \$561,557 in comparison to the prior year.
- Total bonds and loans payable at the close of the current fiscal year was \$6,099,615, change of \$1,629,616 in comparison to the prior year. The Town also had notes payable in the amount of \$132,475 at the close of the current fiscal year, a change of \$(2,473,862) 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>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 49,586	\$ 49,154	\$ 3,869	\$ 4,023	\$ 53,455	\$ 53,177
Capital assets	68,511	68,959	40,224	42,374	108,735	111,333
Total assets	118,097	118,113	44,093	46,397	162,190	164,510
Long-term liabilities outstanding	5,123	5,572	3,656	1,581	8,779	7,153
Other liabilities	1,350	1,267	234	2,713	1,584	3,980
Total liabilities	6,473	6,839	3,890	4,294	10,363	11,133
Deferred inflows of resources	33,838	33,889	10	13	33,848	33,902
Net position:						
Net investment in capital assets	66,036	65,999	36,587	38,259	102,623	104,258
Restricted	4,304	3,840	-	-	4,304	3,840
Unrestricted	7,446	7,546	3,606	3,831	11,052	11,377
Total net position	\$ <u>77,786</u>	\$ <u>77,385</u>	\$ <u>40,193</u>	\$ <u>42,090</u>	\$ <u>117,979</u>	\$ <u>119,475</u>

## CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,080	\$ 2,257	\$ 3,605	\$ 3,913	\$ 5,685	\$ 6,170
Operating grants and contributions	283	497	-	-	283	497
Capital grants and contributions	1,586	4,490	72	72	1,658	4,562
General revenues:						
Property taxes	14,259	14,324	-	-	14,259	14,324
Licenses and permits	4,856	4,718	-	-	4,856	4,718
Grants and contributions not restricted to specific programs	1,135	1,139	-	-	1,135	1,139
Investment income	<u>344</u>	<u>285</u>	<u>4</u>	<u>6</u>	<u>348</u>	<u>291</u>
Total revenues	<u>24,543</u>	<u>27,710</u>	<u>3,681</u>	<u>3,991</u>	<u>28,224</u>	<u>31,701</u>
Expenses:						
General government	3,069	3,189	-	-	3,069	3,189
Public safety	10,915	11,015	-	-	10,915	11,015
Highways and streets	5,998	5,263	-	-	5,998	5,263
Health and welfare	132	150	-	-	132	150
Sanitation	1,283	1,301	-	-	1,283	1,301
Culture and recreation	1,827	2,011	-	-	1,827	2,011
Community development	521	555	-	-	521	555
Interest on long-term debt	120	126	-	-	120	126
Sewer operations	<u>-</u>	<u>-</u>	<u>4,569</u>	<u>4,555</u>	<u>4,569</u>	<u>4,555</u>
Total expenses	<u>23,865</u>	<u>23,610</u>	<u>4,569</u>	<u>4,555</u>	<u>28,434</u>	<u>28,165</u>
Change in net position before special item	<u>678</u>	<u>4,100</u>	<u>(888)</u>	<u>(564)</u>	<u>(210)</u>	<u>3,536</u>
Special item: loss on disposal of assets	<u>(277)</u>	<u>-</u>	<u>(1,009)</u>	<u>-</u>	<u>(1,286)</u>	<u>-</u>
Change in net position	<u>401</u>	<u>4,100</u>	<u>(1,897)</u>	<u>(564)</u>	<u>(1,496)</u>	<u>3,536</u>
Net position - beginning of year, as restated	<u>77,385</u>	<u>73,285</u>	<u>42,090</u>	<u>42,654</u>	<u>119,475</u>	<u>115,939</u>
Net position - end of year	<u>\$ 77,786</u>	<u>\$ 77,385</u>	<u>\$ 40,193</u>	<u>\$ 42,090</u>	<u>\$ 117,979</u>	<u>\$ 119,475</u>

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

The largest portion of net position \$102,622,673 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 cap-



ital 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 position \$4,303,803 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$11,052,927 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 position of \$401,655. Key elements of this change are as follows:

Excess (Deficiency) of revenues and transfers in over expenditures and transfers out:	
General fund operations	\$ (58,907)
Special revenue funds	196,099
Permanent funds	<u>267,400</u>
Subtotal	404,592
Depreciation in excess of debt service principal paydown	(2,249,599)
Capital assets acquired from current and prior year revenues, non-bonded	2,297,852
Other	<u>(51,190)</u>
Total	<u><u>\$ 401,655</u></u>

While total net position of the governmental activities changed by \$401,655, unrestricted net position changed by \$(98,877) 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 change in net position of \$(1,896,509). This change primarily results from the loss on disposal of capital assets.

