

City of Nashua Acquisition of Pennichuck Corporation
DW 11-026
Settlement Agreement

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EXHIBIT D

Methodologies and Procedures for Municipal Acquisition Regulatory Asset

The following paragraphs present the methodologies and procedures that will apply with respect to the establishment and treatment of the Municipal Acquisition Regulatory Asset (the "MARA").

1. Determination of the Amount of the MARA. The amount of the MARA with respect to each utility shall be determined in accordance with the following process. First, the final amount of the Acquisition Costs shall be apportioned among each utility based on the equity of each utility as of December 31, 2011 in accordance with the Ratemaking Structure set forth in Exhibit B. Then, the amount of the MARA with respect to each utility shall equal the excess of (i) the sum of the utility's allocated share of Acquisition Costs so determined plus its liabilities as of the Merger closing date, less (ii) the amount of the book value of the assets of the utility as of the Merger closing date.
2. Ratemaking Treatment. The MARA amount determined with respect to each utility will be included in the utility's respective rate base, but will be treated as an "equity-related asset" that is excluded from traditional ratemaking and recovered exclusively through the CBFRR component of the Ratemaking Structure as set forth in Exhibit B.
3. Accounting Treatment. Each utility shall record its respective share of the MARA on its books as an asset in NHPUC Chart of Account No. 186. The MARA will be amortized at the same rate at which principal is paid on the City Acquisition Bonds. In connection with the recording of the MARA as an asset, the utilities will make corresponding entries to increase their respective paid-in capital accounts and to decrease their respective retained earnings accounts.

Determination of MARA for Each Utility

In accordance with Settlement Agreement ("SA"), Exhibit D

	Steps			Source
1	1	Final Amount of Acquisition Costs		Per SA, Ex. D, Par. 1
2				
3		Final Amount of Acquisition Costs	150,570,000	See Schedule 1 for Components of Acquisition Costs
4				
5	2	Equity of Each Utility as of 12-31-11		Per SA, Ex. D, Par. 1
6				
7		PWW	54,395,626	See 1c/2
8		PEU	6,540,063	See 1c/3
9		PAC	1,066,353	See 1c/4
10		Total	62,002,042	Sum of Rows 7 - 9
11				
12	3	Add Southwood Equity to PWW		See SA, Ex. B, Sch. A, Att. A, p. 2 of 9
13				
14		Southwood	2,047,049	See 3b/5
15		Revised PWW	56,442,675	88.1% Percentage = Row 15 / Row 18
16		PEU	6,540,063	10.2% Percentage = Row 16 / Row 19
17		PAC	1,066,353	1.7% Percentage = Row 17 / Row 20
18		Revised Total	64,049,091	100.0% Sum of Rows 15 - 17
19				
20	4	Allocation of Acquisition Costs Among Each Utility		Per SA, Ex. D, Par. 1
21				
22		PWW	132,688,434	Multiply Row 3 by Row 15 %
23		PEU	15,374,727	Multiply Row 3 by Row 16 %
24		PAC	2,506,839	Multiply Row 3 by Row 17 %
25		Total	150,570,000	Sum of Rows 22 - 24
26				
27	5	Reduce PWW Allocation by RSF Amount		See SA, Ex. B, Sch. 1, Att. A, p. 5 of 9
28				
29		Revised PWW	127,688,434	Row 22 less \$5,000,000
30		PEU	15,374,727	Row 23
31		PAC	2,506,839	Row 24
32		Total	145,570,000	Sum of Rows 29 -31
33				
34	6	Liabilities of Each Utility as of 1-25-12		Per SA, Ex. D, Par. 1
35				
36		PWW	110,172,616	See 1c/1
37		PEU	23,876,843	See 1c/1
38		PAC	2,132,071	See 1c/1
39		Total	136,181,530	Sum of Rows 36 -38
40				
41	7	Sum of Allocation Costs and Liabilities		Per SA, Ex. D, Par. 1
42				
43		PWW	237,861,050	Row 29 plus Row 36
44		PEU	39,251,570	Row 30 plus Row 37
45		PAC	4,638,910	Row 31 plus Row 38
46		Total	281,751,530	Sum of Rows 43 -45
47				
48	8	Book Value of Assets of Each Utility as of 1-25-12		Per SA, Ex. D, Par. 1
49				
50		PWW	159,077,666	See 3b, page 1
51		PEU	30,286,996	See 3b, page 3
52		PAC	3,195,412	See 3b, page 5
53		Total	192,560,074	Sum of Rows 50 - 52
54				
55	9	Determine Each Utility's MARA Amount		Per SA, Ex. D, Par. 1
56				
57		PWW	78,783,384	Row 43 minus Row 50
58		PEU	8,964,574	Row 44 minus Row 52
59		PAC	1,443,498	Row 45 minus Row 53
60		Total	89,191,456	Sum of Rows 57 - 59

Pennichuck Corp.
Calculation and Allocation of MARA
As of January 25, 2012

	<u>PWW</u>	<u>PEU</u>	<u>PAC</u>	<u>Total</u>
Total Equity at 12/31/2011	\$ 54,395,626	\$ 6,540,063	\$ 1,066,353	\$ 62,002,042
Add:Southwood Equity to PWW	\$ 2,047,049			\$ 2,047,049
Adjusted Equity	<u>\$ 56,442,675</u>	<u>\$ 6,540,063</u>	<u>\$ 1,066,353</u>	<u>\$ 64,049,091</u>
Allocation of Total City Financing	\$ 132,688,434	\$ 15,374,727	\$ 2,506,839	\$ 150,570,000
Reduction in MARA associated with RSF	<u>\$ (5,000,000)</u>			<u>\$ (5,000,000)</u>
Pro Rata Share for CBFRR/MARA	<u>\$ 127,688,434</u>	<u>\$ 15,374,727</u>	<u>\$ 2,506,839</u>	<u>\$ 145,570,000</u>
Plus: Liabilities as of 1/25/2012	\$ 110,172,616	\$ 23,876,843	\$ 2,132,071	\$ 136,181,530
Less: Book Value of Assets as 1/25/2012	<u>\$ (159,077,666)</u>	<u>\$ (30,286,996)</u>	<u>\$ (3,195,412)</u>	<u>\$ (192,560,074)</u>
Municipal Acquisition Regulatory Asset (MARA)	<u>\$ 78,783,384</u>	<u>\$ 8,964,574</u>	<u>\$ 1,443,498</u>	<u>\$ 89,191,456</u>

**Pennichuck Corporation
Liabilities of Each Utility
as of 1/25/2012**

	<u>PWW</u>	<u>Ref</u>	<u>PEU</u>	<u>Ref</u>	<u>PAC</u>	<u>Ref</u>
	\$	3b, pg 2	\$	3b, pg 4	\$	3b, pg 6
Total Equity and Liabilities	159,077,666.00	3b, pg 2	30,286,996	3b, pg 4	3,195,412	3b, pg 6
Less: Equity	(48,905,050.00)	3b, pg 2	(6,410,153)	3b, pg 4	(1,063,341)	3b, pg 6
Total Liabilities	<u>110,172,616.00</u>		<u>23,876,843</u>		<u>2,132,071</u>	

FINAL

PENNICHUCK WATER WORKS INC
Balance Sheet
12/31/2011

EQUITY AND LIABILITIES

EQUITY	
COMMON STOCK	30,000.00
ADDITIONAL PAID IN CAPITAL	39,011,140.99
DIVIDENDS: COMMON STOCK	(3,275,879.09)
RETAINED EARNINGS BEG - PWV	14,087,687.99
NET PROFIT (OR LOSS)	4,542,676.17
TOTAL EQUITY	54,395,626.06

LONG TERM DEBT	
LONG TERM DEBT: BONDS & NOTES	45,670,000.00
SRF LOANS	5,622,751.59
ORIGINAL ISSUE DISCOUNT	0.00
LONG TERM DEBT	51,292,751.59

CURRENT LIABILITIES	
CURRENT PORTION LONG TERM DEBT	745,674.21
ACCOUNTS PAYABLE & ACCR EXP	2,004,101.07
EARLY RETIREE LIAB-HEALTH - ST	31,200.00
CUSTOMER'S DEPOSITS	118,132.66
INTERCO PAY/REC: PWV/PCP	22,225,348.13
TOTAL CURRENT LIABILITIES	25,124,456.07

OTHER DEFERRED CREDITS	
ACCRUED-POST RETIREMENT BENEFITS	3,217,305.51
OTHER LONG TERM LIABILITIES	881,094.82
ACCURED LIABILITY: PENSION	7,482,894.00
UNAMORTIZED DEBT PREMIUM	500,973.37
UNAMORTIZED INVESTMENT CREDIT	701,850.00
DEFERRED GAIN: ARRA	217,468.64
DEFERRED TAX LIABILITY	867,878.41
DEFERRED INCOME TAXES	18,707,948.73
CONTR IN AID OF CONST-ALL DIV	29,202,151.74
RESERVE FOR AMORT OF CIAC:PWV	(5,277,743.74)
TOTAL DEFERRED CREDITS	56,501,821.48

TOTAL LIABILITIES AND EQUITY	187,314,655.20
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FINAL

PENNICHUCK EAST UTILITIES
Balance Sheet
12/31/2011

EQUITY AND LIABILITIES		
EQUITY		
COMMON STOCK	100.00	
ADDITIONAL PAID IN CAPITAL	6,000,000.00	
OTHER COMPREHENSIVE INCOME	(500,333.40)	
DIVIDENDS: COMMON STOCK	(59,802.72)	
RETAINED EARNINGS BEG - PEU	1,205,095.78	
NET PROFIT (OR LOSS)	(104,996.52)	
TOTAL EQUITY		6,540,063.14
LONG TERM DEBT: BONDS & NOTES		
LTD: SRF LOANS	5,009,307.55	
	<u>3,083,464.39</u>	
LONG TERM DEBT		8,092,771.94
CURRENT LIABILITIES		
CURRENT PORTION LONG TERM DEBT	329,766.49	
ACCOUNTS PAYABLE & ACCR EXP	619,177.44	
HARDSHIP CASES: CREDITS	2,091.96	
OTHER LIABILITY: DERIVATIVE	833,889.00	
INTERCO ADV-PCP PROM NOTE 5/18	1,723,150.00	
INTERCO PAY/REC: PEU/PWW	15,737,317.36	
INTERCO PAY/REC: PEU/PWS	154,746.86	
INTERCO PAY/REC: PEU/PAC	<u>5,217,331.95</u>	
TOTAL CURRENT LIABILITIES		24,617,471.06
OTHER DEFERRED CREDITS		
CUSTOMER ADVANCES FOR CONSTR	0.00	
DEFERRED GAIN ON SRF LOANS	142,906.22	
DEFERRED INCOME TAXES	3,874,299.08	
CONTRIBUTIONS IN AID OF CONSTRUCTION	9,628,792.41	
RESERVE FOR AMORT OF CIAC:PEU	<u>(1,225,623.35)</u>	
TOTAL DEFERRED CREDITS		12,420,374.36
TOTAL LIABILITIES AND EQUITY		51,670,680.50

PITTSFIELD AQUEDUCT
Balance Sheet
12/31/2011

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EQUITY AND LIABILITIES

EQUITY	
COMMON STOCK	100.00
ADDITIONAL PAID IN CAPITAL	237,128.70
RETAINED EARNINGS BEG - PAC	801,140.42
NET PROFIT (OR LOSS)	<u>27,983.68</u>
TOTAL EQUITY	1,066,352.80
SRF FUNDING - BIRCH HILL	0.00
SRF FUNDING - LOCKE LAKE	<u>0.00</u>
LONG TERM DEBT	0.00
CURRENT LIABILITIES	
ACCOUNTS PAYABLE & ACCR EXP	35,844.23
HARDSHIP CASES: CREDITS	(1,711.08)
INTERCO ADV-PCP PROM NOTE 5/18	776,850.00
INTERCO PAY/REC: PAC/PWW	3,121,580.77
INTERCO PAY/REC: PAC/TSC	354.15
INTERCO PAY/REC: PAC/PWS	11,641.47
INTERCO PAY/REC: PAC/PCP	<u>2,210,644.87</u>
TOTAL CURRENT LIABILITIES	6,155,204.41
OTHER DEFERRED CREDITS	
DEFERRED INCOME TAXES	493,721.86
CONTR IN AID OF CONST-ALL DIV	1,148,636.41
RESERVE FOR AMORT OF CIAC:PAC	<u>(314,276.73)</u>
TOTAL DEFERRED CREDITS	<u>1,328,081.54</u>
TOTAL LIABILITIES AND EQUITY	<u>8,549,638.75</u>

SOUTHWOOD CORPORATION
Balance Sheet
12/31/2011

FINAL

CURRENT LIABILITIES

INTERCO PAY/REC: TSC/PWW	774,776.84	
INTERCO PAY/REC: TSC/PWS	394.51	
INTERCO PAY/REC: TSC/PEU	<u>478.00</u>	
TOTAL CURRENT LIABILITIES		775,649.35

DEFERRED INCOME TAXES PAYABLE	<u>165,929.30</u>	
TOTAL LONG TERM DEBT		165,929.30

COMMON STOCK	300.00	
ADDITIONAL PAID IN CAPITAL	2,188,164.90	
DIVIDENDS: COMMON	0.00	
DIVIDENDS: DISTRIB TO PARENT	0.00	
RETAINED EARNINGS BEGINNING	(108,793.30)	
NET PROFIT (OR LOSS)	<u>(32,622.17)</u>	
TOTAL STOCKHOLDERS EQUITY		2,047,049.43

