

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**Financial Statements**  
**With Schedule of Expenditures of Federal Awards**  
**June 30, 2007**  
**and**  
**Independent Auditor's Report**

**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance  
With *Government Auditing Standards***

**Report on Compliance With Requirements Applicable  
to Each Major Program and on Internal Control Over  
Compliance in Accordance With OMB Circular A-133**

**Schedule of Findings and Questioned Costs**

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**FINANCIAL STATEMENTS**  
**June 30, 2007**

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**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**FINANCIAL STATEMENTS**  
**June 30, 2007**

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# Vachon, Clukay & Co., PC

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen and Town Manager  
Town of Merrimack, New Hampshire

We have audited the accompanying financial statements of the governmental 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, 2007, 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 *Government 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 the 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, each major fund, and the aggregate remaining fund information of the Town of Merrimack as of June 30, 2007, and the respective changes in financial position, thereof 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 our report dated February 22, 2008 on our consideration of the Town of Merrimack, New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Required Supplementary Information on pages i-viii and 21-23, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Merrimack's basic financial statements. The combining financial statements listed as schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Vachon, Chabry & Co., PC*

February 22, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Having responsibility for the financial management of the Town of Merrimack ("Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2007.

### Financial Highlights

As of June 30, 2007 the assets of the Town exceeded its liabilities by \$122,702,159 (net assets). Of this amount, \$7,811,508 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.

The Town's net assets increased by \$22,599,227.

As of June 30, 2007, the Town's governmental funds reported combined ending fund balances of \$20,943,981, a decrease of \$4,771,917 in comparison with the prior year. Of this total amount, \$7,623,382 (36.4%) is available for spending at the Town's discretion (unreserved fund balance).

As of June 30, 2007, the \$3,336,823 unreserved fund balance of the General Fund represented 15.9% of total General Fund expenditures.

During the 2006-07 fiscal year, the Town's total debt decreased by \$519,465 (8.8%). This decrease was due solely to principal payments, as no new debt was issued.

### Overview of the Financial Statements

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

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

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

The Statement of Activities presents information showing how the Town's net assets changed during 2006-07. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

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

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

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

The Town maintains six individual governmental funds. 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 and the Sewer Fund, which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement, because the resources of those funds are not available to support the Town's own programs.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The Town adopts an annual appropriated budget for all of its governmental funds. A budgetary comparison statement for the General and Sewer Fund has been provided to demonstrate compliance with this budget.

The combining statements, referred to above in connection with non-major governmental funds, are presented immediately following the required supplementary information on budgets.

### Government-Wide Financial Analysis

As noted above, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$122,702,159 at June 30, 2007.

By far the largest portion of the Town's net assets (84.1%) reflects its investment in capital assets (e.g., land, buildings and system, other improvements, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### Town of Merrimack Net Assets Governmental Activities

	<u>06/30/07</u>	<u>06/30/06</u>
Current assets	\$ 52,433,962	\$ 60,244,239
Capital assets	<u>108,603,415</u>	<u>81,790,432</u>
Total assets	161,037,377	142,034,671
Long-term liabilities outstanding	6,842,625	7,284,529
Current liabilities	<u>31,492,593</u>	<u>34,681,908</u>
Total liabilities	38,335,218	41,966,437
Net assets:		
Invested in capital assets, net of related debt	103,217,780	75,885,332
Restricted	11,672,871	16,278,169
Unrestricted	<u>7,811,508</u>	<u>7,904,733</u>
Total net assets	\$ 122,702,159	\$100,068,234

An additional portion of the Town's net assets (9.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of



unrestricted net assets (\$7,811,508) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2007, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

As indicated by the schedule below, the Town's net assets increased by \$22,599,227 during 2006-07.

Town of Merrimack  
Changes in Net Assets

	<u>2006-07</u>	<u>2005-06</u>
Revenues:		
Program revenues:		
Charges for services	\$ 4,999,154	\$ 5,503,721
Operating grants and contributions	1,357,136	1,305,382
Capital grants and contributions	25,839,628	285,694
General revenues:		
Property taxes and other taxes	8,567,035	13,453,682
Licenses and permits	4,817,521	5,009,547
Investment income	2,538,595	1,633,273
State shared revenues	1,271,504	1,198,772
Miscellaneous	<u>278,688</u>	<u>181,469</u>
Total revenues	49,669,261	28,571,540
Expenses:		
General government	3,676,391	4,146,051
Public safety	9,645,268	9,513,585
Highways and streets	4,938,298	4,313,110
Health and welfare	173,686	172,972
Sanitation	5,598,543	5,018,467
Culture and recreation	2,794,682	2,638,080
Interest and fiscal charges	<u>243,166</u>	<u>263,568</u>
Total expenses	<u>27,070,034</u>	<u>26,065,833</u>
Change in net assets	22,599,227	2,505,707
Net assets – July 1	<u>100,068,234</u>	<u>97,562,527</u>
Net assets – June 30	\$122,702,159	\$100,068,234

## Financial Analysis of the Town's Funds

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

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

As of June 30, 2007, the Town's governmental funds reported combined fund balances of \$20,943,981, a decrease of \$4,771,917 in comparison to the prior year. Of this total amount, \$7,623,382 (36.4%) constitutes unreserved fund balance, which is available for spending at the Town's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending, because it has already been committed: to endowments (\$2,587,675); to encumbrances (\$1,647,728); to capital reserve fund expenditures (\$9,085,196).

The General Fund is the chief operating fund of the Town. As of June 30, 2007, unreserved fund balance of the General Fund was \$3,336,823, while total fund balance amounted to \$4,733,136. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 16.1% of total general Fund expenditures, while total fund balance represents 35.5% of that same amount.

## Budgetary Highlights

The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual demonstrates compliance with the adopted budget for 2006-07. The differences between the original budget and the final amended budget reflect the formal acceptance by the Town Council of unanticipated grants in accordance with Article 8-15 of the Town Charter.

Actual revenues and transfers in of the General Fund were under budgetary estimates by \$346,808, while appropriations exceeded expenditures and transfers by \$1,696,357. This produced a favorable net variance of \$1,349,549. Major variances are identified below.

- Renewal health insurance rates were significantly less than anticipated, resulting in a savings of over \$269,000.
- Renewal insurance rates were significantly less than anticipated, resulting in a savings of over \$92,000.
- A savings from Compensated absences of just under \$108,000.
- A savings from utilities of just over \$232,000.
- A savings of over \$647,000 in wages and other benefits was realized due primarily to vacancies and attrition.