#### **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 \$524,801 was attributable to the positive operating results of the Cable Television Fund of \$212,034 and Permanent Funds of \$267,400.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,877,174; committed fund balance (non-sewer capital reserves) was \$3,350,255, while total fund balance was \$8,428,054. 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>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>
Unassigned fund balance	\$ 2,877,174	\$ 2,315,617	\$ 561,557
Committed fund balance (Capital Reserves)	3,350,255	3,659,835	(309,580)
Other fund balance	<u>2,200,625</u>	<u>2,511,509</u>	<u>(310,884)</u>
Total fund balance	<u>\$ 8,428,054</u>	<u>\$ 8,486,961</u>	<u>\$ (58,907)</u>
Unassigned fund balance as % of total general fund expenditures	12.5%	10.4%	2.1%
Committed fund balance (Capital Reserves) as a % of total general fund expenditures	14.5%	16.5%	-2.0%
Total fund balance as % of general fund expenditures <sup>(1)</sup>	36.5%	38.2%	-1.7%

<sup>(1)</sup>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 \$(58,907) during the current fiscal year. Key factors in this change are as follows:

Revenues less than budget	\$ (652,181)
Expenditures less than budget	1,731,020
Expenditures of prior year encumbrances over current year encumbrances	(907,468)
Other	<u>(230,278)</u>
Total	<u>\$ (58,907)</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 position of the Sewer Fund at the end of the year amounted to \$3,606,097, a change of \$(225,507) 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 \$313,455. The majority of the overall change represents unanticipated Police and Fire grants as well as FEMA grants, 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 savings of over \$110,996.
- A savings of over \$455,000 in wages and other benefits was realized due primarily to vacancies and attrition.
- Compensated absences were lower than expected saving the Town \$100,450.
- Utilities were less than anticipated, resulting in a savings of over \$46,808.
- Welfare appropriations were under spent by \$38,481.
- Building and grounds maintenance overspent by \$62,830.
- Maintenance on machinery and equipment was overdrawn by \$37,950.
- Uniforms appropriations exceeded expenditures by \$31,693.
- Education was over spent by \$7,833.
- Legal expenditures were less than budget by \$32,000.
- Capital expenditures were less than appropriations by \$609,803.
- Daycamp expenditures were less than budget by \$55,330.
- Traffic details were under spent by \$327,644.
- Auto registrations were \$150,814 over estimate revenues.
- Interest income was under projections by over \$242,337.

- Ambulance revenues were under projections by \$28,530.
- Highway Block Grant was under projections by \$5,611.
- Current use taxes were below the budget by \$33.982.
- State revenue sharing was under estimates by \$3,275.
- Building permits were over projections by just over \$33,000.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$108,735,135 (net of accumulated depreciation), a change of \$(2,598,426) 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 the Wire Road Bridge, Amherst Road, and dewatering upgrade.

**Credit rating.** The Town 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 debt outstanding for bonds and loans was \$6,099,615, 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 10 of this report.

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

The Town's financial position is strong. The Town has sufficient cash flow to 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. The Town is 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 down to 4.7% from the previous year of 5.8%, and it still compares favorably with the state and national averages of 5.1% and 7.6%, 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 2013-14 budget has been adopted, and the 2013 property tax rate (Fiscal Year 2013) has been set. The total tax rate is \$23.91. Municipal appropriations, net of non-tax revenues, have decreased by \$1,158,503 (3.84%) compared to 2012-13 net appropriations, and the municipal portion of the tax rate is \$5.29 per thousand. The Town's portion of the tax rate will increase by fifteen cents due to cost associated with 5 union contracts. The Town's assessed valuation increased by \$47.7 Million over the 2012-13 value. If the new assessed valuation did not occur, the tax rate would have increased by twenty cents.