TOTAL LIABILITIES AND EQUITY		<u>2,988,628.08</u>
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City of Nashua Acquisition of Pennichuck Corporation
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3. Financing of the Acquisition. The City intends to raise the funds required to accomplish the merger transaction and to pay related costs specified below through the issuance by the City of general obligation bonds (the "City Acquisition Bonds"). The City anticipates that the aggregate principal amount of the City Acquisition Bonds will be approximately \$152,099,885. The proceeds from the issuance of the City Acquisition Bonds will be used to fund the following categories of costs related to the City's acquisition (the "Acquisition Costs"), and the current estimate of the cost for each of such categories is as follows:

- | | |
|--|----------------------|
| (1) Merger consideration to be paid under the Merger Agreement: | \$137,793,398 |
| This amount is based on the current estimate of the number of common shares outstanding or otherwise available to receive merger consideration, which is estimated to be approximately 4,682,276. | |
| (2) Bond issuance costs and fees: | \$1,800,000 |
| These estimated costs consist principally of legal fees for bond counsel, fees for First Southwest (the City's financial advisor), and other costs of issuing the City Acquisition Debt. | |
| (3) Transaction costs and fees: | \$5,286,875 |
| These estimated costs include costs incurred by both the City and Pennichuck in connection with the Merger, including legal and accounting fees, investment banking fees, fees and costs relating to customary due diligence conducted by the City during negotiation of the Merger Agreement. For avoidance of doubt, the transaction costs and fees described in this category of the Acquisition Costs do not include PWW or Pennichuck's eminent domain costs as defined in DW 10-091. | |
| (4) Severance costs: | \$2,219,612 |
| These are estimated costs that arise under severance packages for certain senior corporate management employees of Pennichuck, which will be triggered by completion the Merger and termination of their employment. | |
| (5) Rate Stabilization Fund: | \$5,000,000 |
| This amount will be contributed in cash to PWW to provide a | |

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fund that will be used to ensure stable revenues in the event of adverse revenue developments.

Total Estimated Acquisition Costs **\$152,099,885**

III. TERMS OF THIS SETTLEMENT AGREEMENT

The Settling Parties agree and recommend action by the Commission as follows:

A. Approval of Merger Transaction.

1. Public Interest Finding. The Commission find that the City's acquisition of Pennichuck pursuant to the Merger Agreement is consistent with the public interest within the meaning of the Special Legislation for the reasons set forth in this Agreement, and as presented to the Commission in testimony, including the fact that the transaction will result in the City acquiring control of the land owned by Southwood.

2. Approval of the Terms of the Agreement and Plan of Merger. The Commission approve, pursuant to the authority granted to it under the Special Legislation and RSA Chapter 38, the terms of the Merger Agreement, subject to the conditions and requirements set forth in this Agreement.

3. Approval of Stock Acquisition. The Commission approve, pursuant to the authority granted to it under the Special Legislation and RSA Chapter 38, the City's acquisition of the stock of Pennichuck pursuant to the Merger Agreement, subject to the conditions and requirements set forth in this Agreement.

B. Approval of Ratemaking Structure.

1. Summary Description of the Ratemaking Structure.

Pennichuck Corporation
Schedule of Acquisition Costs
As of 3/14/2012

	Amounts	Amounts as of	Variance
	Estimated in	3/14/2012	
	Settlement		
	Agreement		
Merger consideration to be paid under the Merger Agreement	137,793,398.00	138,413,922.57	(620,524.57)
Bond issuance costs and fees	1,800,000.00	996,459.86	803,540.14
Transaction costs and fees	5,286,875.00	3,859,504.92	1,427,370.08
Severance costs	2,219,612.00	2,300,112.65	(80,500.65)
Rate Stabilization Fund	5,000,000.00	5,000,000.00	-
Total Estimated Acquisition Costs	<u>152,099,885.00</u>	<u>150,570,000.00</u>	<u>1,529,885.00</u>

Pennichuck Corporation
Schedule of Acquisition Costs
As of 3/14/2012

Merger Consideration to be Paid under the Merger Agreement

Payout of outstanding shares at 1/25/12 @\$29/share	136,173,038.00
Buyout of outstanding Options - \$29/share versus underlying strike value	2,159,077.71
Payroll taxes related to buyout of options	81,712.28
Payroll processing fee related to buyout of options	94.58
	4,695,622 shares outstanding
	238,894 options outstanding

Subtotal **138,413,922.57**

Bond issuance costs and fees

City of Nashua Expenses	
First Southwest (FSW)	174,922.15
Edwards Wildman Palmer LLP	155,000.00
Moody's Rating	53,900.00
Fitch Rating	48,000.00
Terryberry	2,004.02
Murphy & Company	3,713.04
JP Morgan and Co-Underwriters	558,920.65
Bond Financial Advisor	
Bond Counsel	
Rating Services	
Rating Services	
Bond Closing Expenses	
Bond Closing Expenses - Mailings	
Bond Underwriting Fees and Expenses	

Subtotal **996,459.86**

Transaction costs and fees:

PNNW Expenses	
Boenning & Scattergood - PNNW Underwriter Broker Fee (incl. Fairness Opinion)	1,289,785.00
American Stock Transfer - transfer agent termination fee	38,837.24
Marsh USA - D&O/EPL/Fiduciary "Tail" insurance premiums	251,423.00
NASDAQ termination fee	35,000.00
Marketwire - press release/8K filing	949.50
Legal Fees - McLane, Graf, Raulerson & Middleton	3,630.41
Legal Fees - Nutter McClennen & Fish	11,485.69
RR Donnelly - Section 16 filings	1,279.00

City of Nashua Expenses Related to the Transaction

C.W. Downer - City Underwriter Broker Fees	645,516.43
Flegal Law Office	1,280.00

Geinsight, Inc. - Due Diligence	67,049.81	
Melanson Heath & Company - Due Diligence	79,063.46	
John L. Patenaude - transaction lead	149,189.64	
Peckar & Abramson	6,303.47	
R.W. Beck - Due Diligence	78,935.84	
Rath, Young & Pignatelli - legal	967,653.50	
Sheehan, Phinney, Bass & Green	7,184.71	
Contingency	224,938.22	
Subtotal		3,859,504.92
Severance costs		
Separation Agreement payouts	2,263,012.00	
Payroll taxes related to Separation Agreement payouts	36,891.51	
Payroll processing fee related to Separation Agreement payouts	209.14	
Subtotal		2,300,112.65
Rate Stabilization Fund		
Funded 1/25/2012	5,000,000.00	
Subtotal		5,000,000.00
Total		150,570,000.00

lg 3/14/12

Pennichuck Corporation
Journal Entries for Purchase Accounting at the Regulated Utility Level
As of January 25, 2012

PWW Entries

Fresh Start Accounting

1	Dr. Acquisition Premium Cr. APIC (new)	78,783,384.00	78,783,384.00
	To "push down" the acquisition premium to the three regulated subs based upon their pro-rata shares of Stockholder's Equity at 12/31/11.		
2	Dr. Restricted Cash - RSF Cr. APIC	5,000,000.00	5,000,000.00
	To record transfer of RSF cash to restricted bank account at PWW.		
3	Dr. Retained Earnings Cr. APIC (new)	9,863,910.19	9,863,910.19
	To record elimination of old retained earnings and creation of new equity, based upon MARA.		

Pennichuck Corporation
Journal Entries for Purchase Accounting at the Regulated Utility Level
As of January 25, 2012

PEU Entries**Fresh Start Accounting**

1	Dr. Acquisition Premium	8,964,574.00	
	Cr. APIC (new)		8,964,574.00

To "push down" the acquisition premium to the three regulated subs based upon their pro-rata shares of Stockholder's Equity at 12/31/11.

2	Dr. Retained Earnings	939,754.76	
	Cr. APIC (new)		939,754.76

To record elimination of old retained earnings and creation of new equity, based upon MARA.

Pennichuck Corporation
Journal Entries for Purchase Accounting at the Regulated Utility Level
As of January 25, 2012

PAC Entries**Fresh Start Accounting**

1	Dr. Acquisition Premium	1,443,498.00	
	Cr. APIC (new)		1,443,498.00

To "push down" the acquisition premium to the three regulated subs based upon their pro-rata shares of Stockholder's Equity at 12/31/11.

2	Dr. Retained Earnings	826,112.11	
	Cr. APIC (new)		826,112.11

To record elimination of old retained earnings and creation of new equity, based upon MARA.

BALANCE SHEET
PENNICHUCK WATER WORKS, INC.
As of January 25, 2012

ASSETS	PWW		
	Final Jan Close		
	<u>Pre Fresh Start</u>	<u>Total Adj's</u>	<u>Adj'd Totals</u>
Land	\$ 1,866,052	\$ -	\$ 1,866,052
Property Held for Future Use	-	-	-
Buildings	39,762,455	-	39,762,455
Equipment & software	122,125,153	-	122,125,153
Intangible Plant	250,635	-	250,635
	164,004,295	-	164,004,295
Accumulated depreciation	37,560,983	-	37,560,983
	126,443,312	-	126,443,312
Work in process	534,716	-	534,716
Net Plant and Equipment	126,978,028	-	126,978,028
CURRENT ASSETS			
Cash	6,000	-	6,000
Short term investments: FHILB	-	-	-
Short term investments: MM	-	-	-
Restricted cash	-	5,000,000	5,000,000
Accounts receivable-billed, net	2,179,449	-	2,179,449
Accounts receivable-unbilled, net	2,023,851	-	2,023,851
Accounts receivable-other	-	-	-
Inventory	807,653	-	807,653
Prepaid expenses	638,386	-	638,386
Prepaid property taxes	443,389	-	443,389
Deferred and refundable income taxes	-	-	-
Intercompany cash	-	-	-
Intercompany receivable (payable)	9,339,441	-	9,339,441
	15,438,169	5,000,000	20,438,169
OTHER ASSETS			
Deferred land costs	-	-	-
Debt issuance expenses	3,647,055	-	3,647,055
Investment in partnerships	-	-	-
Acquisition Premium - MARA	-	78,783,384	78,783,384
Other	9,512,348	-	9,512,348
	13,159,403	78,783,384	91,942,787
INTERCOMPANY ACCOUNTS			
Investment in Sub - PWW	-	-	-
Investment in Sub - TSC	-	-	-
Investment in Sub - PWSC	-	-	-
Investment in Sub - PAC	-	-	-
Investment in Sub - PEU	-	-	-
Investment in Sub - Westwood LLC	-	-	-
Intercompany Advance - PWW	3,502,066	-	3,502,066
Intercompany Advance - TSC	-	-	-
Intercompany Advance - PAC	-	-	-
Intercompany Advance - PAC Acquisition	-	-	-
Intercompany Advances No. Country Acq	-	-	-
Intercompany Advances PAC Promissory Note	-	-	-
Intercompany Advance - PEU	-	-	-
Intercompany Advance - PWSC	-	-	-
	3,502,066	-	3,502,066
TOTAL ASSETS	\$ 159,077,666	\$ 83,783,384	\$ 242,861,050

BALANCE SHEET
PENNICHUCK WATER WORKS, INC.
As of January 25, 2012

	PWW		
	Final Jan Close		
EQUITY AND LIABILITIES	Pre Fresh Start	Total Adj's	Adj'd Totals
Common stock	\$ 30,000	-	30,000
Paid in capital	39,011,140	93,647,294	132,658,434
Accumulated other comprehensive income	-	-	-
Retained earnings	9,863,910	(9,863,910)	(0)
Treasury stock and other	-	-	-
	<u>48,905,050</u>	<u>83,783,384</u>	<u>132,688,434</u>
MINORITY INTEREST	-	-	-
LONG TERM DEBT			
Notes payable (line of credit)	-	-	-
Bonds, notes and mortgages	51,198,509	-	51,198,509
Intercompany advances	-	-	-
Intercompany advances North Country Acq	-	-	-
Intercompany advances PAC Note	-	-	-
Intercompany advances PAC Promissory	-	-	-
	<u>51,198,509</u>	<u>-</u>	<u>51,198,509</u>
CURRENT LIABILITIES			
Line of credit	-	-	-
Current portion of long term debt	757,465	-	757,465
Accounts payable	339,506	-	339,506
Accrued property taxes	64,669	-	64,669
Deferred Revenue	-	-	-
Accrued interest payable	814,224	-	814,224
Other accrued expenses	622,647	-	622,647
Income taxes payable	-	-	-
Other liability: derivative instrument	-	-	-
Customer deposits & other	108,201	-	108,201
	<u>2,706,712</u>	<u>-</u>	<u>2,706,712</u>
OTHER LIABILITIES AND DEFERRED CREDITS			
Deferred income taxes	18,831,928	-	18,831,928
Accrued liability pension	7,368,273	-	7,368,273
Accrued Stock Compensation	-	-	-
Unamortized Debt Premium	497,879	-	497,879
Unamortized ITC	699,097	-	699,097
Regulatory Liability	866,073	-	866,073
Accrued Post Retirement Benefits	3,239,297	-	3,239,297
Customer Advances	84,000	-	84,000
CIAC, net	23,798,882	-	23,798,882
Other liability: derivative instrument	-	-	-
Other long-term liabilities	881,966	-	881,966
	<u>56,267,395</u>	<u>-</u>	<u>56,267,395</u>
TOTAL EQUITY AND LIABILITIES	<u>\$ 159,077,666</u>	<u>\$ 83,783,384</u>	<u>\$ 242,861,050</u>