- Vehicle fuel had a significant savings of \$301,000.
- Building Maintenance and Grounds appropriations were under budgeted in excess of \$76,000
- Vehicle Maintenance appropriations were under budgeted in excess of \$113,000
- Sand and Salt appropriations were in excess of \$50,000.
- Education and Training was under spent by in excess of \$73,000.
- Appropriations for solid waste disposal at a remote site exceeded expenditures by over \$69,000 due to an unanticipated reduction in solid waste tonnage from commercial haulers.
- Engineering Plan and Review appropriations were in excess of expenditures by \$84,000.
- Outside Detail appropriations were in excess of expenditures by \$250,000

Actual revenues of the Sewer Fund were under budgetary estimates by \$867,824, and appropriations exceeded expenditures by \$50,352. This produced an unfavorable net variance of \$817,472. Several factors were the cause of this variance. Fund Balance was reduce thus creating an unfavorable variance of \$93,000 in interest revenue. Intergovernmental Revenue was also unfavorable variance of \$179,000. In addition a shortfall of approximately \$595,000 in industrial sewer rents that was attributable primarily to reduced loadings from Anheuser-Busch.

#### Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets as of June 30, 2007 amounted to \$103,217,780 (net of accumulated depreciation and related long-term debt). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, roads, bridges, and traffic signals and represents an increase of \$27,332,448 (36%) compared to the investment in capital assets at June 30, 2006.

#### Town of Merrimack Investment in Capital Assets

	<u>06/30/07</u>	<u>06/30/06</u>
Land	\$ 16,416,119	\$ 16,426,819
Buildings and improvements	58,117,722	39,081,609
Land improvements	1,896,625	1,788,336
Vehicles and equipment	19,746,747	19,679,957
Infrastructure	70,333,395	64,101,795
Construction in progress	<u>8,769,444</u>	<u>3,846,762</u>
Total investment in capital assets	175,280,052	144,925,278
Related long-term debt	( 5,385,635)	( 5,905,100)
Accumulated depreciation	<u>( 66,676,637)</u>	<u>( 63,134,846)</u>
Net investment in capital assets	\$ 103,217,780	\$ 75,885,332

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

Sewer Line Capitalization	\$ 18,938,453
Three loaders for Wastewater Treatment Division	343,464
Upgrade Heating System Library	103,336
Town Accepted 14 New roads	6,231,600
Camp Sargent Road Sewer (WIP)	254,755
Waste Water Building Improvements (WIP)	3,813,561
Souhegan Sewer Line (WIP)	610,221
Other capital assets acquisitions - individually less than \$100,000	771,627
Decrease in related long-term debt	519,465
Depreciation	( 3,541,791)
Book value of disposals	( 712,243)
Net increase	\$ 27,332,448

Additional information on the Town's capital assets can be found in Note 6 of the financial statements.

Long-term debt. As of June 30, 2007, the Town had total long-term debt outstanding of \$5,385,635. Although \$2,410,635 of this debt will be paid from sewer rents, the entire amount is backed by the full faith and credit of the Town.

#### Town of Merrimack Long-Term Debt

	<u>06/30/07</u>	<u>06/30/06</u>
Land acquisition bonds	2,975,000	3,250,000
Compost facility bonds	<u>2,410,635</u>	<u>2,655,100</u>
Total long-term debt	\$5,385,635	\$5,905,100

During 2006-067 the Town's total debt decreased by \$519,465 (9%). This decrease was due solely to principal payments, as no new debt was issued.

Additional information on the Town's long-term debt can be found in Note 8 of the financial statements.

#### Economic Factors and Next Year's Budget and Tax Rate

Economic factors. The general outlook for the Town's economy is positive. Although the unemployment rate for Merrimack is up slightly to 3.6% from the previous year of 3.5%, it still compares favorably with the state and national averages of 3.4% and 4.6%, respectively. Furthermore, it appears that the steady industrial, commercial, and residential growth that Merrimack has experienced in recent years will continue to increase the tax base and to provide diverse employment opportunities.

Next year's budget and tax rate. The 2007-08 budget has been adopted, and the 2007 property tax rate has been set. Municipal appropriations, net of non-tax revenues, have increased by \$2,470,528 (11.4%) compared to 2006-07 net appropriations, and the municipal portion of the tax rate increased by 25.5%. The use of General Fund surplus and return of remaining Library Building Capital Reserve Fund for tax relief significantly offset increase in General Fund Appropriations. In addition the return of \$4.8 million dollars from the Merrimack School District's allowed the 2007 property tax rate will increase by approximately 1%.

#### Requests For Information

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

Town of Merrimack  
6 Baboosic Lake Road  
Merrimack, NH 03054

Respectfully submitted,



Keith R Hickey  
Town Manager



Paul T. Micali, CPA  
Finance Director

**EXHIBIT A**  
**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**Statement of Net Assets**  
**June 30, 2007**

	Governmental Activities
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 19,773
Equity in pooled cash and investments	31,537,639
Investments	11,735,142
Taxes receivable, net	6,991,287
Accounts receivable, net	1,531,324
Due from other governments	476,716
Prepaid expenses	57,518
Inventory	84,563
Total Current Assets	<u>52,433,962</u>
Noncurrent Assets:	
Nondepreciable capital assets	25,185,563
Capital assets, net	83,417,852
Total Noncurrent Assets	<u>108,603,415</u>
Total Assets	<u>\$ 161,037,377</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 693,307
Accrued expenses	512,786
Retainage payable	347,957
Deferred revenue	28,301,475
Due to other governments	10,000
Deposits	555,707
Total Current Liabilities	<u>30,421,232</u>
Noncurrent Liabilities:	
Due within one year	1,071,361
Due in more than one year	6,842,625
Total Noncurrent Liabilities	<u>7,913,986</u>
Total Liabilities	<u>38,335,218</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	103,217,780
Restricted	11,672,871
Unrestricted	7,811,508
Total Net Assets	<u>122,702,159</u>
Total Liabilities and Net Assets	<u>\$ 161,037,377</u>

*See accompanying notes to the basic financial statements*

**EXHIBIT B**  
**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**

					Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	<u>Expenses</u>	Program Revenues			Governmental <u>Activities</u>
		Charges for <u>Services</u>	Operating Grants and <u>Contributions</u>	Capital Grants and <u>Contributions</u>	
Governmental Activities:					
General government	\$ 3,676,391	\$ 306,272	\$ 41,515	\$ 254,755	\$ (3,073,849)
Public safety	9,645,268	846,399	356,863		(8,442,006)
Highways and streets	4,938,298	79,594	640,194	6,278,423	2,059,913
Health and welfare	173,686				(173,686)
Sanitation	5,598,543	3,599,382	317,244	19,306,450	17,624,533
Culture and recreation	2,794,682	167,507	1,320		(2,625,855)
Interest and fiscal charges	243,166	-	-	-	(243,166)
Total governmental activities	<u>\$ 27,070,034</u>	<u>\$ 4,999,154</u>	<u>\$ 1,357,136</u>	<u>\$ 25,839,628</u>	<u>5,125,884</u>
General revenues:					
					8,567,035
					4,817,521
Grants and contributions:					
					1,267,455
					4,049
					2,538,595
					278,688
					<u>17,473,343</u>
					22,599,227
					<u>100,102,932</u>
					\$ 122,702,159