### **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 POSITION

JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current:			
Cash and cash equivalents	\$ 37,465,626	\$ 1,614,582	\$ 39,080,208
Investments	4,631,516	1,637,251	6,268,767
Taxes receivable, net	5,278,648	-	5,278,648
Accounts receivable, net	834,325	616,754	1,451,079
Inventory	142,478	-	142,478
Other assets	25,242	-	25,242
Noncurrent:			
Taxes receivable	1,207,828	-	1,207,828
Capital assets:			
Capital assets not being depreciated	17,167,004	648,386	17,815,390
Other assets, net of accumulated depreciation	51,344,076	39,575,669	90,919,745
<b>TOTAL ASSETS</b>	<b>\$ 118,096,743</b>	<b>\$ 44,092,642</b>	<b>\$ 162,189,385</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
LIABILITIES:			
Current:			
Accounts payable	\$ 344,359	\$ 64,414	\$ 408,773
Accrued expenses	678,519	37,202	715,721
Due to other governments	10,000	-	10,000
Note payable	-	132,475	132,475
Other liabilities	316,310	-	316,310
Current portion of long-term liabilities:			
Bonds payable	370,000	654,927	1,024,927
Other liabilities	646,929	81,735	728,664
Noncurrent:			
Bonds payable, net of current portion	2,225,000	2,849,688	5,074,688
Other liabilities, net of current portion	1,881,148	69,492	1,950,640
<b>TOTAL LIABILITIES</b>	<b>6,472,265</b>	<b>3,889,933</b>	<b>10,362,198</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>33,838,137</b>	<b>9,647</b>	<b>33,847,784</b>
<b>NET POSITION:</b>			
Net investment in capital assets	66,035,708	36,586,965	102,622,673
Restricted for:			
Permanent funds:			
Nonexpendable	570,335	-	570,335
Expendable	1,422,956	-	1,422,956
Other statutory restrictions	2,310,512	-	2,310,512
Unrestricted	7,446,830	3,606,097	11,052,927
<b>TOTAL NET POSITION</b>	<b>77,786,341</b>	<b>40,193,062</b>	<b>117,979,403</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 118,096,743</b>	<b>\$ 44,092,642</b>	<b>\$ 162,189,385</b>

The accompanying notes are an integral part of these financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

Program Revenues					Net(Expenses) Revenues and Changes in Net Postion		
		Charges for	Operating	Capital	Governmental	Business-	
	Expenses	Services	Grants and	Grants and	Activities	Type	Total
			Contributions	Contributions		Activities	
<b>Governmental Activities:</b>							
General government	\$ 3,069,475	\$ 590,787	\$ 81,486	\$ -	\$ (2,397,202)	\$ -	\$ (2,397,202)
Public safety	10,914,605	1,094,056	181,362	-	(9,639,187)	-	(9,639,187)
Highways and streets	5,998,214	2,642	-	1,586,595	(4,408,977)	-	(4,408,977)
Health and welfare	132,276	6,075	-	-	(126,201)	-	(126,201)
Sanitation	1,283,353	150,012	-	-	(1,133,341)	-	(1,133,341)
Culture and recreation	1,826,916	233,993	834	-	(1,592,089)	-	(1,592,089)
Community development	521,061	2,847	19,106	-	(499,108)	-	(499,108)
Interest and fiscal charges	119,493	-	-	-	(119,493)	-	(119,493)
Total Governmental Activities	23,865,393	2,080,412	282,788	1,586,595	(19,915,598)	-	(19,915,598)
<b>Business-Type Activities:</b>							
Sewer	4,568,748	3,605,115	-	72,451	-	(891,182)	(891,182)
Total	\$ 28,434,141	\$ 5,685,527	\$ 282,788	\$ 1,659,046	(19,915,598)	(891,182)	(20,806,780)
<b>General Revenues:</b>							
Property and other taxes					14,258,638	-	14,258,638
Licenses and permits					4,855,720	-	4,855,720
Grants and contributions:							
State shared revenues					1,135,497	-	1,135,497
Investment income					343,915	4,239	348,154
Miscellaneous					327	-	327
Special item:							
Loss on disposal of capital assets					(276,844)	(1,009,566)	(1,286,410)
Total general revenues and special items					20,317,253	(1,005,327)	19,311,926
Change in Net Position					401,655	(1,896,509)	(1,494,854)
<b>Net Position:</b>							
Beginning of year, as restated					77,384,686	42,089,571	119,474,257
End of year					\$ 77,786,341	\$ 40,193,062	\$ 117,979,403