BALANCE SHEET
PENNICHUCK EAST UTILITY, INC.
As of January 25, 2012

ASSETS	PEU		
	Final Jan Close Pre Fresh Start	Total Adj's	Adj'd Totals
Land	\$ 955,261	\$ -	\$ 955,261
Property Held for Future Use	64,299	-	64,299
Buildings	8,655,765	-	8,655,765
Equipment & software	29,521,201	-	29,521,201
Intangible Plant	433,832	-	433,832
	<u>39,630,358</u>	<u>-</u>	<u>39,630,358</u>
Accumulated depreciation	8,667,873	-	8,667,873
	<u>30,962,485</u>	<u>-</u>	<u>30,962,485</u>
Work in process	45,153	-	45,153
Net Plant and Equipment	<u>31,007,638</u>	<u>-</u>	<u>31,007,638</u>
CURRENT ASSETS			
Cash	-	-	-
Short term investments: FHLB	-	-	-
Short term investments: MM	-	-	-
Restricted cash	-	-	-
Accounts receivable-billed, net	455,003	-	455,003
Accounts receivable-unbilled, net	284,644	-	284,644
Accounts receivable-other	-	-	-
Inventory	925	-	925
Prepaid expenses	122,036	-	122,036
Prepaid property taxes	106,177	-	106,177
Deferred and refundable income taxes	-	-	-
Intercompany cash	-	-	-
Intercompany receivable (payable)	(2,553,956)	-	(2,553,956)
	<u>(1,585,171)</u>	<u>-</u>	<u>(1,585,171)</u>
OTHER ASSETS			
Deferred land costs	-	-	-
Debt issuance expenses	160,533	-	160,533
Investment in partnerships	-	-	-
Acquisition Premium - MARA	-	8,964,574	8,964,574
Other	703,996	-	703,996
	<u>864,529</u>	<u>8,964,574</u>	<u>9,829,103</u>
INTERCOMPANY ACCOUNTS			
Investment in Sub - PWV	-	-	-
Investment in Sub - TSC	-	-	-
Investment in Sub - PWSC	-	-	-
Investment in Sub - PAC	-	-	-
Investment in Sub - PEU	-	-	-
Investment in Sub - Westwood LLC	-	-	-
Intercompany Advance - PWV	-	-	-
Intercompany Advance - TSC	-	-	-
Intercompany Advance - PAC	-	-	-
Intercompany Advance - PAC Acquisition	-	-	-
Intercompany Advances No. Country Acq	-	-	-
Intercompany Advances PAC Promissory Note	-	-	-
Intercompany Advance - PEU	-	-	-
Intercompany Advance - PWSC	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 30,286,996</u>	<u>\$ 8,964,574</u>	<u>\$ 39,251,570</u>

BALANCE SHEET
PENNICHUCK EAST UTILITY, INC.
As of January 25, 2012

EQUITY AND LIABILITIES	PEU		
	Final Jan Close Pre Fresh Start	Total Adj's	Adj'd Totals
Common stock	\$ 100	-	100
Paid in capital	6,000,000	9,904,329	15,904,329
Accumulated other comprehensive income	(529,702)	-	(529,702)
Retained earnings	939,755	(939,755)	0
Treasury stock and other	-	-	-
	<u>6,410,153</u>	<u>8,964,574</u>	<u>15,374,727</u>
MINORITY INTEREST	-	-	-
LONG TERM DEBT			
Notes payable (line of credit)	-	-	-
Bonds, notes and mortgages	8,207,501	-	8,207,501
Intercompany advances	-	-	-
Intercompany advances North Country Acq	-	-	-
Intercompany advances PAC Note	1,723,150	-	1,723,150
Intercompany advances PAC Promissory	-	-	-
	<u>9,930,651</u>	<u>-</u>	<u>9,930,651</u>
CURRENT LIABILITIES			
Line of credit	-	-	-
Current portion of long term debt	340,919	-	340,919
Accounts payable	179,492	-	179,492
Accrued property taxes	16,425	-	16,425
Deferred Revenue	-	-	-
Accrued interest payable	172,966	-	172,966
Other accrued expenses	81,736	-	81,736
Income taxes payable	-	-	-
Other liability: derivative instrument	-	-	-
Customer deposits & other	2,092	-	2,092
	<u>793,630</u>	<u>-</u>	<u>793,630</u>
OTHER LIABILITIES AND DEFERRED CREDITS			
Deferred income taxes	3,880,063	-	3,880,063
Accrued liability pension	-	-	-
Accrued Stock Compensation	-	-	-
Unamortized Debt Premium	-	-	-
Unamortized ITC	-	-	-
Regulatory Liability	-	-	-
Accrued Post Retirement Benefits	-	-	-
Customer Advances	-	-	-
CIAC, net	8,389,663	-	8,389,663
Other liability: derivative instrument	882,836	-	882,836
Other long-term liabilities	-	-	-
	<u>13,152,562</u>	<u>-</u>	<u>13,152,562</u>
TOTAL EQUITY AND LIABILITIES	<u>\$ 30,286,996</u>	<u>\$ 8,964,574</u>	<u>\$ 39,251,570</u>

BALANCE SHEET
PITTSFIELD AQUEDUCT COMPANY, INC.
As of January 25, 2012

ASSETS	PAC		
	Final Jan Close		
	<u>Pre Fresh Start</u>	<u>Total Adj's</u>	<u>Adj'd Totals</u>
Land	\$ 60,333	\$ -	\$ 60,333
Property Held for Future Use	-	-	-
Buildings	1,557,622	-	1,557,622
Equipment & software	2,497,568	-	2,497,568
Intangible Plant	75,551	-	75,551
	4,191,074	-	4,191,074
Accumulated depreciation	1,088,456	-	1,088,456
	3,102,618	-	3,102,618
Work in process	636	-	636
Net Plant and Equipment	3,103,254	-	3,103,254
CURRENT ASSETS			
Cash	200	-	200
Short term investments: FHLB	-	-	-
Short term investments: MM	-	-	-
Restricted cash	-	-	-
Accounts receivable-billed, net	46,320	-	46,320
Accounts receivable-unbilled, net	102,658	-	102,658
Accounts receivable-other	-	-	-
Inventory	1,911	-	1,911
Prepaid expenses	14,099	-	14,099
Prepaid property taxes	13,624	-	13,624
Deferred and refundable income taxes	-	-	-
Intercompany cash	-	-	-
Intercompany receivable (payable)	(130,659)	-	(130,659)
	48,153	-	48,153
OTHER ASSETS			
Deferred land costs	-	-	-
Debt issuance expenses	-	-	-
Investment in partnerships	-	-	-
Acquisition Premium - MARA	-	1,443,498	1,443,498
Other	44,005	-	44,005
	44,005	1,443,498	1,487,503
INTERCOMPANY ACCOUNTS			
Investment in Sub - PWV	-	-	-
Investment in Sub - TSC	-	-	-
Investment in Sub - PWSC	-	-	-
Investment in Sub - PAC	-	-	-
Investment in Sub - PEU	-	-	-
Investment in Sub - Westwood LLC	-	-	-
Intercompany Advance - PWV	-	-	-
Intercompany Advance - TSC	-	-	-
Intercompany Advance - PAC	-	-	-
Intercompany Advance - PAC Acquisition	-	-	-
Intercompany Advances No. Country Acq	-	-	-
Intercompany Advances PAC Promissory Note	-	-	-
Intercompany Advance - PEU	-	-	-
Intercompany Advance - PWSC	-	-	-
	-	-	-
	-	-	-
TOTAL ASSETS	\$ 3,195,412	\$ 1,443,498	\$ 4,638,910

BALANCE SHEET
PITTSFIELD AQUEDUCT COMPANY, INC.
As of January 25, 2012

EQUITY AND LIABILITIES	PAC		
	Final Jan Close Pre Fresh Start	Total Adj's	Adj'd Totals
Common stock	\$ 100	-	100
Paid in capital	237,129	2,269,610	2,506,739
Accumulated other comprehensive income	-	-	-
Retained earnings	826,112	(826,112)	(0)
Treasury stock and other	-	-	-
	<u>1,063,341</u>	<u>1,443,498</u>	<u>2,506,839</u>
MINORITY INTEREST	-	-	-
LONG TERM DEBT			
Notes payable (line of credit)	-	-	-
Bonds, notes and mortgages	-	-	-
Intercompany advances	-	-	-
Intercompany advances North Country Acq	-	-	-
Intercompany advances PAC Note	-	-	-
Intercompany advances PAC Promissory	776,850	-	776,850
	<u>776,850</u>	<u>-</u>	<u>776,850</u>
CURRENT LIABILITIES			
Line of credit	-	-	-
Current portion of long term debt	-	-	-
Accounts payable	18,321	-	18,321
Accrued property taxes	1,506	-	1,506
Deferred Revenue	-	-	-
Accrued interest payable	-	-	-
Other accrued expenses	-	-	-
Income taxes payable	-	-	-
Other liability: derivative instrument	-	-	-
Customer deposits & other	(1,711)	-	(1,711)
	<u>18,116</u>	<u>-</u>	<u>18,116</u>
OTHER LIABILITIES AND DEFERRED CREDITS			
Deferred income taxes	504,653	-	504,653
Accrued liability pension	-	-	-
Accrued Stock Compensation	-	-	-
Unamortized Debt Premium	-	-	-
Unamortized ITC	-	-	-
Regulatory Liability	-	-	-
Accrued Post Retirement Benefits	-	-	-
Customer Advances	-	-	-
CIAC, net	832,452	-	832,452
Other liability: derivative instrument	-	-	-
Other long-term liabilities	-	-	-
	<u>1,337,105</u>	<u>-</u>	<u>1,337,105</u>
TOTAL EQUITY AND LIABILITIES	<u>\$ 3,195,412</u>	<u>\$ 1,443,498</u>	<u>\$ 4,638,910</u>

AGREEMENT AND PLAN OF MERGER

Dated as of November 11, 2010

between

THE CITY OF NASHUA

and

PENNICHUCK CORPORATION

TABLE OF CONTENTS

	<u>Page</u>
Article I. The Merger	1
Section 1.01 The Merger.....	1
Section 1.02 Closing.....	2
Section 1.03 Effective Time.....	2
Section 1.04 Effects.....	2
Section 1.05 Articles of Incorporation and By-Laws.....	2
Section 1.06 Directors.....	3
Section 1.07 Officers.....	3
Article II. Effect on the Capital Stock of the Constituent Corporations; Exchange of Certificates	3
Section 2.01 Effect on Capital Stock.....	3
Section 2.02 Exchange of Certificates.....	5
Article III. Representations and Warranties of the Company.....	7
Section 3.01 Organization and Qualification; Subsidiaries.....	7
Section 3.02 Articles of Incorporation and By-Laws.....	8
Section 3.03 Capitalization.....	8
Section 3.04 Authority Relative to this Agreement.....	9
Section 3.05 No Conflict; Required Filings and Consents.....	9
Section 3.06 Compliance; Permits.....	11
Section 3.07 SEC Filings; Financial Statements.....	12
Section 3.08 Absence of Certain Changes or Events.....	14
Section 3.09 No Undisclosed Liabilities.....	15
Section 3.10 Absence of Litigation.....	15
Section 3.11 Employee Benefit Plans; Employment Agreements.....	15
Section 3.12 Employment and Labor Matters.....	17
Section 3.13 Title to Property.....	18
Section 3.14 Real and Personal Property.....	18
Section 3.15 Water Quality.....	19
Section 3.16 Regulation as a Utility.....	19
Section 3.17 Taxes.....	19
Section 3.18 Environmental Matters.....	20
Section 3.19 Intellectual Property.....	21
Section 3.20 Insurance.....	21
Section 3.21 Brokers.....	22
Section 3.22 Rights Agreement.....	22
Section 3.23 Capital Budget.....	22
Section 3.24 Stock Purchase Plan.....	22
Section 3.25 Information Supplied.....	23
Section 3.26 Authorized Powers.....	23
Article IV. Representations and Warranties of Acquirer.....	23
Section 4.01 Authority; Execution and Delivery; Enforceability.....	23
Section 4.02 No Conflicts; Consents.....	24
Section 4.03 Information Supplied.....	24