*See accompanying notes to the basic financial statements*

**EXHIBIT C**  
**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

	General Fund	Sewer Fund	Capital Reserve Funds	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,623		\$ 4,485	\$ 13,665	\$ 19,773
Equity in pooled cash and investments	27,461,886	\$ 2,013,731	1,336,424	725,598	31,537,639
Investments			7,600,972	4,134,170	11,735,142
Taxes receivable, net	6,995,601		12,100		7,007,701
Accounts receivable, net	944,245	577,477		9,602	1,531,324
Due from other governments	274,831	201,885			476,716
Due from other funds	62,091	3,000	196,081		261,172
Prepaid expenses	57,518				57,518
Inventory	84,563				84,563
Total Assets	<u>\$ 35,882,358</u>	<u>\$ 2,796,093</u>	<u>\$ 9,150,062</u>	<u>\$ 4,883,035</u>	<u>\$ 52,711,548</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 613,409	\$ 73,348		\$ 6,550	\$ 693,307
Accrued expenses	439,192	-			439,192
Retainage payable	88,693	259,264			347,957
Deferred revenue	28,879,845	28,940		40,874	28,949,659
Due to other governments	10,000				10,000
Due to other funds	51,803	144,278	\$ 64,866	225	261,172
Deposits	555,707				555,707
Accrued compensated absences payable	510,573				510,573
Total Liabilities	<u>31,149,222</u>	<u>505,830</u>	<u>64,866</u>	<u>47,649</u>	<u>31,767,567</u>
<b>FUND BALANCES</b>					
Reserved for endowments				2,587,675	2,587,675
Reserved for encumbrances	1,396,313	251,415			1,647,728
Reserved for special purposes			9,085,196		9,085,196
Unreserved, reported in:					
General fund	3,336,823				3,336,823
Special revenue funds		2,038,848		847,925	2,886,773
Permanent funds				1,399,786	1,399,786
Total Fund Balances	<u>4,733,136</u>	<u>2,290,263</u>	<u>9,085,196</u>	<u>4,835,386</u>	<u>20,943,981</u>
Total Liabilities and Fund Balances	<u>\$ 35,882,358</u>	<u>\$ 2,796,093</u>	<u>\$ 9,150,062</u>	<u>\$ 4,883,035</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities (other than tax deeded property) are not financial resources and, therefore, are not reported in the funds	108,587,001
Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis	648,184
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year end consist of:	
Bonds payable	(5,385,635)
Accrued interest on long-term obligations	(73,594)
Compensated absences	(1,237,778)
Estimated liability for landfill postclosure care costs	(780,000)
Net assets of governmental activities	<u>\$ 122,702,159</u>

See accompanying notes to the basic financial statements



**EXHIBIT D**

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

	General Fund	Sewer Fund	Capital Reserve Funds	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 8,335,911		\$ 109,984		\$ 8,445,895
Licenses and permits	4,615,371	\$ 1,150		\$ 201,000	4,817,521
Intergovernmental	2,883,395	367,997	46,823		3,298,215
Charges for services	1,607,456	3,332,382		59,316	4,999,154
Investment income	1,044,776	31,186	681,841	780,792	2,538,595
Miscellaneous	208,001	3,802	30,000	36,885	278,688
Total Revenues	<u>18,694,910</u>	<u>3,736,517</u>	<u>868,648</u>	<u>1,077,993</u>	<u>24,378,068</u>
<b>Expenditures:</b>					
Current operations:					
General government	3,321,729		16,795	29,802	3,368,326
Public safety	9,165,332			57,581	9,222,913
Highways and streets	2,641,363				2,641,363
Health and welfare	173,686				173,686
Sanitation	1,289,553	3,509,546			4,799,099
Culture and recreation	2,260,433		17,507	213,864	2,491,804
Capital outlay	1,412,809	20,510	4,200,257	50,147	5,683,723
Debt service:					
Principal retirement	275,000	244,465			519,465
Interest and fiscal charges	126,622	122,984			249,606
Total Expenditures	<u>20,666,527</u>	<u>3,897,505</u>	<u>4,234,559</u>	<u>351,394</u>	<u>29,149,985</u>
Excess of revenues over (under) expenditures	<u>(1,971,617)</u>	<u>(160,988)</u>	<u>(3,365,911)</u>	<u>726,599</u>	<u>(4,771,917)</u>
Other financing sources (uses):					
Operating transfers in	2,639,347		877,647	3,300	3,520,294
Operating transfers out	<u>(880,947)</u>	<u>-</u>	<u>(2,639,347)</u>	<u>-</u>	<u>(3,520,294)</u>
Total other financing sources (uses)	<u>1,758,400</u>	<u>-</u>	<u>(1,761,700)</u>	<u>3,300</u>	<u>-</u>
Excess of revenues and other sources under expenditures and other uses	<u>(213,217)</u>	<u>(160,988)</u>	<u>(5,127,611)</u>	<u>729,899</u>	<u>(4,771,917)</u>
Fund balances at beginning of year, as restated	<u>4,946,353</u>	<u>2,451,251</u>	<u>14,212,807</u>	<u>4,105,487</u>	<u>25,715,898</u>
Fund balances at end of year	<u>\$ 4,733,136</u>	<u>\$ 2,290,263</u>	<u>\$ 9,085,196</u>	<u>\$ 4,835,386</u>	<u>\$ 20,943,981</u>

**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, 2007**

Net Change in Fund Balances--Total Governmental Funds	\$ (4,771,917)
Amounts reported for governmental activities in the statement of activities are different because:	
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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,043,021
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the net loss on the disposal of capital assets reduced by the actual proceeds received from the sale of capital assets.	(400,091)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	121,140
Donations of capital assets are not reported in the funds, but the in-kind donations increase net assets.	25,170,053
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	519,465
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	6,440
Some expense reported in the statement of activities, such as compensated absences and the estimated liability for landfill postclosure care costs, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(38,884)
Change in Net Assets of Governmental Activities	<u>\$22,599,227</u>

**EXHIBIT E**  
**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2007**

	Agency Funds
<b>ASSETS</b>	
Investments	<u>\$ 2,936,774</u>
Total assets	<u><u>\$ 2,936,774</u></u>
<b>LIABILITIES</b>	
Due to other governments	<u>\$ 2,936,774</u>
Total liabilities	<u><u>\$ 2,936,774</u></u>

*See accompanying notes to the basic financial statements*

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2007**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Town of Merrimack, New Hampshire conform to accounting policies generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

***Financial 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.

The financial statements include those of the various departments governed by the Board of Selectmen and other officials with financial responsibility, including the Town Trustees of Trust Funds and the Trustees of the Merrimack Public Library.