The accompanying notes are an integral part of these financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 34,901,027	\$ 2,564,598	\$ 37,465,625
Investments	2,840,805	1,790,711	4,631,516
Taxes receivable, net	6,486,476	-	6,486,476
Accounts receivable, net	748,118	86,207	834,325
Inventory	142,478	-	142,478
Other assets	25,242	-	25,242
TOTAL ASSETS	<u>\$ 45,144,146</u>	<u>\$ 4,441,516</u>	<u>\$ 49,585,662</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 337,459	\$ 6,898	\$ 344,357
Accrued expenses	632,476	-	632,476
Due to other governments	10,000	-	10,000
Accrued compensated absences payable	616,929	-	616,929
Other liabilities	316,310	-	316,310
TOTAL LIABILITIES	1,913,174	6,898	1,920,072
DEFERRED INFLOWS OF RESOURCES	34,802,918	11,188	34,814,106
<b>FUND BALANCES</b>			
Nonspendable	605,895	570,335	1,176,230
Restricted	650,000	3,853,095	4,503,095
Committed	3,350,255	-	3,350,255
Assigned	944,730	-	944,730
Unassigned	2,877,174	-	2,877,174
TOTAL FUND BALANCES	<u>8,428,054</u>	<u>4,423,430</u>	<u>12,851,484</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 45,144,146</u>	<u>\$ 4,441,516</u>	<u>\$ 49,585,662</u>

The accompanying notes are an integral part of these financial statements.



TOWN OF MERRIMACK, NEW HAMPSHIRE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET POSITION OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2013

<b>Total governmental fund balances</b>	<b>\$ 12,851,484</b>
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	68,511,080
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	975,969
<ul style="list-style-type: none"><li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(46,044)
<ul style="list-style-type: none"><li>• 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.</li></ul>	<u>(4,506,148)</u>
<b>Net position of governmental activities</b>	<b>\$ <u>77,786,341</u></b>

The accompanying notes are an integral part of these financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 14,280,717	\$ 2,890	\$ 14,283,607
Charges for services	1,945,064	135,347	2,080,411
Intergovernmental	2,416,032	3,374	2,419,406
Licenses and permits	4,315,982	539,738	4,855,720
Investment income	59,114	284,801	343,915
Miscellaneous	-	331	331
Total Revenues	23,016,909	966,481	23,983,390
<b>Expenditures:</b>			
Current:			
General government	2,790,346	30,298	2,820,644
Public safety	10,640,975	82,735	10,723,710
Highways and streets	5,752,447	2,805	5,755,252
Health and welfare	136,716	-	136,716
Sanitation	1,246,826	-	1,246,826
Culture and recreation	1,505,724	267,523	1,773,247
Community development	520,090	-	520,090
Debt service:			
Principal retirement	365,000	-	365,000
Interest and fiscal charges	117,104	-	117,104
Total Expenditures	23,075,228	383,361	23,458,589
Excess (deficiency) of revenues over expenditures	(58,319)	583,120	524,801
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	588	588
Transfers out	(588)	-	(588)
Total Other Financing Sources (Uses)	(588)	588	-
Change in fund balance	(58,907)	583,708	524,801
Fund Equity, at Beginning of Year, as restated	8,486,961	3,839,722	12,326,683
Fund Equity, at End of Year	\$ 8,428,054	\$ 4,423,430	\$ 12,851,484

The accompanying notes are an integral part of these 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, 2013

<b>Net changes in fund balances - Total governmental funds</b>	<b>\$ 524,801</b>
<ul style="list-style-type: none"> <li>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:</li> </ul>	
Capital outlay purchases	2,297,852
Depreciation	(2,614,599)
Loss on disposal of assets	(131,431)
<ul style="list-style-type: none"> <li>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.</li> </ul>	(24,970)
<ul style="list-style-type: none"> <li>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 position:</li> </ul>	
Repayments of debt	365,000
<ul style="list-style-type: none"> <li>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	(2,389)
<ul style="list-style-type: none"> <li>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.</li> </ul>	
Compensated absences	85,688
Other post employment benefits liability	(128,297)
Landfill liability	<u>30,000</u>
<b>Change in net position of governmental activities</b>	<b>\$ <u>401,655</u></b>

The accompanying notes are an integral part of these 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, 2013

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>Revenues and other sources:</b>				
Property taxes	\$ 14,201,415	\$ 14,201,415	\$ 14,201,415	\$ -
Charges for services	2,335,802	2,479,490	1,945,064	(534,426)
Intergovernmental	1,746,203	1,915,969	1,917,555	1,586
Licenses and permits	4,192,985	4,156,538	4,315,982	159,444
Investment income	300,000	300,000	57,663	(242,337)
Other	-	36,448	-	(36,448)
Total Revenues	22,776,405	23,089,860	22,437,679	(652,181)
<b>Expenditures and other uses:</b>				
Current:				
General government	2,776,350	2,945,176	2,695,588	249,588
Public safety	11,235,672	11,337,410	10,264,450	1,072,960
Highways and streets	3,860,076	3,893,408	3,759,124	134,284
Health and welfare	174,729	174,729	136,247	38,482
Sanitation	1,143,416	1,143,416	1,223,392	(79,976)
Culture and recreation	1,627,838	1,628,823	1,567,527	61,296
Community development	533,919	542,493	288,107	254,386
Debt service	482,105	482,105	482,105	-
Other financing uses:				
Transfers out	942,300	942,300	942,300	-
Total Expenditures	22,776,405	23,089,860	21,358,840	1,731,020
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,078,839	\$ 1,078,839