EXECUTION DOCUMENT

Section 4.04	Brokers.....	24
Article V.	Covenants Relating to Conduct of Business.....	24
Section 5.01	Conduct of Business.....	24
Section 5.02	No Solicitation.....	29
Section 5.03	Company Stock Option Plans.....	32
Article VI.	Additional Agreements.....	32
Section 6.01	Rights Agreement.....	32
Section 6.02	Eminent Domain Agreement.....	32
Section 6.03	Acquirer Governing Body Ratification Vote; Financing.....	33
Section 6.04	Regulatory Matters.....	33
Section 6.05	Preparation of Proxy Statement; Stockholders Meeting.....	34
Section 6.06	Access to Information; Confidentiality.....	35
Section 6.07	Reasonable Efforts; Notification.....	36
Section 6.08	Company Employee Plans.....	37
Section 6.09	Indemnification; D&O Insurance, etc.....	37
Section 6.10	Public Announcements.....	39
Section 6.11	Stockholder Litigation.....	39
Section 6.12	Resignation of Directors.....	39
Section 6.13	Assignment of Agreement by Acquirer.....	39
Section 6.14	Acquisition Subsidiary.....	39
Section 6.15	No Inconsistent Actions.....	40
Section 6.16	Financial and Other Statements.....	40
Section 6.17	1033 Election by Shareholders and Stock Option Holders.....	40
Section 6.18	Pennichuck Water Services Corporation Contracts.....	41
Section 6.19	Environmental Confirmation.....	41
Article VII.	Conditions Precedent.....	42
Section 7.01	Conditions to Each Party's Obligation to Effect the Merger.....	42
Section 7.02	Conditions Precedent to Acquirer's and Acquisition Subsidiary's Obligations.	43
Section 7.03	Conditions to Obligation of Company.....	45
Article VIII.	Termination, Amendment and Waiver.....	45
Section 8.01	Ratification Required.....	45
Section 8.02	Termination.....	45
Section 8.03	Effect of Termination; Expenses and Liquidated Damages.....	47
Section 8.04	Amendment.....	49
Section 8.05	Extension; Waiver.....	49
Section 8.06	Procedure for Termination, Amendment, Extension or Waiver.....	49
Article IX.	General Provisions.....	50
Section 9.01	Nonsurvival of Representations and Warranties.....	50
Section 9.02	Notices.....	50
Section 9.03	Definitions.....	51
Section 9.04	Definitions Cross Reference Table.....	52
Section 9.05	Interpretation.....	55
Section 9.06	Severability.....	55
Section 9.07	Counterparts; Facsimile Signatures.....	55
Section 9.08	Entire Agreement; No Third-Party Beneficiaries.....	55

EXECUTION DOCUMENT

Section 9.09 Governing Law..... 55
Section 9.10 Assignment..... 56
Section 9.11 Enforcement..... 56
Section 9.12 Consents..... 56
Section 9.13 Rules of Construction..... 56

Exhibit A—Articles of Incorporation of Surviving Corporation

Exhibit B—By-Laws of Surviving Corporation

Exhibit C—Form of Settlement Agreement

Exhibit D – Form of Confidentiality Agreement

Company Disclosure Schedule

EXECUTION DOCUMENT

AGREEMENT AND PLAN OF MERGER (this “*Agreement*”) dated as of November 11, 2010 (the “*Effective Date*”) among the City of Nashua, New Hampshire, a municipal corporation (the “*City*,” and, including a board or department of the City to which this Agreement is assigned pursuant to Section 6.13 hereof, “*Acquirer*”), and Pennichuck Corporation, a New Hampshire business corporation (the “*Company*”), to be subsequently joined in by a direct or indirect wholly owned corporate subsidiary of Acquirer (the “*Acquisition Subsidiary*”). Capitalized terms used in this Agreement are defined in the sections specified in Section 9.04 of this Agreement.

WHEREAS, the Acquirer Governing Body has approved the acquisition of the Company, pursuant to a comprehensive settlement of the eminent domain dispute between the parties pursuant to the provisions of Chapter 38 of New Hampshire Revised Statutes Annotated (“*NH RSA*”) and Chapter 347, Section 5 of 2007 N.H. Laws, as amended by Chapter 1, Section 118 of the Laws of the 2010 Special Session (the “*Special Legislative Authority*”), on the terms and subject to the conditions set forth in this Agreement;

WHEREAS, prior to the Effective Time, Acquirer shall take such action as is appropriate to form Acquisition Subsidiary under the NHBCA and to cause Acquisition Subsidiary to become a party to this Agreement;

WHEREAS, the Company Board has approved the merger (the “*Merger*”) of Acquisition Subsidiary with and into the Company, on the terms and subject to the conditions set forth in this Agreement, whereby, subject to the exceptions set forth below, each issued share of common stock, par value \$1.00 per share, of the Company (“*Company Common Stock*”) shall be converted into the right to receive cash consideration as specified below;

WHEREAS, as a condition and material inducement to the Company's entry into this Agreement, the Acquirer and the Company are entering into that certain Settlement Agreement dated as of the date hereof relating to the eminent domain dispute between the City and the Company and the Company Subsidiaries, substantially in the form attached to this Agreement as Exhibit C (the “*Settlement Agreement*”); and

WHEREAS, Acquirer and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I.

THE MERGER

Section 1.01 The Merger.

On the terms and subject to the satisfaction or waiver of the conditions set forth in this Agreement, and in accordance with the New Hampshire Business Corporation Act, NH RSA Chapter 293-A (the “*NHBCA*”), Acquisition Subsidiary shall be merged with and into the Company at the Effective Time (as defined in Section 1.03). At the Effective Time, the separate corporate existence of Acquisition Subsidiary shall cease and the Company shall continue as the

surviving corporation (the “*Surviving Corporation*”). At the Effective Time, the Surviving Corporation shall be vested with title to all real estate and other property owned by the Company and Acquisition Subsidiary, and the Surviving Corporation shall by operation of law have all liabilities of the Company and Acquisition Subsidiary. The name of the Surviving Corporation shall be [Nashua Water Holding Corporation] and the purpose thereof shall be as set forth in Section 2 of the Articles of Incorporation of the Surviving Corporation as provided by Section 1.05(a).

Section 1.02 Closing.

The closing (the “*Closing*”) of the Merger shall take place at the offices of Rath, Young and Pignatelli, P.C., One Capital Plaza, Concord, New Hampshire 03301, at 10:00 a.m. on the fifth (5th) business day following the satisfaction (or, to the extent permitted by Law, waiver by the appropriate parties) of the conditions set forth in Article VII, or at such other place, time and date as shall be agreed in writing between Acquirer and the Company but in no event later than the Effective Time specified in Section 1.03. The date on which the Closing occurs is referred to in this Agreement as the “*Closing Date*.”

Section 1.03 Effective Time.

Prior to the Closing, Acquirer shall prepare and give the Company and its counsel the opportunity to review, and on the Closing Date or, with the Company’s consent, as soon as practicable thereafter Acquirer shall file with the Secretary of State of the State of New Hampshire, articles of merger or other appropriate documents (in any such case, the “*Articles of Merger*”) executed in accordance with the relevant provisions of the NHBCA and shall make all other filings or recordings required under the NHBCA to effect the Merger. The Merger shall become effective at such time as the Articles of Merger are duly filed with such Secretary of State, or at such other time as Acquirer and the Company shall agree and specify in the Articles of Merger (the time the Merger becomes effective being the “*Effective Time*”).

Section 1.04 Effects.

The Merger shall have the effects set forth in Section 11.06 of the NHBCA.

Section 1.05 Articles of Incorporation and By-Laws.

(a) *Articles of Incorporation.* Subject to Section 6.09, the Company Charter shall be amended and restated at the Effective Time to read in the form of Exhibit A, and, as so amended, such Company Charter shall be the Articles of Incorporation of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable Law.

(b) *By-Laws.* Subject to Section 6.09, the Company By-Laws shall be amended and restated at the Effective Time to read in the form of Exhibit B, and, as so amended, such By-Laws shall be the By-Laws of the Surviving Corporation until thereafter changed or amended as provided therein, in the Articles of Incorporation of the Surviving Corporation or by applicable Law.

Section 1.06 Directors.

At the Closing, Acquirer shall designate the directors of the Surviving Corporation and such directors shall hold office commencing as of the Effective Time until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

Section 1.07 Officers.

At the Closing, the directors of the Surviving Corporation shall designate the officers of the Surviving Corporation and such officers shall hold office commencing as of the Effective Time until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified, as the case may be.

ARTICLE II.

**EFFECT ON THE CAPITAL STOCK OF THE CONSTITUENT CORPORATIONS;
EXCHANGE OF CERTIFICATES**

Section 2.01 Effect on Capital Stock.

At the Effective Time, by virtue of the Merger and without any action on the part of the holder of any shares of Company Common Stock or any shares of capital stock of Acquisition Subsidiary:

(a) *Capital Stock of Acquisition Subsidiary.* Each issued and outstanding share of capital stock of Acquisition Subsidiary shall be converted into and become 100 fully paid and non-assessable shares of common stock, [no par value per share], of the Surviving Corporation.

(b) *Cancellation of Treasury Stock and Acquirer-Owned Stock.* Each share of Company Common Stock that is owned directly by the Company, any Subsidiary of the Company, Acquirer or Acquisition Subsidiary shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and no other consideration shall be delivered or deliverable in exchange therefor.

(c) *Conversion of Company Common Stock.* Subject to Sections 2.01(b) and 2.01(d), each share of Company Common Stock issued and outstanding at the Effective Time shall be converted into the right to receive an amount in cash equal to TWENTY-NINE DOLLARS (\$29.00) (the “*Merger Consideration*”), subject to adjustment for any stock split, stock dividend or combination of stock that may occur from the date hereof and prior to the Effective Time. As of the Effective Time, all such shares of Company Common Stock shall no longer be deemed outstanding and shall automatically be canceled and retired and shall cease to exist, and each holder of a certificate representing any such shares of Company Common Stock shall cease to have any rights with respect thereto, except the right to receive Merger Consideration and any regular quarterly dividend declared in accordance with Section 5.01(b)(i)(A) but unpaid as of the Closing Date upon surrender of such certificate in accordance with Section 2.02, without interest.

(d) *Appraisal Rights.* Notwithstanding anything in this Agreement to the contrary, shares (“*Dissenters’ Shares*”) of Company Common Stock that are outstanding immediately prior to the Effective Time and that are held by any Person who is entitled to demand and properly demands appraisal of such Dissenters’ Shares pursuant to, and who complies in all respects with, Sections 293-A:13.01 through 293-A:13.31 of the NHBCA (the “*Dissenters’ Rights Provisions*”) shall not be converted into Merger Consideration as provided in Section 2.01(c), but rather, the holders of Dissenters’ Shares shall be entitled to payment of the fair value of such Dissenters’ Shares in accordance with the Dissenters’ Rights Provisions; provided, however, that if any such holder shall fail to perfect or otherwise shall waive, withdraw or lose the right to appraisal under the Dissenters’ Rights Provisions, then the right of such holder to be paid the fair value of such holder’s Dissenters’ Shares shall cease and such Dissenters’ Shares shall be deemed to have been converted as of the Effective Time into, and to have become exchangeable solely for the right to receive, Merger Consideration as provided in Section 2.01(c), without interest, upon surrender of such certificate in accordance with the provisions of Section 2.02. The Company shall give the Acquirer (i) prompt notice of any demand for payment of fair value received by the Company, the withdrawal of any such demand, and any other instrument served pursuant to the Dissenters’ Rights Provisions and received by the Company, and (ii) the opportunity to direct all negotiations and proceedings with respect to any demand for payment of fair value under the Dissenters’ Rights Provisions. The Company shall not, except with the prior written consent of the Acquirer, make any payment with respect to any demand for payment of fair value or offer to settle or settle any such demand, or agree to do any of the foregoing.

(e) *Company Stock Options.* The Acquirer and the Company agree that, in accordance with the provisions of the Company Stock Option Plans (as defined in Section 3.11(c)) and a resolution of the Company Board adopted under Section 10 thereof, each outstanding and unexercised option to purchase Company Common Stock under the Company Stock Option Plans shall be accelerated so that each such option outstanding and unexercised as of the fifth (5th) business day preceding the scheduled Effective Time shall become fully vested and exercisable from such date until the Effective Time. Any option to purchase Company Common Stock exercised by the holder thereof prior to the Effective Time shall be entitled to receive the Merger Consideration in accordance with Section 2.01(c), subject to any withholding of Taxes required by Law, and further reduced by any amount owed pursuant to any exercise of said option. Upon the Effective Time, each outstanding option to purchase Company Common Stock that has not previously been exercised shall be terminated and, in exchange therefor, each holder of each such option outstanding and unexercised shall receive from the Surviving Corporation not more than ten (10) business days after the Effective Time an amount in cash (less any withholding of taxes required by Law) equal to the product of (i) the number of shares of Company Common Stock previously subject to such option multiplied by (ii) the Merger Consideration less the exercise price per share of Company Common Stock previously subject to such option, if any. In the event and to the extent that the Company Stock Option Plans permit or require the Company Board (or any committee thereof) to exercise discretion with respect to outstanding stock options, the Company Board (or such committee, as the case may be) will not exercise any such discretion.

(f) *Declared but Unpaid Dividends.* In addition to the Merger Consideration, Acquirer shall pay or cause to be paid together with the Merger Consideration any regular

quarterly dividend declared in accordance with Section 5.01(b) but unpaid as of the Closing Date.

Section 2.02 Exchange of Certificates.

(a) *Paying Agent.* Prior to the Effective Time, Acquirer shall select a bank or trust company in the United States, reasonably acceptable to the Company, to act as paying agent (the “*Paying Agent*”) for the payment of the Merger Consideration upon surrender of certificates representing Company Common Stock and Acquirer shall take all steps necessary to provide, or to enable and cause the Acquisition Subsidiary to provide, to the Paying Agent prior to the Effective Time any and all of the cash necessary to pay for the shares of Company Common Stock converted into the right to receive cash pursuant to Section 2.01(c) (such cash being hereinafter referred to as the “*Exchange Fund*”). The Exchange Fund shall not be used for any purpose except as expressly provided in this Agreement.