***Basis of Presentation***

The Town's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**1. Government-Wide Financial Statements:**

The statement of net assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the Town at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Town.

**2. Fund Financial Statements:**

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

***Fund Accounting***

The Town uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and fiduciary.

**1. Governmental Funds:**

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Town's major governmental funds:

The General Fund is the operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

The Sewer Fund accounts for all revenues and expenses pertaining to the Town's sanitation operations.

The Capital Reserve Funds account for all financial resources of the various trust arrangements, held by the Trustees of Trust Funds in which the principal and income benefit the various departments of the Town.

**2. Fiduciary Funds:**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category has one classification: agency funds. Trust funds are used to account for assets held by the Town under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Town's own programs. The Town's agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. The Town's agency fund accounts for the School District's capital reserve funds.

***Measurement Focus***

**1. Government-Wide Financial Statements:**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the Statement of Net Assets.

**2. Fund Financial Statements:**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses)

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

***Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**1. Revenues – Exchange and Non-exchange Transactions:**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Town, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 2). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Town must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes and interest on investments.

Licenses and permits, charges for services, and miscellaneous revenues (except interest on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received.

**2. Deferred Revenue:**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

**3. Expenses/Expenditures:**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

***Budgetary Data***

The Town's budget represents departmental appropriations as authorized by annual or special Town meetings. The Selectmen may transfer funds between operating categories as they deem necessary. The Town adopts its budget under State regulations, which differ somewhat from accounting principles generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended June 30, 2007, the Town applied \$1,005,408 of its unappropriated fund balance to fund appropriations and to reduce property taxes.

***Encumbrance Accounting***

Encumbrance accounting, under which purchase orders and other commitments for expenditure of monies are recorded in order to reserve a portion of the applicable appropriation, is employed as an extension of formal budgetary integration in Governmental Funds. Encumbrances outstanding at year end are reported as a component of fund balance since they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services.

***Cash and Cash Equivalents***

The Town pools its cash resources for the governmental funds. Cash applicable to a particular fund is reflected as "equity in pooled cash and investments". If a cash deficiency occurs it is recorded as an interfund balance. The deposits and investments of the Library Fund, the Capital Reserve and Permanent Funds are held separately from those of other Town funds.

***Investments***

Investments are stated at their fair value in all funds. The investment in land in the permanent fund is stated at cost. Certificates of deposit with a maturity of greater than ninety days from the date of issuance are included in investments.

***Taxes Receivable***

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2007 are recorded as receivables net of reserves for estimated uncollectibles of \$93,132.

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

***Prepaid Expenses***

Payments made to vendors for services that will benefit periods beyond June 30, 2007 are recorded as prepaid items.

***Inventory***

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

***Capital Assets***

General capital assets result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets including infrastructure are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$10,000. The Town's infrastructure consists of roads, bridges, sidewalks, sewer collection and treatment system, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the Town's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Infrastructure	50
Land improvements	7-50
Buildings and improvements	20-45
Vehicles and equipment	6-20

***Compensated Absences***

Employees earn vacation and sick leave as they provide services. Provision is made in the annual budget for vacation and sick leave. Pursuant to Town personnel policy and collective bargaining agreements, employees may accumulate (subject to certain limitations) unused sick pay earned and, upon retirement, resignation or death will be compensated for such amounts at current rates of pay.

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee death or retirement. The entire compensated absence liability is reported on the government-wide financial statements.

***Accrued Liabilities and Long-Term Obligations***

All payables and accrued liabilities are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they are due for payment during the current fiscal year. General obligation bonds that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

***Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings 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.

The Town's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

***Fund Balance Reserves***

The Town reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. A fund balance reserve has been established for encumbrances and special purposes.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in the proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.



**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

**NOTE 2--PROPERTY TAXES**

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$3,183,586,101 as of April 1, 2006) and are due in two installments on July 3, 2006 and December 4, 2006. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

Under State law, the Tax Collector obtains tax liens on properties which have unpaid taxes in the following calendar year after taxes were due for the amount of unpaid taxes, interest and costs. These priority tax liens accrue interest at 18% per annum. If the property is not redeemed within a two year redemption period, the property is tax deeded to the Town.

In accordance with State law, the Town collects taxes for the Merrimack School District and Hillsborough County, independent governmental units, which are remitted to them as required by law. The Town also collects State of New Hampshire Education taxes, which are remitted directly to the school district. Taxes appropriated during the year were \$43,346,967 and \$3,203,764 for the Merrimack School District and Hillsborough County, respectively. These taxes are not recognized as revenues in these financial statements. The Town bears responsibility for uncollected taxes.

**NOTE 3--RISK MANAGEMENT**

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the Town was a member of the New Hampshire Municipal Association Property-Liability Insurance Trust, Inc. (NHMA-PLIT) and the New Hampshire Public Risk Management Exchange (PRIMEX). The Town currently reports all of its risk management activities in its General Fund. The Trust is classified as a "Risk Pool" in accordance with accounting principles generally accepted in the United States of America.

NHMA-PLIT is a Trust organized to provide certain property and liability insurance coverages to member towns, cities, and other qualified political subdivision of New Hampshire. As a member of the NHMA-PLIT, the Town shares in contributing to the cost of and receiving benefits from a self-insured pooled risk management program. The program includes a Self Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss.

PRIMEX provides statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. The Trust is self-sustaining through annual member premiums and provides coverage for the statutorily required workers' compensation benefits and employer's liability coverage up to \$2,000,000. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

The Trust agreements permit the Trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trusts foresee no likelihood of an additional assessment for any of the past years.

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2007.

**NOTE 4--DEPOSITS AND INVESTMENTS**

Deposits and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 19,773
Equity in pooled cash and investments	31,537,639
Investments	11,735,142
Statement of fiduciary net assets:	
Investments	<u>2,936,774</u>
Total cash and investments	<u>\$ 46,229,328</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 1,623
Deposits with financial institutions	29,458,635
Investments	<u>16,769,070</u>
Total cash and investments	<u>\$ 46,229,328</u>

The Town has combined the cash resources of its governmental fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as equity in pooled cash and investments.

The Town's investment policy for governmental fund types requires that deposits and investments be made in New Hampshire based financial institutions that are participants in one of the federal depository insurance programs. A maximum of \$2,000,000 may be invested without perfected collateral in any one bank. An unsecured deposit or an investment of more than \$100,000 must meet criteria set by the Board of Selectmen regarding the bank's financial condition. The Town participates in the New Hampshire Public Deposit Investment Pool, (NHPDIP) an external investment pool. 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. Investments for other funds are at the discretion of the trustees of those funds.

***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. One of the ways that the Town manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time.