The accompanying notes are an integral part of these financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

PROPRIETARY FUND

STATEMENT OF NET POSITION

JUNE 30, 2013

	Sewer Fund
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 1,614,582
Investments	1,637,251
User charges receivable	<u>616,754</u>
Total current assets	3,868,587
Noncurrent:	
Nondepreciable capital assets	648,386
Other capital assets, net of accumulated depreciation	<u>39,575,669</u>
Total noncurrent assets	<u>40,224,055</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 44,092,642</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	
LIABILITIES:	
Current:	
Accounts payable	\$ 64,414
Accrued liabilities	37,202
Note payable	132,475
Current portion of long-term liabilities:	
Bonds payable	654,927
Compensated absences	<u>81,735</u>
Total current liabilities	970,753
Noncurrent:	
Bonds payable, net of current portion	2,849,688
Compensated absences	<u>69,492</u>
Total noncurrent liabilities	<u>2,919,180</u>
<b>TOTAL LIABILITIES</b>	3,889,933
<b>DEFERRED INFLOWS OF RESOURCES</b>	9,647
<b>NET POSITION:</b>	
Net investment in capital assets	36,586,965
Unrestricted	<u>3,606,097</u>
<b>TOTAL NET POSITION</b>	<u>40,193,062</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u><u>\$ 44,092,642</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Sewer Fund</u>
<b>Operating Revenues:</b>	
Charges for services	\$ 3,557,636
Licenses and permits	805
Other	46,674
	<hr/>
Total Operating Revenues	3,605,115
<b>Operating Expenses:</b>	
Personnel services	1,683,106
Non-personnel services	1,358,372
Depreciation	1,393,485
	<hr/>
Total Operating Expenses	4,434,963
	<hr/>
Operating Income (Loss)	(829,848)
<b>Nonoperating Revenues (Expenses):</b>	
Intergovernmental grants	72,451
Investment income	4,239
Interest expense	(133,785)
	<hr/>
Total Nonoperating Revenues (Expenses), Net	(57,095)
	<hr/>
Change in net position before special item	(886,943)
<b>Special Item:</b>	
Loss on disposal of capital assets	(1,009,566)
	<hr/>
Change in net position	(1,896,509)
Net Position at Beginning of Year	42,089,571
	<hr/>
Net Position at End of Year	\$ 40,193,062
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

TOWN OF MERRIMACK, NEW HAMPSHIRE  
 PROPRIETARY FUND  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2013

	Sewer Fund
<b><u>Cash Flows From Operating Activities:</u></b>	
Receipts from customers and users	\$ 3,685,004
Payments of employee salaries and related expenses	(1,602,963)
Payments to vendors and suppliers	<u>(1,364,103)</u>
Net Cash Provided By (Used For) Operating Activities	717,938
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>	
Acquisition and construction of capital assets	(252,803)
Issuance of short term loans	160,822
Principal payments on bonds and notes	(640,068)
Interest expense	(133,785)
Intergovernmental reimbursements	<u>110,538</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(755,296)
<b><u>Cash Flows From Investing Activities:</u></b>	
Investment income	4,239
Sale (purchase) of investments	<u>(1,200,736)</u>
Net Cash Provided By (Used For) Investing Activities	<u>(1,196,497)</u>
Net Change in Cash and Short-Term Investments	(1,233,855)
Cash and Short-Term Investments, Beginning of Year	<u>2,848,437</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 1,614,582</u></u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>	
Operating income (loss)	\$ (829,848)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	1,393,485
Changes in assets and liabilities:	
Accounts receivable	83,104
Accounts payable	18,546
Accrued liabilities	14,085
Retainage payable	(38,362)
Unearned revenues	(3,215)
Compensated absences	<u>80,143</u>
Net Cash Provided By (Used For) Operating Activities	<u><u>\$ 717,938</u></u>

The accompanying notes are an integral part of these 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 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.

#### B. Government-wide and Fund Financial Statements

##### Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) 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.