(b) *Exchange Procedures.* Promptly after the Effective Time (but in no event later than five (5) business days following such date), the Surviving Corporation shall cause the Paying Agent to mail to each holder of record of a certificate or certificates (the “*Certificates*”) that immediately prior to the Effective Time represented outstanding shares of Company Common Stock whose shares were converted into the right to receive Merger Consideration pursuant to Section 2.01, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Paying Agent and shall be in such form and have such other provisions as Acquirer may reasonably specify), and (ii) instructions for use in effecting the surrender of the Certificates in exchange for Merger Consideration. Upon surrender of a Certificate for cancellation to the Paying Agent, together with such letter of transmittal, duly executed, and such other documents as may reasonably be required by the Paying Agent, the holder of such Certificate shall be entitled to receive in exchange therefor the amount of cash into which the shares of Company Common Stock theretofore represented by such Certificate shall have been converted pursuant to Section 2.01, and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Company Common Stock that is not registered in the transfer records of the Company, payment may be made to a Person other than the Person in whose name the Certificate so surrendered is registered, if such Certificate shall be properly endorsed or otherwise be in proper form for transfer and the Person requesting such payment shall pay any transfer or other taxes required by reason of the payment to a Person other than the registered holder of such Certificate or establish to the satisfaction of Acquirer that such tax has been paid or is not applicable. Until surrendered as contemplated by this Section 2.02, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the amount of cash, without interest, into which the shares of Company Common Stock theretofore represented by such Certificate have been converted pursuant to Section 2.01. If any holder of shares of Company Common Stock shall be unable to surrender such holder’s Certificates because such Certificates have been lost, mutilated or destroyed, such holder may deliver in lieu thereof an affidavit and indemnity bond in form and substance and with surety reasonably satisfactory to the Surviving Corporation. No interest shall be paid or accrue on the cash payable upon surrender of any Certificate.

(c) *No Further Ownership Rights in Company Common Stock.* The Merger Consideration paid in accordance with the terms of this Article II upon conversion of any shares of Company Common Stock shall be deemed to have been paid in full satisfaction of all rights pertaining to such shares of Company Common Stock, and after the Effective Time there shall be no further registration of transfers on the stock transfer books of the Surviving Corporation of shares of Company Common Stock that were outstanding immediately prior to the Effective Time. If, after the Effective Time, any certificates formerly representing shares of Company Common Stock are presented to the Surviving Corporation or the Paying Agent for any reason, they shall be canceled and exchanged as provided in this Article II.

(d) *Termination of Exchange Fund.* Any portion of the Exchange Fund that remains undistributed to the holders of Company Common Stock for twelve months after the Effective Time shall be delivered to Acquirer, upon demand, and any holder of Company Common Stock who has not theretofore complied with this Article II shall thereafter look only to Acquirer for payment of its claim for Merger Consideration, without any interest thereon.

(e) *No Liability.* None of Acquirer, Acquisition Subsidiary, the Company, the Surviving Corporation or the Paying Agent, nor any of their respective officers, directors, employees, agents or counsel, shall be liable to any Person in respect of any cash from the Exchange Fund delivered to a public official pursuant to any applicable unclaimed property, escheat or similar Law. If any Certificate has not been surrendered prior to five years after the Effective Time (or immediately prior to such earlier date on which Merger Consideration in respect of such Certificate would otherwise escheat to or become the property of any Governmental Entity, any such shares, cash, dividends or distributions in respect of such Certificate shall, to the extent permitted by applicable Law, become the property of the Surviving Corporation, free and clear of all claims or interest of any Person previously entitled thereto.

(f) *Investment of Exchange Fund.* Acquirer shall cause the Paying Agent to invest any cash included in the Exchange Fund on a daily basis; provided that such investments shall be limited to (i) direct obligations of the United States, (ii) obligations for which the full faith and credit of the United States is pledged to provide for the payment of principal and interest, or (iii) certificates of deposit issued by a commercial bank the deposits of which are insured by the Federal Deposit Insurance Corporation and which is “well-capitalized” within the meaning of applicable regulations. Any interest and other income resulting from such investments shall be paid to Acquirer.

(g) *Withholdings.* Acquirer shall be entitled to deduct and withhold from the consideration otherwise payable to any holder of Company Common Stock pursuant to this Agreement such amounts as may be required to be deducted and withheld with respect to the making of such payment under the Code (as defined in Section 3.11(a)), or under any provision of state, local or foreign Tax Law. To the extent that amounts are so withheld by the Surviving Corporation or Acquirer, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock in respect of which such deduction and withholding was made by the Surviving Corporation or Acquirer, as the case may be.

(h) *Charges and Expenses.* The Surviving Corporation shall pay all charges and expenses, including those of the Paying Agent, in connection with the exchange of cash for shares of Company Common Stock.

ARTICLE III.

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Acquirer that, except as disclosed in the applicable disclosure schedule furnished by Company to Acquirer prior to the execution of this Agreement (the “*Company Disclosure Schedule*”) corresponding to the Sections and subsections set forth below:

Section 3.01 Organization and Qualification; Subsidiaries.

The Company is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. All of the Subsidiaries of the Company are set forth in Section 3.01 of the Company Disclosure Schedule (the “*Company Subsidiaries*”). Each Company Subsidiary is a corporation or a limited liability company duly organized, validly existing and in good standing under the respective Laws of the jurisdiction of its organization. The Company and each of the Company Subsidiaries has the requisite corporate or limited liability company power and authority, and are in possession of all franchises, grants, authorizations, licenses, permits, easements, consents, certificates, approvals and Orders (the “*Approvals*”), necessary to own, lease and operate the properties it purports to own, lease or operate and to carry on its business as it is now being conducted, except where the failure to have such power, authority and Approvals would not, individually or in the aggregate, have a Company Material Adverse Effect. The Company and each of the Company Subsidiaries is duly qualified or licensed as a foreign company to do business and is in good standing in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its activities makes such qualification or licensing necessary, except for such failures to be so duly qualified or licensed and in good standing that would not, individually or in the aggregate, have a Company Material Adverse Effect. A true and complete list of all of the Company Subsidiaries, together with the jurisdiction of organization of each Company Subsidiary and the percentage of each Company Subsidiary’s outstanding capital stock or membership interests owned by the Company, another Company Subsidiary or any third party along with a list of all Persons in which the Company or any Company Subsidiary holds any equity interest, is set forth in Section 3.01 of the Company Disclosure Schedule. No capital stock or other ownership interests of any Company Subsidiary is or may become required to be issued by reason of any options, warrants, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exchangeable or exercisable for, shares of any capital stock or other ownership interests of any Company Subsidiary, and there are no contracts, commitments, understandings or arrangements by which Company or any of Company Subsidiaries is or may be bound to issue, redeem, purchase or sell additional shares of capital stock or other ownership interests of any Company Subsidiary. The Company does not directly or indirectly own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for, any equity or similar interest in, any Person, other than the

Company Subsidiaries and other Persons set forth in Section 3.01 of the Company Disclosure Schedule.

Section 3.02 Articles of Incorporation and By-Laws.

The Company has heretofore furnished to Acquirer a true, complete and correct copy of the Company's Articles of Incorporation (the "*Company Charter*") and the Company's By-Laws (the "*Company By-Laws*"), each as amended to date, and has furnished to Acquirer the articles of incorporation and by-laws (or equivalent organizational documents) of each of the Company Subsidiaries (the "*Subsidiary Documents*"). The Company Articles, the Company By-Laws and Subsidiary Documents are in full force and effect. Neither the Company nor any of the Company Subsidiaries is in violation of any of the provisions of the Company Charter or the Company By-Laws or the Subsidiary Documents.

Section 3.03 Capitalization.

The authorized capital stock of the Company consists of (i) 115,000 shares of preferred stock, no par value per share, none of which is issued and outstanding, none of which is held in treasury and 50,000 of which are currently designated Series A Junior Participating Preferred Stock, and (ii) 11,500,000 shares of Company Common Stock. As of November 8, 2010, (i) 4,662,477 shares of Company Common Stock were issued and outstanding, all of which are validly issued, fully paid and nonassessable, and 1,202 shares of Company Common Stock were held in treasury, (ii) no shares of Company Common Stock were held by the Company Subsidiaries, and (iii) 282,765 shares of Company Common Stock were reserved for future issuance pursuant to outstanding Company Stock Options granted under the Company Stock Option Plans and zero shares of Company Common Stock were reserved for issuance pursuant to the Company Stock Purchase Plan. Section 3.03 of the Company Disclosure Schedule sets forth a true and complete list of all outstanding options under the Company Stock Option Plans (collectively, the "*Company Stock Options*"), the name of each holder thereof, the number of shares purchasable or acquirable thereunder or upon conversion or exchange thereof and (if any) the per share exercise or conversion price or exchange rate of each Company Stock Option. There are no options, warrants or other similar rights, convertible or exchangeable securities, "phantom stock" rights, stock appreciation rights, stock based performance units, agreements, arrangements, commitments or understandings to which the Company is a party, whether or not in writing, of any character relating to the issued or unissued capital stock or other securities of the Company or any of the Company Subsidiaries or obligating the Company or any of the Company Subsidiaries to issue (whether upon conversion, exchange or otherwise) or sell any share of capital stock of, or other equity interests in or other securities of, the Company or any of the Company Subsidiaries other than those listed in Section 3.03 of the Company Disclosure Schedule. All shares of Company Common Stock subject to issuance as set forth in this Section 3.03 or Section 3.03 of the Company Disclosure Schedule shall, upon issuance on the terms and conditions specified in the instruments pursuant to which they are issuable, be duly authorized, validly issued, fully paid and nonassessable. Other than those listed in Section 3.03 of the Company Disclosure Schedule, there are no obligations, contingent or otherwise, of the Company or any of the Company Subsidiaries to repurchase, redeem or otherwise acquire any shares of Company Common Stock or capital stock of any Company Subsidiary or any other securities of the Company or any of the Company Subsidiaries or to provide funds to or make

any investment (in the form of a loan, capital contribution or otherwise) in any such Company Subsidiary or any other entity. All of the outstanding shares of capital stock of each of the Company Subsidiaries are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights, and all such shares are owned by the Company or another Company Subsidiary free and clear of all security interests, liens, claims, pledges, taking actions, agreements, limitations in the Company's voting rights, charges or other encumbrances of any nature whatsoever (collectively, "*Liens*"), except as set forth in Section 3.03 of the Company Disclosure Schedule.

Section 3.04 Authority Relative to this Agreement.

The Company has all necessary corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of the Company, and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or to consummate the transactions contemplated hereby, other than the approval of this Agreement by the holders of not less than a two-thirds majority of the outstanding shares of Company Common Stock entitled to vote in accordance with the NHBCA and the Company Charter and the Company By-Laws (the "*Company Stockholder Approval*"). The Company Stockholder Approval is the only vote of the holders of any class or series of the Company's capital stock necessary (under the Company Charter and the Company By-Laws, the NHBCA, other applicable law or otherwise) to approve this Agreement and the Merger. The Board of Directors of the Company (the "*Company Board*") has adopted this Agreement and the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Company and, assuming the due authorization, execution and delivery by Acquirer and Acquisition Subsidiary, as applicable, constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar Laws of general applicability relating to or affecting the enforcement of creditors' rights and by the effect of the principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

Section 3.05 No Conflict; Required Filings and Consents.

(a) Section 3.05(a) of the Company Disclosure Schedule sets forth a list of all contracts, agreements, arrangements or understandings, whether or not in writing, to which the Company or any of the Company Subsidiaries is a party or by which any of them is bound as of the date hereof (i) that are required to be filed as "material contracts" with the SEC pursuant to the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "*Exchange Act*"); (ii) under which, to the Knowledge of the Company, the consequences of a default, nonrenewal or termination would have a Company Material Adverse Effect; or (iii) pursuant to which payments might be required or acceleration of benefits may occur upon a change of control of the Company or the Company Subsidiaries (collectively, along with the Related Party Contracts, the "*Material Contracts*"). In addition, Section 3.05(a) of the Company Disclosure Schedule sets forth a list (and if any of the same is

not in writing, a fair summary thereof) of all contracts, agreements, arrangements or understandings, whether or not in writing, between the Company or any Company Subsidiary on the one hand, and the Company or any other Company Subsidiary on the other hand (collectively the “*Related Party Contracts*”). Except as set forth in Section 3.05(a) of the Company Disclosure Schedule, neither the Company nor any Company Subsidiary has received any written notice, or, To the Knowledge of the Company, any oral or other communication, reasonably indicating the intent of any Person to terminate any Material Contract.

(b) Except as set forth in Section 3.05(b) of the Company Disclosure Schedule, the execution and delivery of this Agreement by the Company does not, and the performance of this Agreement by the Company will not, (i) conflict with or violate the Company Charter or the Company By-Laws or any Subsidiary Document, (ii) conflict with or violate any law, rule or regulation, whether federal, state, local or foreign (collectively, “*Laws*”), or any order, judgment or decree, whether federal, state, local or foreign (collectively, “*Orders*”), applicable to the Company or any of the Company Subsidiaries or by which its or any of their respective properties is bound or affected, or (iii) to the Knowledge of the Company, result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or result in a modification of any right or benefit under, or impair the Company’s or any of the Company Subsidiaries’ rights or alter the rights or obligations of any third party under, or give to others any right of termination, amendment, acceleration or cancellation of, or repayment, repurchase or increased payment under, any Material Contract, or result in the creation of a Lien on any of the properties or assets of the Company or any of the Company Subsidiaries pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or any of the Company Subsidiaries is a party or by which the Company or any of the Company Subsidiaries or its or any of their respective properties is bound or affected, except in the case of (ii) or (iii) only for any such conflicts, violations, breaches, defaults or other occurrences that would not, individually or in the aggregate, have a Company Material Adverse Effect and subject to obtaining or making the Company Required Consents (as defined below). Except as set forth in Section 3.05(b) of the Company Disclosure Schedule, there is no default or state of facts which with notice or lapse of time or both would constitute a default on the part of the Company or any of the Company Subsidiaries (excluding Pennichuck Water Services Corporation) or To the Knowledge of the Company on the part of any other party under a Material Contract, and the Company has not received or given notice of any default or claimed default or state of facts which with notice or lapse of time or both would constitute a default on the part of any party under a Material Contract.