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided by the following table that shows the distribution of investments by maturity:

<u>Investment Type</u>		<u>Remaining Maturity</u> <u>(in Years)</u>	
		<u>0-1 Years</u>	<u>More Than 5 Years</u>
U.S. Treasury Bills	\$ 59,034	\$ 59,034	
U.S. Treasury Notes	910,628	910,628	
Corporate bonds	40,120		\$ 40,120
	<u>\$ 1,009,782</u>	<u>\$ 969,662</u>	<u>\$ 40,120</u>

***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. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>
Corporate bonds	\$ 40,120	\$ 16,156	\$ 9,596	\$ 14,368	
Mutual funds	5,881,143				\$ 5,881,143
	<u>\$ 5,921,263</u>	<u>\$ 16,156</u>	<u>\$ 9,596</u>	<u>\$ 14,368</u>	<u>\$ 5,881,143</u>

***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty 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.

Of the Town's deposits with financial institutions at year end \$27,159,927 was collateralized by securities held by the bank in the bank's name. As of June 30, 2007, District investments in the following investment types were held by the same counterparty that was used to buy the securities.

<u>Investment Type</u>	<u>Reported Amount</u>
U.S government securities	\$ 910,628
Equity securities	3,174,620
Corporate bonds	40,120
Money market funds	1,546,359
Mutual funds	5,453,828
	<u>\$ 11,125,555</u>

**NOTE 5--DUE FROM OTHER GOVERNMENTS**

Receivables from other governments at June 30, 2007 consists of state shared revenues, EPA funding and other miscellaneous amounts due from federal and state sources. All receivables are considered

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables is as follows:

Due from State of New Hampshire	\$ 437,418
Due from other municipalities	<u>39,298</u>
	<u>\$ 476,716</u>

**NOTE 6--CAPITAL ASSETS**

The following is a summary of changes in capital assets in the governmental funds:

	Balance <u>7/1/2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2007</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 16,426,819		\$ (10,700)	\$ 16,416,119
Construction in process	<u>3,846,762</u>	<u>\$ 4,922,682</u>		<u>8,769,444</u>
Total capital assets not being depreciated	<u>20,273,581</u>	<u>4,922,682</u>	<u>(10,700)</u>	<u>25,185,563</u>
Other capital assets:				
Infrastructure	64,101,795	6,231,600		70,333,395
Land improvements	1,788,336	108,289		1,896,625
Buildings and systems	39,081,609	19,041,789	(14,200)	58,109,198
Vehicles and equipment	<u>19,679,957</u>	<u>762,657</u>	<u>(3,539,789)</u>	<u>16,902,825</u>
Total other capital assets at historical cost	<u>124,651,697</u>	<u>26,144,335</u>	<u>(3,553,989)</u>	<u>147,242,043</u>
Less accumulated depreciation for:				
Infrastructure	(31,510,771)	(1,402,704)		(32,913,475)
Land improvements	(918,606)	(60,386)		(978,992)
Buildings and systems	(19,187,795)	(1,033,706)	8,524	(20,212,977)
Vehicles and equipment	<u>(11,517,674)</u>	<u>(1,044,995)</u>	<u>2,843,922</u>	<u>(9,718,747)</u>
Total accumulated depreciation	<u>(63,134,846)</u>	<u>(3,541,791)</u>	<u>2,852,446</u>	<u>(63,824,191)</u>
Total other capital assets, net	<u>61,516,851</u>	<u>22,602,544</u>	<u>(701,543)</u>	<u>83,417,852</u>
Total capital assets, net	<u>\$ 81,790,432</u>	<u>\$ 27,525,226</u>	<u>\$ (712,243)</u>	<u>\$ 108,603,415</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 60,885
Public safety	362,151
Highways and streets	1,664,023
Sanitation	1,325,765
Culture and recreation	<u>128,967</u>
Total governmental activities depreciation expense	<u>\$ 3,541,791</u>

During the year ending June 30, 2007, the Town accepted numerous donated capital assets. These assets have been recorded at the fair value as of the date received and are included in the government-wide financial statements. The total value received and capitalized during the year is as follows:

Infrastructure	<u>\$ 25,170,053</u>
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**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

**NOTE 7—EMPLOYEE BENEFIT PLAN**

*New Hampshire Retirement System*

*Plan Description*

The Town contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer defined benefit pension plan administered by the NHRS Board of Trustees. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 4 Chenell Drive, Concord, New Hampshire 03301.

*Funding Policy*

Covered public safety employees are required to contribute 9.3% of their covered salary and the Town is required to contribute at an actuarially determined rate. The Town's contribution rates for the covered payroll of police officers, fire employees and general employees were 9.68%, 14.36% and 6.81%, respectively. The Town contributes 65% of the employer cost for police officers and fire employees and the State contributes the remaining 35% of the employer cost. In accordance with accounting principles generally accepted in the United States of America (GASB #24), on-behalf fringe benefits contributed by the State of New Hampshire of \$327,000 have been reported as a revenue and expenditure of the General Fund in these financial statements.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The Town's contributions to the NHRS for the years ending June 30, 2007, 2006, and 2005 were \$945,227, \$983,739, and \$762,982, respectively, equal to the required contributions for each year.

**NOTE 8—LONG-TERM OBLIGATIONS**

*Changes in Long-Term Obligations*

The changes in the Town's long-term obligations for the year ended June 30, 2007 are as follows:

	Balance <u>7/1/2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2007</u>	Due Within <u>One Year</u>
Governmental activities:					
Bonds payable	\$ 5,905,100		\$ (519,465)	\$ 5,385,635	\$ 530,788
Compensated absences	<u>1,668,084</u>	<u>\$ 177,303</u>	<u>(97,036)</u>	<u>1,748,351</u>	<u>510,573</u>
	<u>\$ 7,573,184</u>	<u>\$ 177,303</u>	<u>\$ (616,501)</u>	<u>\$ 7,133,986</u>	<u>\$ 1,041,361</u>

Payments on the general obligation bonds are paid out of the General Fund and the Sewer Fund. Compensated absences will be paid from the General Fund. Payments on the landfill postclosure care costs are paid out of the General Fund.

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

***General Obligation Bonds***

Bonds payable at June 30, 2007 are comprised of the following individual issues:

\$4,725,549 Organic Waste Composting Facility Bonds due in annual payments of \$367,449, including interest at 4.632%, through April 1, 2015	\$ 2,410,635
\$4,075,000 Green's Pond Land Bond due in annual installments of \$270,000 - \$275,000 through August 15, 2017; interest at 3.0% - 4.5%	2,975,000
	<u>\$ 5,385,635</u>

Debt service requirements to retire general obligation bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 530,788	\$ 228,659	\$ 759,447
2009	537,637	206,597	744,234
2010	550,033	183,401	733,434
2011	563,005	159,629	722,634
2012	576,577	135,257	711,834
2013-2017	2,357,595	300,290	2,657,885
2018	270,000	6,075	276,075
	<u>\$ 5,385,635</u>	<u>\$ 1,219,908</u>	<u>\$ 6,605,543</u>

As included on the Statement of Activities (Exhibit B), interest expense for the year ended June 30, 2007 was \$243,166 on general obligation debt for the Town of Merrimack.