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 guar-

anteed 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.

Capital assets are 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 Position.

*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 position”.

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 Position* - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists 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 position is 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. The remaining net position is 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	\$ 23,016,909	\$ 23,075,228
Other financing sources (uses) as reported on the financial statements	<u>-</u>	<u>588</u>
Subtotal (GAAP Basis)	23,016,909	23,075,816
To adjust property tax revenue to the budgetary basis	(79,302)	-
To reverse expenditures of prior year appropriation carryforwards	-	(1,852,198)
To book current year appropriation carryforwards	-	944,730
To remove capital reserve funds	<u>(499,928)</u>	<u>(809,508)</u>
Budgetary Basis	\$ <u>22,437,679</u>	\$ <u>21,358,840</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>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u> <sup>(1)</sup>
Federal agencies	\$ 173,706	<1 yr	Aaa
Certificates of deposit	4,288,547	1-5 yrs	N/A
Corporate equities	1,741,469	N/A	N/A
Mutual funds	<u>65,045</u>	N/A	N/A
Total investments	<u>\$ 6,268,767</u>		

<sup>(1)</sup> As of June 30, 2013

#### **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, 2013 consist of the following (in thousands):

Real Estate Levy 2013	\$ 5,416
Tax Liens	1,336
Deferred Taxes	43
Less Allowance for Doubtful Accounts	<u>(309)</u>
Total	<u>\$ 6,486</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>Other</u>	<u>Total</u>
Gross	\$ 729,936	\$ 50,317	\$ 86,207	\$ 249,687	\$ 1,116,147
Less: Allowance for doubtful accounts	<u>(261,560)</u>	<u>-</u>	<u>-</u>	<u>(20,262)</u>	<u>(281,822)</u>
Total	<u>\$ 468,376</u>	<u>\$ 50,317</u>	<u>\$ 86,207</u>	<u>\$ 229,425</u>	<u>\$ 834,325</u>

## 7. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,669,848	\$ -	\$ (19,203)	\$ 8,650,645
Improvements other than buildings	1,793,406	-	-	1,793,406
Machinery, equipment, and furnishings	11,411,386	479,298	(732,007)	11,158,677
Infrastructure	79,326,081	4,904,465	(182,405)	84,048,141
Total capital assets, being depreciated	101,200,721	5,383,763	(933,615)	105,650,869
Less accumulated depreciation for:				
Buildings and improvements	(3,530,304)	(198,289)	19,203	(3,709,390)
Improvements other than buildings	(877,119)	(55,648)	-	(932,767)
Machinery, equipment, and furnishings	(8,071,481)	(692,082)	622,469	(8,141,094)
Infrastructure	(40,015,474)	(1,668,580)	160,512	(41,523,542)
Total accumulated depreciation	(52,494,378)	(2,614,599)	802,184	(54,306,793)
Total capital assets, being depreciated, net	48,706,343	2,769,164	(131,431)	51,344,076
Capital assets, not being depreciated:				
Land	16,850,117	15,001	-	16,865,118
Construction in progress	3,402,798	166,887	(3,267,799)	301,886
Total capital assets, not being depreciated	20,252,915	181,888	(3,267,799)	17,167,004
Governmental activities capital assets, net	\$ 68,959,258	\$ 2,951,052	\$ (3,399,230)	\$ 68,511,080
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and systems	\$ 59,631,132	\$ 2,638,002	\$ (1,666,915)	\$ 60,602,219
Improvements other than buildings	412,390	-	-	412,390
Machinery, equipment, and furnishings	9,312,651	94,773	(3,603,166)	5,804,258
Total capital assets, being depreciated	69,356,173	2,732,775	(5,270,081)	66,818,867
Less accumulated depreciation for:				
Buildings and systems	(22,566,740)	(1,074,303)	1,309,444	(22,331,599)
Improvements other than buildings	(396,605)	(1,972)	-	(398,577)
Machinery, equipment, and furnishings	(7,146,883)	(317,210)	2,951,071	(4,513,022)
Total accumulated depreciation	(30,110,228)	(1,393,485)	4,260,515	(27,243,198)
Total capital assets, being depreciated, net	39,245,945	1,339,290	(1,009,566)	39,575,669
Capital assets, not being depreciated:				
Land	238,770	-	-	238,770
Construction in progress	2,889,588	132,475	(2,612,447)	409,616
Total capital assets, not being depreciated	3,128,358	132,475	(2,612,447)	648,386
Business-type activities capital assets, net	\$ 42,374,303	\$ 1,471,765	\$ (3,622,013)	\$ 40,224,055

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 134,641
Public safety	386,467
Highway and streets	1,896,558
Sanitation	104,695
Culture and recreation	<u>92,238</u>
Total depreciation expense - governmental activities	\$ <u>2,614,599</u>
Business-Type Activities:	
Sewer	\$ <u>1,393,485</u>
Total depreciation expense - business-type activities	\$ <u>1,393,485</u>

## 8. Accounts Payable and Accrued Expenses

Accounts payable represent additional fiscal year 2013 expenditures paid after June 30, 2013. Accrued expenses primarily represent fiscal year 2013 payroll paid after June 30, 2013.