(c) The execution and delivery of this Agreement by the Company does not, and the performance of this Agreement by the Company will not, require any consent, approval, authorization or permit of, or filing with or notification to, any national, federal, state or local governmental, regulatory or administrative authority, agency, commission, court, tribunal, arbitral body or self-regulated entity, domestic or foreign (each a “*Governmental Entity*,” and, collectively, “*Governmental Entities*”), except for (i) applicable requirements of the Exchange Act, (ii) the filing and recordation of appropriate merger or other documents as required by the NHBCA, (iii) Laws, Orders and practices of any state public utility control or public service commissions or similar state regulatory bodies (“*PUCs*”), each of which is set forth in Section 3.05(c) of the Company Disclosure Schedule, (iv) Laws, Orders and practices of any

state or local departments of public health or departments of health or similar state or local regulatory bodies or of any federal, state or local regulatory body having jurisdiction over environmental protection or environmental conservation or similar matters (“*Environmental Agencies*”), each of which is identified in Section 3.05(c) of the Company Disclosure Schedule, and (v) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not prevent or delay consummation of the Merger, or otherwise prevent or delay the Company from performing its obligations under this Agreement, or would not otherwise have, individually or in the aggregate, a Company Material Adverse Effect. Consents, approvals, permits, Orders, authorizations, registrations, declarations and filings required under or in relation to any of the foregoing clauses (i) through (iv) are hereinafter referred to as “*Company Required Consents*.” The parties hereto agree that references in this Agreement to “obtaining” Company Required Consents means obtaining such consents, approvals or authorizations, making such registrations, declarations or filings, giving such notices, and having such waiting periods expire as are necessary to avoid a violation of Law or an Order.

Section 3.06 Compliance; Permits.

(a) Neither the Company nor any of the Company Subsidiaries is in conflict with, or in default or violation of (i) any Law or Order applicable to the Company or any of the Company Subsidiaries or by which its or any of their respective properties is bound or affected (excluding for purposes of this Section 3.06(a) Environmental Laws), (ii) any rule or requirement of any self-regulatory body to which the Company or any of the Company Subsidiaries is subject, or (iii) to the Knowledge of the Company, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or any of the Company Subsidiaries is a party or by which the Company or any of the Company Subsidiaries or its or any of their respective properties is bound or affected, except in each case for any such conflicts, defaults or violations which, individually or in the aggregate, would not have a Company Material Adverse Effect. Without limiting the generality of the foregoing, as of the Effective Time, (i) the Company and the Company Subsidiaries shall be in compliance in all material respects with the applicable provisions of the Occupational and Safety Health Act of 1970, as amended, and the regulations promulgated thereunder, and (ii) none of the Company or any of the Company Subsidiaries shall have been advised of any fact or circumstance or set of facts or circumstances which would cause the Company or any of the Company Subsidiaries to fail to be in material compliance with such provisions.

(b) The Company and the Company Subsidiaries hold all permits, licenses, easements, franchises, land rights, variances, exemptions, consents, certificates, orders and approvals from Governmental Entities that are necessary to the operation of the business of the Company and the Company Subsidiaries as it is now being conducted (collectively, the “*Company Permits*”), except where the failure to have such Company Permits would not, individually or in the aggregate, have a Company Material Adverse Effect. The Company and the Company Subsidiaries are in compliance with the terms of the Company Permits except, in each case, where the failure to so comply would not, individually or in the aggregate, have a Company Material Adverse Effect.

(c) All filings required to be made by the Company or any of the Company Subsidiaries since December 31, 2009 under any applicable Laws or Orders relating to the regulation of public utilities have been filed with the appropriate PUC or Environmental Agency or any other appropriate Governmental Entity (including, without limitation, to the extent required, the state public utility regulatory agencies in New Hampshire), as the case may be, including all forms, statements, reports and agreements and all documents, exhibits, amendments and supplements appertaining thereto, including but not limited to all rates, tariffs, franchises, service agreements and related documents and all such filings complied, as of their respective dates, in all material respects with all applicable requirements of the appropriate Laws or Orders, except for such filings or such failures to comply that would not, individually or in the aggregate, have a Company Material Adverse Effect.

Section 3.07 SEC Filings; Financial Statements.

(a) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and each other form, report and document filed or to be filed by it under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (the "*Securities Act*") or the Exchange Act with the Securities and Exchange Commission ("*SEC*") subsequent to December 31, 2009 and prior to the Closing Date (collectively, the "*Filed Company SEC Reports*") (i) was prepared in all material respects in accordance with the requirements of the Securities Act or the Exchange Act including the applicable forms thereunder, as the case may be, and (ii) did not at the time it was filed (or if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. None of the Company Subsidiaries is required to file any form, report or other document with the SEC or any national securities exchange or quotation service or comparable Governmental Entity.

(b) Each of the consolidated financial statements (including, in each case, any related notes thereto) contained in the Filed Company SEC Reports was prepared in accordance with United States generally accepted accounting principles ("*GAAP*") applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto), and each fairly presents in all material respects the consolidated financial position, the results of operations and the cash flows of the Company and the Company Subsidiaries as of the respective dates thereof or for the respective periods set forth therein, except that the unaudited interim financial statements included therein were or are subject to normal and recurring year-end adjustments which were not or are not expected to be material in amount. The books and records of the Company and each Company Subsidiary accurately reflect in all material respects the assets, liabilities, financial condition and results of operations of the Company or such Company Subsidiary and have been maintained in all material respects in conformity with GAAP. Except as disclosed in Section 3.07(b) of the Company Disclosure Schedule with respect to meetings since December 31, 2009 for which minutes have not been approved, the minute books and other similar records of the Company and each Company Subsidiary contain complete and accurate records, in all material respects, of all votes taken since December 31, 1999 at any meeting of the shareholders or directors of such entity and of all written consents executed since December 31,

1999 in lieu of such meetings, in each case as required to be so reflected, recorded or taken under applicable Law.

(c) Section 3.07(c) of the Company Disclosure Schedule sets forth a list of all registration statements and prospectuses which the Company maintains effective under the Securities Act. No such registration statement or prospectus contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(d) Except as disclosed in the Filed Company SEC Reports, neither the Company nor any Company Subsidiaries has entered into any transaction with any director, officer or other affiliate of the Company or any Company Subsidiary or any transaction that would be subject to proxy statement disclosure pursuant to Item 404 of Regulation S-K.

(e) Each of the principal executive officer and the principal financial officer of the Company (or each former principal executive officer and former principal financial officer of the Company, as applicable) has made all certifications required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 with respect to the Filed Company SEC Reports, and the Company has made available to Acquirer a summary of any disclosure made by the Company's management to the Company's auditors and the audit committee of the Company Board referred to in such certifications. (For purposes of the preceding sentence, "principal executive officer" and "principal financial officer" shall have the meanings ascribed to such terms in the Sarbanes-Oxley Act of 2002.)

(f) The Company maintains a system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) (the "*Company's Internal Control System*") sufficient to provide reasonable assurance to the Company and the Company Board (i) that the Company maintains records that in reasonable detail accurately and fairly reflect their respective transactions and dispositions of assets in all material respects, (ii) that transactions of the Company and the Company Subsidiaries are recorded as necessary to permit preparation of financial statements in conformity with GAAP, (iii) that receipts and expenditures of the Company and the Company Subsidiaries are executed only in accordance with authorizations of management and the Company Board and (iv) regarding prevention or timely detection of the unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements. The Company has evaluated the effectiveness of the Company's Internal Control System and, to the extent required by applicable Law, presented in any applicable Filed Company SEC Report that is a report on Form 10-K or Form 10-Q or any amendment thereto its conclusions about the effectiveness of the Company's Internal Control System as of the end of the period covered by such report or amendment based on such evaluation. To the extent required by applicable Law, the Company has disclosed, in any applicable Filed Company SEC Report that is a report on Form 10-K or Form 10-Q or any amendment thereto, any change in the Company's Internal Control System that occurred during the period covered by such report or amendment that has materially affected, or is reasonably likely to materially affect, the Company's Internal Control System. The Company has disclosed, based on the most recent evaluation of the Company's Internal Control System, to the Company's auditors and the audit committee of the Company Board

(A) all significant deficiencies and material weaknesses, if any, in the design or operation of the Company's Internal Control System that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and (B) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's Internal Control System.

Section 3.08 Absence of Certain Changes or Events.

Except as set forth in the Filed Company SEC Reports and except as set forth in Section 3.08 of the Company Disclosure Schedule, since December 31, 2009:

(a) there has not been any Company Material Adverse Effect, and To the Knowledge of the Company, no fact or condition exists that will, or is reasonably likely to, cause a Company Material Adverse Effect;

(b) the Company and the Company Subsidiaries have carried on their respective businesses in the ordinary and usual course substantially consistent with past practices;

(c) neither the Company nor any of the Company Subsidiaries has declared, paid or set apart any sum or property for any dividend or other distribution, or paid or transferred any funds or property to any equity holder of the Company or any Company Subsidiary, or, directly or indirectly, acquired any of its capital stock;

(d) neither the Company nor any of its Subsidiaries has increased the wages, salaries, compensation, pensions or other fringe benefits or perquisites payable to any executive officer, employee or director from the amount thereof in effect as of December 31, 2009 (which amounts have been previously disclosed to Acquirer), granted any severance or termination pay, entered into any contract to make or grant any severance or termination pay or paid any bonus, other than year-end bonuses for 2009 as listed in Section 3.08 of the Company Disclosure Schedule;

(e) neither the Company nor any of the Company Subsidiaries has suffered any strike, work stoppage, slowdown or other labor disturbance;

(f) there has not been any material change in any of the accounting methods, principles or practices of the Company or any of the Company Subsidiaries, or a material change (other than normal recurring depreciation) in the value at which assets were carried on the December Company Balance Sheet (as defined in Section 3.09); and

(g) neither the Company nor any Company Subsidiary has received any written notice, or, To the Knowledge of the Company, any oral or other communication reasonably indicating the intention of any Person to terminate any material agreement with the Company or any Company Subsidiary, or any written notice, or, To the Knowledge of the Company, any oral or other communication reasonably indicating, from any material customer or material supplier of the Company or any Company Subsidiary, that it intends to cease doing business with, materially change the price or other terms on which business is transacted with, or

materially reduce the volume of business transacted with, the Company or any Company Subsidiary.

Section 3.09 No Undisclosed Liabilities.

Neither the Company nor any of the Company Subsidiaries has any liability or obligation of any nature whatsoever (whether known, unknown, absolute, accrued, contingent or otherwise) except liabilities (a) adequately provided for in the Company's audited balance sheet (including any related notes thereto) as of December 31, 2009 (the "*December Company Balance Sheet*"), (b) incurred on or before December 31, 2009 in the ordinary course of business and not required under GAAP to be reflected on the December Company Balance Sheet, (c) incurred since December 31, 2009 in the ordinary course of business substantially consistent with past practice, (d) incurred in connection with this Agreement, (e) disclosed in the Filed Company SEC Reports or Section 3.09 of the Company Disclosure Schedule, or (f) which would not individually or in the aggregate have a Company Material Adverse Effect.

Section 3.10 Absence of Litigation.

Except for claims, actions, suits, proceedings or investigations that would not, individually or in the aggregate, have a Company Material Adverse Effect, and except as otherwise specified in Section 3.10 of the Company Disclosure Statement, there are no other claims, actions, suits, proceedings or investigations pending before any Governmental Entity or, To the Knowledge of the Company, threatened against the Company or any of the Company Subsidiaries, or any properties or rights of the Company or any of the Company Subsidiaries by any Person. Neither the Company nor any of the Company Subsidiaries is subject to any outstanding Order that could reasonably be expected to result in a Company Material Adverse Effect or that could reasonably be expected to prevent or delay the Company in any material respect from performing its obligations under, or consummating the transactions contemplated by, this Agreement.

Section 3.11 Employee Benefit Plans; Employment Agreements.