**NOTE 9—LANDFILL POSTCLOSURE CARE COSTS**

State and federal laws and regulations require that the Town place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. An estimated liability has been recorded based on the future postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. These postclosure care costs are based on the amount of the landfill used. The estimated liability for postclosure care costs has a balance of \$780,000 as of June 30, 2006, which is based on 98.5% usage of the landfill. The estimated total cost of postclosure care of \$780,000 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, 2007. However, the actual cost of postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The remaining postclosure care costs are expected to be financed in the General Fund.

The following is a summary of changes in the estimated liability for closure and postclosure care costs for the year ended June 30, 2007:

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

	Balance 7/1/2006	Additions	Reductions	Balance 6/30/2007	Amounts Due Within One Year
Governmental activities	\$ 810,000	\$ -	\$ (30,000)	\$ 780,000	\$ 30,000

**NOTE 10—INTERFUND BALANCES AND TRANSFERS**

The Town has combined the cash resources of its governmental fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance. Interfund balances at June 30, 2007 are as follows:

	General Fund	Sewer Fund	Due from Capital Reserve Funds	Other Governmental Funds	Totals
Due to					
General Fund			\$ 61,866	\$ 225	\$ 62,091
Sewer Fund			3,000		3,000
Capital Reserve Funds	\$ 51,803	\$ 144,278			196,081
	\$ 51,803	\$ 144,278	\$ 64,866	\$ 225	\$ 261,172

During the year, several interfund transactions occurred between funds. The General Fund received \$2,639,347 from the Library Construction Capital Reserve Fund as the fund was discontinued. The Heritage Commission Fund and the Capital Reserve Funds received funds from the General Fund. Interfund transfers for the year ended June 30, 2007 are as follows:

	General Fund	Transfer from Capital Reserve Funds	Totals
Transfer to			
General Fund		\$ 2,639,347	\$ 2,639,347
Capital Reserve Funds	\$ 877,647		877,647
Other Governmental Funds	3,300		3,300
	\$ 880,947	\$ 2,639,347	\$ 3,520,294

**NOTE 11--RESTRICTED NET ASSETS**

Net assets are restricted for specific purposes as follows:

	Governmental Activities
Endowments	\$ 2,587,675
Capital Reserve	9,085,196
	\$ 11,672,871

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

**NOTE 12—PERMANENT FUNDS**

Cemetery care funds are accounted for as permanent funds. The principal amounts of all cemetery care funds are restricted in that only income earned may be expended. Principal and income balances at June 30, 2007 are as follows:

	<u>Principal</u>	<u>Income</u>	<u>Total</u>
Cemetery Funds	\$ 2,557,675	\$ 1,396,771	\$ 3,954,446
Library Funds	30,000	3,015	33,015
	<u>\$ 2,587,675</u>	<u>\$ 1,399,786</u>	<u>\$ 3,987,461</u>

**NOTE 13—RESTATEMENT OF EQUITY**

*Change in Estimate*

Government-Wide Financial Statements

Net assets of the General Fund have been restated as of July 1, 2005 because of an error in the amount of compensated absences recorded and an overstatement of accrued payroll. Net assets of the governmental activities as of July 1, 2005 have been restated as follows:

	<u>Governmental Activities</u>
Balance, July 1 - as previously reported	\$ 100,068,234
Amount of restatement due to:	
Change in estimate of IRS ruling	34,698
Balance, July 1 - as restated	<u>\$ 100,102,932</u>

Fund Financial Statements

The fund balance of the General Fund as of July 1, 2006 has been restated as follows:

	<u>General Fund</u>
Fund Balance, July 1, 2006 (as previously reported)	\$ 4,911,655
Amount of restatement due to:	
Overstatement of accrued payroll	34,698
Fund Balance, July 1, 2006 - as restated	<u>\$ 4,946,353</u>

**NOTE 14—COMMITMENTS AND CONTINGENCIES**

*Other Contingencies*

The Town participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of



**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2007**

expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

**NOTE 15—SUBSEQUENT EVENTS**

During July 2007, the Town issued general obligation bonds of \$1,677,300. The bonds have an interest rate of 4.47% and mature on August 15, 2022.

**SCHEDULE 1****TOWN OF MERRIMACK, NEW HAMPSHIRE****Statement of Revenues, Expenditures and Changes in Fund Balances****Budget and Actual (Budgetary Basis) - General Fund****For the Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues:				
Taxes	\$ 8,264,555	\$ 8,264,555	\$ 8,457,051	\$ 192,496
Licenses and permits	4,681,642	4,681,642	4,615,371	(66,271)
Intergovernmental	2,709,791	2,752,768	2,312,756	(440,012)
Charges for services	2,087,814	2,038,595	1,607,456	(431,139)
Interest income	600,000	600,000	1,044,776	444,776
Miscellaneous	380,043	161,364	210,510	49,146
Total Revenues	<u>18,723,845</u>	<u>18,498,924</u>	<u>18,247,920</u>	<u>(251,004)</u>
Expenditures:				
Current:				
General government	4,207,507	4,207,432	3,713,721	493,711
Public safety	9,510,258	9,433,420	8,916,397	517,023
Highways and streets	2,946,708	3,057,092	2,770,907	286,185
Health and welfare	180,605	177,471	173,686	3,785
Sanitation	1,435,972	1,435,972	1,285,504	150,468
Culture and recreation	2,713,089	2,488,153	2,265,545	222,608
Capital outlay	365,108	334,786	302,211	32,575
Debt service:				
Principal retirement	275,000	275,000	275,000	-
Interest and fiscal charges	126,624	126,624	126,622	2
Total Expenditures	<u>21,760,871</u>	<u>21,535,950</u>	<u>19,829,593</u>	<u>1,706,357</u>
Excess revenues over (under) expenditures	<u>(3,037,026)</u>	<u>(3,037,026)</u>	<u>(1,581,673)</u>	<u>1,455,353</u>
Other financing uses:				
Operating transfers in	2,735,151	2,735,151	2,639,347	(95,804)
Operating transfers out	(870,947)	(870,947)	(880,947)	(10,000)
Total other financing uses	<u>1,864,204</u>	<u>1,864,204</u>	<u>1,758,400</u>	<u>(105,804)</u>
Excess revenues over (under) expenditures and other uses	<u>(1,172,822)</u>	<u>(1,172,822)</u>	<u>176,727</u>	<u>1,349,549</u>
Fund balances at beginning of year				
- Budgetary Basis, as restated	<u>3,831,166</u>	<u>3,831,166</u>	<u>3,831,166</u>	<u>-</u>
Fund balances at end of year				
- Budgetary Basis	<u>\$ 2,658,344</u>	<u>\$ 2,658,344</u>	<u>\$ 4,007,893</u>	<u>\$ 1,349,549</u>