## 9. Note Payable

The Town has the following State Revolving Loans outstanding at June 30, 2013 in the sewer fund.

	Serial Maturities Through	Interest Rate(s)	Amount Outstanding as of 6/30/13
<u>Business-Type Activities:</u>			
Treatment Plant Upgrade	01/01/15	*	\$ 78,690
Compost Facility Upgrade	01/01/15	*	<u>53,785</u>
Total Business-Type Activities:			\$ <u>132,475</u>

\*Interest rate is the lesser of 3.104% or adjusted market rate.

The following is the activity in sewer notes payable for the fiscal year 2013.

	Amount Outstanding as of <u>06/30/12</u>	New Issues	Reductions	Amount Outstanding as of <u>6/30/13</u>
Dewatering Upgrade	\$ 2,606,337	28,347	(2,634,684)	\$ -
Treatment Plant Upgrade	-	78,690	-	78,690
Compost Facility Upgrade	<u>-</u>	<u>53,785</u>	<u>-</u>	<u>53,785</u>
Total	\$ <u>2,606,337</u>	<u>160,822</u>	<u>(2,634,684)</u>	\$ <u>132,475</u>

## 10. Long-Term Debt

### A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of <u>6/30/13</u>
<u>Governmental Activities:</u>			
Green's Pond Land Bond	08/15/17	3.0 - 4.5%	\$ 1,350,000
Drainage Improvement Bond	08/15/22	4.0 - 4.75%	<u>1,245,000</u>
Total Governmental Activities:			\$ <u>2,595,000</u>
	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of <u>6/30/13</u>
<u>Business-Type Activities:</u>			
Organic Waste Composting Facility Bonds	04/01/15	4.63%	\$ 686,818
Interceptor Repair	12/01/19	1.94%	446,581
Dewatering Upgrade	02/01/22	1.70%	<u>2,371,216</u>
Total Business-Type Activities:			\$ <u>3,504,615</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2013 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	390,000	36,650	426,650
2019 - 2023	<u>695,000</u>	<u>86,738</u>	<u>781,738</u>
Total	\$ <u>2,595,000</u>	\$ <u>432,150</u>	\$ <u>3,027,150</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, 2013.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 654,927	\$ 80,788	\$ 735,715
2015	670,473	59,680	730,153
2016	319,291	37,851	357,142
2017	319,291	32,289	351,580
2018	319,291	26,727	346,018
2019 - 2022	<u>1,221,342</u>	<u>51,286</u>	<u>1,272,628</u>
Total	\$ <u>3,504,615</u>	\$ <u>288,621</u>	\$ <u>3,793,236</u>

**C. Changes in General Long-Term Liabilities**

During the year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Total Balance 7/1/12	Additions	Reductions	Total Balance 6/30/13	Less Current Portion	Equals Long-Term Portion 6/30/13
<u>Governmental Activities</u>						
Bonds payable	\$ 2,960,000	\$ -	\$ (365,000)	\$ 2,595,000	\$ (370,000)	\$ 2,225,000
Other:						
Landfill closure	630,000	-	(30,000)	600,000	(30,000)	570,000
Accrued employee benefits	1,725,577	-	(181,859)	1,543,718	(616,929)	926,789
Net OPEB obligation	256,062	128,297	-	384,359	-	384,359
Totals	<u>\$ 5,571,639</u>	<u>\$ 128,297</u>	<u>\$ (576,859)</u>	<u>\$ 5,123,077</u>	<u>\$ (1,016,929)</u>	<u>\$ 4,106,148</u>
	Total Balance 7/1/12	Additions	Reductions	Total Balance 6/30/13	Less Current Portion	Equals Long-Term Portion 6/30/13
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,509,999	\$ 2,634,684	\$ (640,068)	\$ 3,504,615	\$ (654,927)	\$ 2,849,688
Other:						
Accrued employee benefits	71,084	80,143	-	151,227	(81,735)	69,492
Totals	<u>\$ 1,581,083</u>	<u>\$ 2,714,827</u>	<u>\$ (640,068)</u>	<u>\$ 3,655,842</u>	<u>\$ (736,662)</u>	<u>\$ 2,919,180</u>

## 11. 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 \$600,000 as of June 30, 2013, 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, 2013. 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.