(a) Section 3.11(a) of the Company Disclosure Schedule sets forth a list, with respect to the Company and the Company Subsidiaries, of the following plans, agreements or arrangements (collectively the "*Company Employee Plans*"): (i) all employee pension plans (as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("*ERISA*")), maintained or contributed to by the Company or the Company Subsidiaries on behalf of employees and intended to qualify under Section 401(a) of the Internal Revenue Code of 1986 as amended (the "*Code*"); (ii) all employee welfare plans (as defined in Section 3(1) of ERISA) maintained or contributed to by the Company or the Company Subsidiaries on behalf of employees; (iii) all other stock option or stock purchase arrangements with employees not set forth in Section 3.03 of the Company Disclosure Schedule; (iv) all other employment, executive compensation, consulting or severance agreements, written or otherwise, between the Company or any of the Company Subsidiaries and any individual who is an employee of or consultant to the Company or any of the Company Subsidiaries where the aggregate amount of expense during the last fiscal year or the aggregate amount of payments in any future one year period exceeds \$25,000; and (v) all other pension, excess benefit, bonus, incentive or deferred compensation

arrangements with employees. There have been made available to Acquirer copies of (i) each such written Company Employee Plan, (ii) the most recent annual report on Form 5500, with accompanying schedules and attachments, filed with respect to each Company Employee Plan required to make such a filing, and (iii) the most recent actuarial valuation for each Company Employee Plan subject to Title IV of ERISA.

(b) Except as set forth in Section 3.11(a) of the Company Disclosure Schedule, (i) none of the Company Employee Plans provides retiree medical or life insurance benefits to any former employee of the Company or a Company Subsidiary (other than post-employment benefits provided in accordance with the health care continuation provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, or comparable state law), and none of the Company Employee Plans is a “multiemployer plan” as such term is defined in Section 3(37) of ERISA; (ii) all Company Employee Plans are in material compliance with the applicable requirements prescribed by ERISA and the Code, and the Company and the Company Subsidiaries have performed all material obligations required to be performed by them under each of the Company Employee Plans; (iii) each Company Employee Plan intended to qualify under Section 401(a) of the Code and each trust intended to qualify under Section 501(a) of the Code is the subject of a favorable determination letter from the Internal Revenue Service (the “IRS”) or the time within which an application for such a determination with respect to any such plan may be filed has not expired; (iv) all contributions required to be made to any Company Employee Plan pursuant to Section 412 of the Code, or the terms of the Company Employee Plan or any collective bargaining agreement, have been made on or before their due dates; (v) with respect to each Company Employee Plan, no “reportable event” within the meaning of Section 4043 of ERISA (excluding any such event for which the 30 day notice requirement has been waived under the regulations to Section 4043 of ERISA) nor any event described in Section 4062, 4063 or 4041 of ERISA has occurred; (vi) neither the Company nor any Company Subsidiary has incurred, and neither the Company nor any Company Subsidiary reasonably expects to incur, any liability under Title IV of ERISA (other than liability for premium payments to the Pension Benefit Guaranty Corporation arising in the ordinary course); (vii) there is no pending or, To the Knowledge of the Company or any Company Subsidiary, threatened litigation, administrative action or proceeding relating to any Company Employee Plan (other than claims for benefits in the ordinary course of business) that can reasonably be expected to give rise to any material liability to the Company or any Company Subsidiary or to affect adversely the tax-qualified status of any Company Employee Plan; and (viii) the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not increase the amount of, accelerate the time of payment of, or the vesting of compensation (including, by way of clarification and not limitation, any severance or displacement pay) payable to any employee under any Company Employee Plan.

(c) Attached to Section 3.11(c) of the Company Disclosure Schedule are true and complete copies of the Company’s 1995 Stock Option Plan, the 2000 Stock Option Plan that has been amended and restated as the 2009 Equity Incentive Plan (together, the “*Company Stock Option Plans*”), including the form of option certificates, grant agreements and other documents related to such Company Stock Option Plans. Section 3.11(c) of the Company Disclosure Schedule sets forth a true and complete list of each individual who holds any Company Stock Option as of the date hereof, together with the number of shares of Company Common Stock subject to such Company Stock Option, the option price of such Company Stock Option (to the

extent determined as of the date hereof), the vesting Schedule of such Company Stock Option, whether such Company Stock Option is intended to qualify as an incentive stock option within the meaning of Section 422(b) of the Code and the expiration date of such option.

(d) Section 3.11(d) of the Company Disclosure Schedule sets forth a true and complete list of (i) all employment agreements by and between the Company or any of the Company Subsidiaries and their employees and officers; (ii) each agreement with a consultant who is an individual, natural person obligating the Company or any of the Company Subsidiaries to make annual cash payments in an amount exceeding \$50,000; and (iii) all plans, programs, agreements and other arrangements of the Company or any of the Company Subsidiaries with or relating to its employees which contain change of control or similar provisions.

Section 3.12 Employment and Labor Matters.

(a) There are no controversies pending or, To the Knowledge of the Company, threatened, between the Company or any of the Company Subsidiaries and any labor organization and/or any of their respective employees or any representative of any portion of their employees, which controversies could, individually or in the aggregate, have a Company Material Adverse Effect. Neither the Company nor any of the Company Subsidiaries is a party to any collective bargaining agreement or other labor union contract applicable to persons employed by the Company or the Company Subsidiaries, except for the Labor Contract (as defined in Section 3.05(a) of the Company Disclosure Schedule). The Company's and the Company Subsidiaries' unionized employees comprise a single bargaining unit for purposes of applicable labor laws. The Labor Contract is a valid collective bargaining agreement covering the Company's and the Company Subsidiaries' bargaining unit. Neither the Company nor any of the Company Subsidiaries has breached any provision of the Labor Contract which breach has a Company Material Adverse Effect. To the Knowledge of the Company, there are no activities or proceedings of any labor union to organize any employees other than those covered by the Labor Contract; and, To the Knowledge of the Company, there are no pending strikes or lockouts, or any material slowdowns, work stoppages, or threats thereof, by or with respect to any employees of the Company or any of the Company Subsidiaries that would have, individually or in the aggregate, a Company Material Adverse Effect.

(b) Neither the Company nor any of the Company Subsidiaries has violated, in a manner that would reasonably be expected to have a Company Material Adverse Effect, any provision of Law or Order regarding the terms and conditions of employment of employees, former employees, or prospective employees or other labor related matters, including without limitation, Laws, Orders and awards relating to discrimination, fair labor standards and occupational health and safety, wrongful discharge or violation of the personal rights of employees, former employees or prospective employees. Neither the Company nor any of the Company Subsidiaries has reduced its workforce in such a way as to trigger the requirement to give notice under the Federal Worker Adjustment and Retraining Notification Act, and/or the New Hampshire Worker Adjustment and Retraining Notification Act NH RSA Chapter 275-F.

(c) The Company has reached agreement with the labor organization party to the Labor Contract, and has established for all employees who are part of the bargaining unit under the Labor Contract, an agreement that, To the Knowledge of the Company, is binding with

respect to severance benefits described on Section 3.12 of the Company Disclosure Schedule and any other effects on any employee resulting from the Merger and the other transactions contemplated by this Agreement. The Company has provided to the Acquirer a copy of such agreement, and Section 3.12(c) of the Company Disclosure Schedule sets forth an accounting, which is accurate in all material respects, of the cost of all severance payments payable thereunder.

Section 3.13 Title to Property.

Except for Liens set forth in Section 3.13 of the Company Disclosure Schedule, the Company and each of the Company Subsidiaries have good and marketable title to all of their properties and assets, free and clear of all Liens, except Liens for taxes not yet due and payable and such Liens or other imperfections of title, if any, as do not materially detract from the value of or interfere with the present use of the property affected thereby or which would not, individually or in the aggregate, have a Company Material Adverse Effect. To the Knowledge of the Company, all leases pursuant to which the Company or any of the Company Subsidiaries leases from others material amounts of real or personal property, are in good standing, valid and effective in accordance with their respective terms and there is not, To the Knowledge of the Company, under any of such leases, any existing default or event of default (or event which with notice or lapse of time, or both, would constitute a default), except where the lack of such good standing, validity and effectiveness or the existence of such default would not, individually or in the aggregate, have a Company Material Adverse Effect.

Section 3.14 Real and Personal Property.

Except for such matters that would not, individually or in the aggregate, have a Company Material Adverse Effect:

(a) The Company and the Company Subsidiaries own or have sufficient rights and consents to use under existing franchises, leases, easements and license agreements all real property (including all buildings, fixtures and other improvements thereto) necessary for the conduct of their businesses and operations as currently conducted; and all such property is in good condition and repair and is suitable in all material respects for the purpose for which it is now being used in the conduct of the businesses of the Company and the Company Subsidiaries. Without limiting the generality of the foregoing, To the Knowledge of the Company, neither it nor any of the Company Subsidiaries has any material capital improvements, capital expenditures or alterations to any of their respective real properties or facilities required by applicable health and safety, water quality or other Laws except as set forth on Section 3.14(a) of the Company Disclosure Schedule. To the Knowledge of the Company, the description of capital improvement programs by the Regulated Company Subsidiaries set forth in their respective filings with the New Hampshire Public Utilities Commission (“*NHPUC*”) do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) To the Knowledge of the Company, all personal property that is owned by the Company or any of the Company Subsidiaries or used by any of them in the conduct of the

businesses of the Company and the Company Subsidiaries is in good working condition, subject to normal wear and tear, and is suitable in all material respects for the purposes for which it is now being used in the conduct of the businesses of the Company and the Company Subsidiaries.

Section 3.15 Water Quality.

The water supplied by the Company and the Company Subsidiaries to their respective customers complies with all applicable standards for quality, quantity and safety of water imposed by applicable Laws and Orders, except where lack of compliance with such standards would not, individually or in the aggregate, have a Company Material Adverse Effect.

Section 3.16 Regulation as a Utility.

The Company Subsidiaries set forth in Section 3.16 of the Company Disclosure Schedule (“*Regulated Company Subsidiaries*”) are regulated as public utilities in New Hampshire only. Neither the Company nor any Company Subsidiary or any affiliate of the Company is subject to regulation as a public utility or public service company (or similar designation) by any other state in the United States, by the United States or any agency or instrumentality of the United States or by any foreign country. Except as set forth in Section 3.16 of the Company Disclosure Schedule, all assets which are included in the rate base calculations of the Regulated Company Subsidiaries are “used and useful” within the meaning of NH RSA Chapter 378:28, and no assets of the Company or any of the Regulated Company Subsidiaries have been disallowed in any ratemaking procedure before the NHPUC.

Section 3.17 Taxes.

(a) For purposes of this Agreement, “*Tax*” or “*Taxes*” shall mean taxes, fees, levies, duties, tariffs, imposts, and governmental impositions or charges of any kind in the nature of (or similar to) taxes, payable to any federal, state, local or foreign taxing authority, including (without limitation) (i) income, franchise, profits, gross receipts, ad valorem, net worth, value added, sales, use, service, real or personal property, special assessments, capital stock, license, payroll, withholding, employment, social security, workers’ compensation, unemployment compensation, utility, severance, production, excise, stamp, occupation, premiums, windfall profits, transfer and gains taxes, and (ii) interest, penalties, additional taxes and additions to tax imposed with respect thereto; and “*Tax Returns*” shall mean returns, reports, and information statements with respect to Taxes required to be filed with the IRS or any other taxing authority, domestic or foreign, including, without limitation, consolidated, combined and unitary tax returns.

(b) The Company and the Company Subsidiaries have timely filed all Tax Returns required to be filed by them, except for any Tax Returns as to which the failure to file, individually or in the aggregate, would not have a Company Material Adverse Effect. To the Knowledge of the Company, all such filed Tax Returns are complete and correct in all material respects. The Company and the Company Subsidiaries have paid and discharged all Taxes shown as due on such Tax Returns in connection with or with respect to the periods or transactions covered by such Tax Returns and have paid all other Taxes as are due, except such as are being contested in good faith by appropriate proceedings (to the extent that any such

proceedings are required) and except as may be determined to be owed upon completion of any Tax Return not yet filed based upon an extension of time to file, and there are no other Taxes that would have a Company Material Adverse Effect if asserted by a taxing authority, except with respect to which the Company is maintaining reserves to the extent currently required. All tax reserves that the Company is maintaining are set forth on Section 3.17(b) of the Company Disclosure Schedule. There are no Tax Liens on any assets of the Company or any Company Subsidiary thereof and neither the Company nor any of the Company Subsidiaries has granted any waiver of any statute of limitations with respect to, or any extension of a period for the assessment of, any Tax. The accruals and reserves for Taxes (including deferred taxes) reflected in the December Company Balance Sheet are in all material respects adequate to cover all Taxes required to be accrued through the date thereof (including interest and penalties, if any, thereon and Taxes being contested) in accordance with GAAP. Except as set forth on Section 3.17(b) of the Company Disclosure Schedule neither the Company nor any Company Subsidiary: (i) has any unamortized adjustments attributable to a change in accounting method under Section 481 of the Code; (ii) has liability for the Taxes of any other entity or person under Treasury Regulation Section 1.1502-6 as a transferee or successor, by contract or otherwise; (iii) has ever been included in a consolidated or combined Tax Return (other than a consolidated group the common parent of which is the Company); or (iv) is currently under examination or audit by any Tax authority or has been notified that it will be under examination or audit.

Section 3.18 Environmental Matters.