*See accompanying notes to the required supplementary information*

**SCHEDULE 2****TOWN OF MERRIMACK, NEW HAMPSHIRE****Statement of Revenues, Expenditures and Changes in Fund Balances****Budget and Actual (Budgetary Basis) - Sewer Fund****For the Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Licenses and permits	\$ 600	\$ 600	\$ 1,150	\$ 550
Intergovernmental	72,451	546,951	367,997	(178,954)
Charges for services	3,927,075	3,927,075	3,332,382	(594,693)
Interest income	125,000	125,000	31,186	(93,814)
Miscellaneous	4,715	4,715	3,802	(913)
Total Revenues	<u>4,129,841</u>	<u>4,604,341</u>	<u>3,736,517</u>	<u>(867,824)</u>
Expenditures:				
Current:				
Sanitation	3,228,904	3,703,404	3,629,297	74,107
Capital outlay	11,188	11,188	34,943	(23,755)
Debt service:				
Principal retirement	244,465	244,465	244,465	-
Interest and fiscal charges	122,984	122,984	122,984	-
Total Expenditures	<u>3,607,541</u>	<u>4,082,041</u>	<u>4,031,689</u>	<u>50,352</u>
Excess revenues over (under) expenditures	<u>522,300</u>	<u>522,300</u>	<u>(295,172)</u>	<u>(817,472)</u>
Fund balances at beginning of year				
- Budgetary Basis	<u>2,334,020</u>	<u>2,334,020</u>	<u>2,334,020</u>	<u>-</u>
Fund balances at end of year				
- Budgetary Basis	<u>\$ 2,856,320</u>	<u>\$ 2,856,320</u>	<u>\$ 2,038,848</u>	<u>\$ (817,472)</u>

*See accompanying notes to the required supplementary information*

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2007**

**NOTE 1—BUDGET TO ACTUAL RECONCILIATION**

***General Fund***

Amounts recorded as budgetary amounts in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) – General Fund (Schedule 1) and in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) – Sewer Fund (Schedule 2) are reported on the basis budgeted by the Town. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). Property tax budgetary revenues are recognized when levied rather than when susceptible to accrual. General Fund budgetary expenditures were adjusted for encumbrances and on-behalf payments for fringe benefits as follows:

	<u>Revenues and Transfers</u>	<u>Expenditures and Transfers</u>
per Exhibit D	\$ 21,334,257	\$ 21,547,474
Difference in property taxes meeting susceptible to accrual criteria	121,140	
Encumbrances, June 30, 2006	(264,016)	(1,906,247)
Encumbrances, June 30, 2007	22,886	1,396,313
On-behalf fringe benefits	(327,000)	(327,000)
per Schedule 1	<u>\$ 20,887,267</u>	<u>\$ 20,710,540</u>

***Sewer Fund***

The Sewer Fund budgetary expenditures were adjusted for encumbrances as follows:

	<u>Expenditures and Transfers</u>
per Exhibit D	\$ 3,897,505
Encumbrances, June 30, 2006	(117,231)
Encumbrances, June 30, 2007	251,415
per Schedule 2	<u>\$ 4,031,689</u>

SCHEDULE I  
**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**Schedule of Expenditures of Federal Awards**  
For the Year Ended June 30, 2007

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
<b>DEPARTMENT OF AGRICULTURE</b>		
Pass Through Payments from New Hampshire Department of Education Special Milk Program for Children	10.556	\$ <u>1,116</u>
<b>Total Department of Agriculture</b>		<u>1,116</u>
<b>DEPARTMENT OF TRANSPORTATION</b>		
Pass Through Payments from New Hampshire Department of Transportation Highway Planning and Construction	20.205	<u>46,823</u>
<b>Total Department of Transportation</b>		<u>46,823</u>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>		
Pass Through Payments from Community Development Finance Authority Community Development Block Grants - State's Program #04-130-EGHS	14.228	<u>296,270</u>
<b>Total Department of Housing and Urban Development</b>		<u>296,270</u>
<b>DEPARTMENT OF HOMELAND SECURITY</b>		
Pass Through Payments from New Hampshire Office of Emergency Management Disaster Grants - Public Assistance #FEMA-1643-DR-NH	97.036	<u>335,745</u>
<b>Total Department of Homeland Security</b>		<u>335,745</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 679,954</u>

*See notes to schedule of expenditures of federal awards*

**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2007**

**NOTE 1--GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Town of Merrimack, New Hampshire. The Town of Merrimack's reporting entity is defined in Note 1 to the Town's basic financial statements.

**NOTE 2--BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

**NOTE 3--RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

The recognition of expenditures of federal awards have been reported in the Town's basic financial statements as intergovernmental revenues in the General Fund and Sewer Fund as follows:

Major Funds:	
General Fund	\$ 426,644
Sewer Fund	206,487
Capital Reserve Funds	46,823
	<u>\$ 679,954</u>

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# Vachon, Clukay & Co., PC

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*Certified Public Accountants*

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## **REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Selectmen and Town Manager  
Town of Merrimack, New Hampshire

We have audited the financial statements of the governmental 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, 2007, which collectively comprise the Town of Merrimack, New Hampshire's basic financial statements and have issued our report thereon dated February 22, 2008. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

### *Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the Town of Merrimack, New Hampshire's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the effectiveness of internal control over financial reporting. Accordingly we do not express an opinion on the Town of Merrimack, New Hampshire's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting and its operation that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Merrimack, New Hampshire's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Selectmen and Town Manager, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Vachon, Chabry & Co., PC*

February 22, 2008



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# Vachon, Clukay & Co., PC

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Selectmen and Town Manager  
Town of Merrimack, New Hampshire

### Compliance

We have audited the compliance of the Town of Merrimack, New Hampshire with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Town of Merrimack, New Hampshire's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Merrimack, New Hampshire's management. Our responsibility is to express an opinion on the Town of Merrimack, New Hampshire's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Merrimack, New Hampshire's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Merrimack, New Hampshire's compliance with those requirements.

In our opinion, the Town of Merrimack, New Hampshire complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

### Internal Control Over Compliance

The management of the Town of Merrimack, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Merrimack, New Hampshire's internal control over compliance with requirements that could

have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Selectmen and Town Manager, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Vachon, Chaboy & Co., PC*

February 22, 2008

**Town of Merrimack, New Hampshire  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2007**

**Section I--Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes    X no

Significant deficiency(ies) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes    X none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes    X no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes    X no

Significant deficiency(ies) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes    X none reported

Type of auditor's report issued on compliance  
for major programs: unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section .510(a)? \_\_\_\_\_ yes    X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants/State's Program
97.036	Disaster Grants – Public Assistance

Dollar threshold used to distinguish  
between Type A and Type B program: \$ 300,000.