## 12. Deferred Inflows of Resources

The Town implemented GASB 65, *Items Previously Reported as Assets and Liabilities*. Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2013:

	Entity-wide Basis		Fund Basis		
	Governmental Activities	Business-type Activities	Governmental Funds General Fund	NonMajor Funds	Proprietary Fund Sewer Fund
Unearned revenues	\$ 5,681,662	\$ 9,647	\$ 6,646,443	\$ 11,188	\$ 9,647
Taxes collected in advance	28,156,475	-	28,156,475	-	-
Total	<u>\$ 33,838,137</u>	<u>\$ 9,647</u>	<u>\$ 34,802,918</u>	<u>\$ 11,188</u>	<u>\$ 9,647</u>

### 13. **Restricted Net Position**

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

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

### 14. **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 following types of fund balances are reported at June 30, 2013:

**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, 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, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Inventory	\$ 142,478	\$ -	\$ 142,478
Long-term receivable	463,417	-	463,417
Nonexpendable permanent funds	-	570,335	570,335
Total Nonspendable	605,895	570,335	1,176,230
Restricted			
Capital projects	650,000	119,627	769,627
Library fines	-	153,236	153,236
Fire protection	-	47,431	47,431
Cable television	-	709,228	709,228
Heritage commission	-	25,522	25,522
Conservation	-	51,705	51,705
Current use	-	1,323,390	1,323,390
Expendable permanent funds	-	1,422,956	1,422,956
Total Restricted	650,000	3,853,095	4,503,095
Committed			
Capital reserve funds	3,350,255	-	3,350,255
Total Committed	3,350,255	-	3,350,255
Assigned - encumbrances			
General government	28,740	-	28,740
Public safety	79,971	-	79,971
Highways and streets	711,706	-	711,706
Culture and recreation	102,802	-	102,802
Community development	13,203	-	13,203
Sanitation	8,308	-	8,308
Total Assigned	944,730	-	944,730
Unassigned	2,877,174	-	2,877,174
Total Unassigned	2,877,174	-	2,877,174
Total Fund Balance	\$ 8,428,054	\$ 4,423,430	\$ 12,851,484



## **15. 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.

## **16. 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 Position 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, 2013, 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)	\$ 104,316
Interest on net OPEB obligation	12,803
Adjustment to ARC	<u>11,178</u>
Annual OPEB cost	128,297
Contributions made	<u>-</u>
Increase in net OPEB obligation	128,297
Net OPEB obligation - beginning of year	<u>256,062</u>
Net OPEB obligation - end of year	<u>\$ 384,359</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
2013	\$ 128,297	0%	\$ 384,359
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, 2013 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)	\$ 1,081,415
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 1,081,415</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></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%.

## 17. **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 7% for general employees, 11.55% for police and 11.80% 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 19.95% for police officers, 22.89% for fire employees, and 8.80% for all other covered employees. The Town's contributions to the System for the years ended June 30, 2013, 2012, and 2011 were \$1,645,107, \$1,714,339, and \$1,496,808, 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, 2013, was \$10,697,246. Employee contributions for the year ended June 30, 2013 were \$1,008,747.

## 18. 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.

## 19. Beginning Fund Balance/Net Position Restatement

The beginning (July 1, 2012) fund balances/net position of the Town's fund basis financial statements have been restated to reflect the transfer of school permanent funds to the Merrimack School District's financial statements:

	Fund Equity Net Assets 6/30/12 (as previously reported)	Transfer to School District	Fund Equity Net Assets 6/30/12 (as restated)
Governmental Fund Basis:			
Nonmajor governmental funds	\$ 5,069,764	\$ (1,230,043)	\$ 3,839,721
Governmental Activities	\$ 78,614,729	\$ (1,230,043)	\$ 77,384,686

## 20. Implementation of New GASB Standard

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 New Hampshire Retirement System's actuarially accrued liability.

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

**June 30, 2013**  
**(Unaudited)**

**Other Post-Employment Benefits**

---

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
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
07/01/12	\$ -	\$ 1,530,251	\$ 1,530,251	0.0%	N/A	N/A

See Independent Auditors' Report.