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes    X no

**Section II--Financial Statement Findings**

There were no findings relating to the financial statements required to be reported by GAGAS.

**Section III--Federal Award Findings and Questioned Costs**

There were no findings and questioned costs as defined under OMB Circular A-133.510(a).

**SCHEDULE A**  
**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**Combining Balance Sheet**  
**Governmental Funds - All Nonmajor Funds**  
**June 30, 2007**

	Special Revenue <u>Funds</u>	Permanent <u>Funds</u>	Combining <u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 13,665		\$ 13,665
Equity in pooled cash and investments	725,598		725,598
Investments	146,484	\$ 3,987,686	4,134,170
Accounts receivable, net	9,602	-	9,602
Total Assets	<u>\$ 895,349</u>	<u>\$ 3,987,686</u>	<u>\$ 4,883,035</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 6,550		\$ 6,550
Deferred revenue	40,874		40,874
Due to other funds		\$ 225	225
Total Liabilities	<u>47,424</u>	<u>225</u>	<u>47,649</u>
<b>FUND BALANCES</b>			
Reserved for endowments		2,587,675	2,587,675
Unreserved, reported in:			
Special revenue funds	847,925		847,925
Permanent funds		1,399,786	1,399,786
Total Fund Balances	<u>847,925</u>	<u>3,987,461</u>	<u>4,835,386</u>
Total Liabilities and Fund Balances	<u>\$ 895,349</u>	<u>\$ 3,987,686</u>	<u>\$ 4,883,035</u>

**SCHEDULE A-1**  
**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**Combining Balance Sheet**  
**Governmental Funds - All Nonmajor Special Revenue Funds**  
**June 30, 2007**

	Library Fine Fund	Fire Protection Area Fund	Cable Television Fund	Heritage Commission Fund	Combining Totals
<b>ASSETS</b>					
Cash	\$ 13,665				\$ 13,665
Equity in pooled cash and investments		\$ 46,196	\$ 663,010	\$ 16,392	725,598
Investments	146,484				146,484
Accounts receivable	-	9,142	460	-	9,602
Total Assets	<u>\$ 160,149</u>	<u>\$ 55,338</u>	<u>\$ 663,470</u>	<u>\$ 16,392</u>	<u>\$ 895,349</u>
<b>LIABILITIES</b>					
Accounts payable		\$ 6,104	\$ 446		\$ 6,550
Deferred revenue	-	29,686	10,000	\$ 1,188	40,874
Total Liabilities	<u>\$ -</u>	<u>35,790</u>	<u>10,446</u>	<u>1,188</u>	<u>47,424</u>
<b>FUND BALANCES</b>					
Unreserved, reported in:					
Special revenue funds	160,149	19,548	653,024	15,204	847,925
Total Fund Balances	<u>160,149</u>	<u>19,548</u>	<u>653,024</u>	<u>15,204</u>	<u>847,925</u>
Total Liabilities and Fund Balances	<u>\$ 160,149</u>	<u>\$ 55,338</u>	<u>\$ 663,470</u>	<u>\$ 16,392</u>	<u>\$ 895,349</u>

**SCHEDULE B**  
**TOWN OF MERRIMACK, NEW HAMPSHIRE**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds - All Nonmajor Funds**  
**For the Year Ended June 30, 2007**

	Special Revenue <u>Funds</u>	Permanent <u>Funds</u>	Combining <u>Totals</u>
Revenues:			
Licenses and permits	\$ 201,000		\$ 201,000
Charges for services	59,316		59,316
Investment income	51,441	\$ 729,351	780,792
Miscellaneous	36,885	-	36,885
Total Revenues	<u>348,642</u>	<u>729,351</u>	<u>1,077,993</u>
Expenditures:			
Current operations:			
General government		29,802	29,802
Public safety	57,581		57,581
Culture and recreation	213,317	547	213,864
Capital outlay	50,147		50,147
Total Expenditures	<u>321,045</u>	<u>30,349</u>	<u>351,394</u>
Excess of revenues over (under) expenditures	<u>27,597</u>	<u>699,002</u>	<u>726,599</u>
Other financing sources (uses):			
Operating transfers in	<u>3,300</u>		<u>3,300</u>
Total other financing sources (uses)	<u>3,300</u>	<u>-</u>	<u>3,300</u>
Excess of revenues and other sources over (under) expenditures and other uses	30,897	699,002	729,899
Fund balances at beginning of year	<u>817,028</u>	<u>3,288,459</u>	<u>4,105,487</u>
Fund balances at end of year	<u>\$ 847,925</u>	<u>\$ 3,987,461</u>	<u>\$ 4,835,386</u>

**SCHEDULE B-1****TOWN OF MERRIMACK, NEW HAMPSHIRE****Combining Statement of Revenues, Expenditures and Changes in Fund Balances****Governmental Funds - All Nonmajor Special Revenue Funds****For the Year Ended June 30, 2007**

	Library Fine <u>Fund</u>	Fire Protection <u>Area Fund</u>	Cable Television <u>Fund</u>	Heritage Commission <u>Fund</u>	Combining <u>Totals</u>
Revenues:					
Licenses and permits			\$ 201,000		\$ 201,000
Charges for services		\$ 59,316			59,316
Investment income	\$ 20,563	1,856	28,390	\$ 632	51,441
Miscellaneous	36,205	-	-	680	36,885
Total Revenues	<u>56,768</u>	<u>61,172</u>	<u>229,390</u>	<u>1,312</u>	<u>348,642</u>
Expenditures:					
Current operations:					
Public safety		57,581			57,581
Culture and recreation	86,140		126,194	983	213,317
Capital outlay	-	-	45,230	4,917	50,147
Total Expenditures	<u>86,140</u>	<u>57,581</u>	<u>171,424</u>	<u>5,900</u>	<u>321,045</u>
Excess of revenues over (under) expenditures	<u>(29,372)</u>	<u>3,591</u>	<u>57,966</u>	<u>(4,588)</u>	<u>27,597</u>
Other financing sources:					
Operating transfers in	-	-	-	3,300	3,300
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,300</u>	<u>3,300</u>
Excess of revenues and other sources over (under) expenditures	<u>(29,372)</u>	<u>3,591</u>	<u>57,966</u>	<u>(1,288)</u>	<u>30,897</u>
Fund balances at beginning of year	<u>189,521</u>	<u>15,957</u>	<u>595,058</u>	<u>16,492</u>	<u>817,028</u>
Fund balances at end of year	<u>\$ 160,149</u>	<u>\$ 19,548</u>	<u>\$ 653,024</u>	<u>\$ 15,204</u>	<u>\$ 847,925</u>