Except in all cases as have not had and would not, individually or in the aggregate, have a Company Material Adverse Effect, To the Knowledge of the Company, the Company and each of the Company Subsidiaries: (i) have given all notifications and obtained all applicable permits, licenses and other authorizations (collectively, the “*Environmental Permits*”) that are required to be given or obtained under all applicable federal, state or local Laws or any regulation, code, plan, Order, decree, judgment, notice or demand letter issued, entered, promulgated or approved thereunder relating to pollution or protection of human health and the environment, including Laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants, wastes or hazardous or toxic materials or substances (including petroleum or its fractions, asbestos or polychlorinated biphenyls) into ambient air, surface water, ground water, or land or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, wastes or hazardous or toxic materials or substances (“*Environmental Laws*”) by the Company or the Company Subsidiaries (or their respective agents), which Environmental Permits are in full force and effect; (ii) are in compliance with all terms and conditions of such Environmental Permits; (iii) are in compliance with all limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in applicable Environmental Laws; (iv) as of the date hereof, are not aware of nor have received written notice, or, To the Knowledge of the Company, have received any oral or other notice, of any past or present violations of Environmental Laws or Environmental Permits or any event, condition, circumstance, activity, practice, incident, action or plan which is reasonably likely to interfere with or prevent continued compliance with Environmental Permits or which would give rise to any common law or statutory liability, or otherwise form the basis of any claim, action, suit or proceeding, against the Company or any of the Company Subsidiaries based on or resulting from the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling, or the emission, discharge or release into

the environment, of any pollutant, contaminant, waste or hazardous or toxic material or substance; and (v) have taken all actions necessary under applicable Environmental Laws to register any products or materials required to be registered by the Company or the Company Subsidiaries (or any of their respective agents) thereunder. Reflected in Section 3.18 of the Company Disclosure Schedule is a complete list of all Environmental Permits currently held by the Company or any Company Subsidiary. The Company and the Company Subsidiaries have delivered or otherwise made available to Acquirer complete and correct copies of all reports, studies or analyses currently in the possession of Company and/or the Company Subsidiaries or prepared since December 31, 1999 for the Company or any Company Subsidiary pertaining to pollutants, contaminants, wastes or hazards or toxic materials or substances (including petroleum and its fractions, asbestos, and polychlorinated biphenyls) in, or, beneath or adjacent to any property currently or formerly owned, operated or controlled by Company or any Company Subsidiary. All such reports, studies or analyses are listed in Section 3.18 of the Company Disclosure Schedule.

Section 3.19 Intellectual Property.

The Company or the Company Subsidiaries owns, leases or licenses all Company Intellectual Property Rights necessary to conduct the business of the Company, except where the failure to own, lease or license such rights would not have a Company Material Adverse Effect. Except for such claims, infringements and misappropriations that would not have a Company Material Adverse Effect, (i) there has been no claim made against the Company or any of the Company Subsidiaries asserting the invalidity, misuse or unenforceability of any Company Intellectual Property Rights, (ii) the Company is not aware of any infringement or misappropriation of any Company Intellectual Property Rights, and (iii) To the Knowledge of the Company, neither the Company nor any of the Company Subsidiaries has infringed or misappropriated any intellectual property rights of any other entity. As used herein, “*Company Intellectual Property Rights*” means any trademark, servicemark, registration therefor or application for registration therefor, trade name, invention, patent, patent application, trade secret, know-how, copyright, copyright registration, application for copyright registration, or any other similar type of proprietary intellectual property, in each case owned, leased or licensed and used or held for use by the Company or any of the Company Subsidiaries.

Section 3.20 Insurance.

Section 3.20 of the Company Disclosure Schedule sets forth a list, with respect to the Company and the Company Subsidiaries, of all material insurance policies and contracts in effect as of the date of this Agreement. All property, automobile liability, workers compensation, employer’s liability, fire and casualty, general liability, business interruption, product liability, professional liability and sprinkler and water damage insurance policies maintained by the Company or any of the Company Subsidiaries are, To the Knowledge of the Company, with reputable insurance carriers, provide, To the Knowledge of the Company, full and adequate coverage from all normal risks incident to the business of the Company and the Company Subsidiaries and their respective properties and assets, except as would not, individually or in the aggregate, have a Material Adverse Effect. Neither Company nor any Company Subsidiary has received any notice of cancellation or termination with respect to any insurance policy, and each

of the Company and each Company Subsidiary has fulfilled all of its material obligations under each insurance policy, including the timely payment of premiums.

Section 3.21 Brokers.

No broker, finder or investment banker (other than Boenning & Scattergood, Inc.) is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company or any of the Company Subsidiaries. The Company has heretofore furnished to Acquirer a complete and correct copy of all agreements between the Company and Boenning & Scattergood, Inc. pursuant to which such firm would be entitled to any payment relating to the transactions contemplated hereunder.

Section 3.22 Rights Agreement.

The Company Board has taken all action necessary so that the execution of this Agreement, the announcement and the consummation of the Merger and the other transactions contemplated by this Agreement will not cause the preferred share purchase rights (the "*Rights*"), as such term is defined in that certain Rights Agreement dated as of April 20, 2000, as such Rights Agreement has been amended from time to time, between the Company and American Stock Transfer & Trust Company LLC, as Rights Agent (the "*Company Rights Agreement*"), to become exercisable or result in either Acquirer or Acquisition Subsidiary or any of their affiliates being considered as an "Acquiring Person" or the occurrence of a "Distribution Date" or a "Shares Acquisition Date" (as such terms are defined in the Company Rights Agreement). The Company has provided Acquirer with copies of its resolutions and other documents by which it has taken action under this Section 3.22.

Section 3.23 Capital Budget.

Attached to Section 3.23 of the Company Disclosure Schedule is a true and complete copy of the Company's 2010 budget for any pending capital project of the Company or any Company Subsidiary as of June 30, 2010. To the Knowledge of the Company, except as set forth on Section 3.23 of the Company Disclosure Schedule, such projects are proceeding on-schedule and on-budget, and to the Knowledge of the Company it has no dispute with any contractor performing work on the projects, cost overrun, labor stoppage, refusal to proceed, breach, default or any other deviation or development which would reasonably be expected to have a Company Material Adverse Effect.

Section 3.24 Stock Purchase Plan.

Attached to Section 3.24 of the Company Disclosure Schedule is a true and complete copy of the Company's Dividend Reinvestment and Common Stock Purchase Plan dated April 14, 2009, as amended, or approved by the Company's Board of Directors to be amended, through the date of this Agreement (the "*Company Stock Purchase Plan*"). The Company Board has taken all actions necessary under the Company Stock Purchase Plan to suspend the purchase of shares of Company Common Stock thereunder, effective as of 12:01 A.M. on the business day next following the Effective Date.

Section 3.25 Information Supplied.

None of the information supplied or to be supplied by the Company for inclusion or incorporation by reference in the Proxy Statement will, at the date it is first mailed to the Company's stockholders or at the time of the Company Stockholders Meeting (as defined in Section 6.05(b)), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations thereunder, except that no representation is made by the Company with respect to statements made or incorporated by reference therein based on information supplied in writing by Acquirer or Acquisition Subsidiary for inclusion or incorporation by reference therein.

Section 3.26 Authorized Powers.

Section 3.26 of the Company Disclosure Schedule lists all bank accounts and safe deposit boxes maintained by the Company and each Company Subsidiary and the names of persons having signature authority with respect thereto or access thereto.

ARTICLE IV.

REPRESENTATIONS AND WARRANTIES OF ACQUIRER

Acquirer represents and warrants to the Company that:

Section 4.01 Authority; Execution and Delivery; Enforceability.

(a) Subject to Section 8.01, Acquirer has all requisite municipal power and authority to execute and deliver this Agreement and, upon satisfaction of the conditions to Closing set forth in Article VII, to consummate the transactions contemplated hereby. The execution and delivery by Acquirer of this Agreement have been duly authorized by all necessary municipal action on the part of Acquirer, including, without limitation, the vote by a minimum of ten (10) members of the Acquirer Governing Body authorizing the execution of this Agreement by the Acquirer as described in that certain letter from Acquirer's Corporation Counsel to the Company Board dated as of the date hereof. Acquirer has duly executed and delivered this Agreement, and, assuming the due authorization, execution and delivery by the Company, and subject to Section 8.01, this Agreement will constitute a legal, valid and binding obligation of Acquirer, enforceable against Acquirer in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar Laws of general applicability relating to or affecting the enforcement of creditors' rights and by the effect of the principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

(b) Acquisition Subsidiary by the Effective Time, will have the corporate power and authority to execute, deliver and perform its obligations under this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by Acquisition Subsidiary by the Effective Time will have been duly authorized by its board of directors. This Agreement will by the Effective Time be duly and validly

executed and delivered by Acquisition Subsidiary and constitute a valid and binding agreement of Acquisition Subsidiary, enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar Laws of general applicability relating to or affecting the enforcement of creditors' rights and by the effect of the principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

Section 4.02 No Conflicts; Consents.

The execution and delivery by Acquirer of this Agreement do not, and the consummation of the transactions contemplated hereby and compliance with the terms hereof will not, result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation under, or result in the creation of any Lien upon any of the properties or assets of Acquirer or Acquisition Subsidiary under, any provision of (i) any statute, rule, regulation or Law of the State of New Hampshire, (ii) with respect to Acquisition Subsidiary, the articles of incorporation, by-laws or other organization documents of Acquisition Subsidiary, or (iii) any note, bond, mortgage, indenture, contract, agreement, lease or other instrument or obligation to which Acquirer or Acquisition Subsidiary is a party or by which any of its respective properties or assets is bound, other than any such items that, individually and in the aggregate, have not had and would not reasonably be expected to have a material adverse impact on Acquirer or Acquisition Subsidiary.

Section 4.03 Information Supplied.

None of the information supplied or to be supplied by Acquirer or Acquisition Subsidiary for inclusion or incorporation by reference in the Proxy Statement will, at the date it is first mailed to the Company's stockholders or at the time of the Company Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

Section 4.04 Brokers.

No broker, investment banker, financial advisor or other Person (other than C.W. Downer & Co.) is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of the Acquirer or Acquisition Subsidiary.

ARTICLE V.

COVENANTS RELATING TO CONDUCT OF BUSINESS

Section 5.01 Conduct of Business.

(a) Except for matters set forth in Section 5.01 of the Company Disclosure Schedule, matters expressly agreed to in writing by Acquirer and matters otherwise expressly permitted by this Agreement, from the date of this Agreement to the earlier to occur of the date of the termination of this Agreement in accordance with Article VIII or the Effective Time, the

Company shall, and shall cause each Company Subsidiary to, conduct the business of the Company and the Company Subsidiaries in the usual, regular and ordinary course in substantially the same manner as previously conducted and use all commercially reasonable efforts to preserve intact its current business organization, keep available the services of its current officers and employees, and maintain its existing relationships with customers, suppliers and others having business dealings with them. Without limiting the generality of the foregoing and except for matters set forth in Section 5.01(a) of the Company Disclosure Schedule, the Company shall, and shall cause each of the Company Subsidiaries to, observe the following covenants and take the following actions except with the prior written consent of Acquirer, which consent will be given or denied within a reasonable time after any written request for such consent:

- (i) make all required filings and use all commercially reasonable efforts to pursue any rate case filed by any of the Regulated Company Subsidiaries and pending with the NHPUC as of the date of this Agreement, and keep the Acquirer reasonably apprised of the status of any such case; it being agreed and acknowledged that the Company will notify the Acquirer prior to taking any position in any such case which is inconsistent with any prior position taken in such case;
- (ii) file any additional rate cases as the Company, in its reasonable discretion, considers appropriate; provided that Acquirer shall have been notified of the same at least fifteen (15) business days prior to such filing;
- (iii) maintain inventories of supplies, materials and other consumables (including spare parts for machinery and equipment and water treatment chemicals) used in the operations of the Company and the Company Subsidiaries in the ordinary course of business and at levels substantially consistent with recent past practice;
- (iv) make all prepayments in the ordinary course of business at levels substantially consistent with recent past practice;
- (v) pay or accrue, in accordance with GAAP, all Taxes;
- (vi) maintain customer deposits in the normal course of business and at levels substantially consistent with recent past practice;
- (vii) notify the Acquirer prior to renewing any insurance;
- (viii) maintain accounts for contributions in aid of construction (“CIAC”) in the normal course of business and refrain from entering into any new CIAC agreements without prior notice to Acquirer;
- (ix) maintain all machinery and equipment (including automobiles) in the normal course of business substantially consistent with recent past practice;
- (x) replace all filter media in the normal course of business substantially consistent with recent past practice and in accordance with the requirements of the manufacturer of the relevant treatment equipment;

(xi) maintain all information technology licenses in the normal course of business substantially consistent with recent past practice;

(xii) dispose of any and all pollutants, contaminants, waste or hazardous or toxic materials or substances in accordance with all applicable Environmental Laws; and

(xiii) continue the suspension as of the date of this Agreement of the issuance of shares of Company Common Stock under the Company Stock Purchase Plan as provided in Section 3.25 of this Agreement.

(b) In addition, except for matters set forth in Section 5.01(b) of the Company Disclosure Schedule, matters expressly agreed to in writing by Acquirer and matters otherwise expressly permitted by this Agreement, from the date of this Agreement to the earlier to occur of the date of the termination of this Agreement in accordance with Article VIII or the Effective Time, the Company shall not, and shall not permit any Company Subsidiary to, do any of the following without the prior written consent of Acquirer which consent will be given or denied in the sole reasonable discretion of Acquirer within a reasonable time after any written request for such consent:

(i) (A) except for regular quarterly dividends in an amount per share equal to no more than the most recent dividend per share of Company Common Stock paid prior to the date of this Agreement, declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock, other than dividends and distributions by a direct or indirect wholly owned Company Subsidiary to its parent, (B) split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or (C) purchase, redeem or otherwise acquire any shares of capital stock of the Company or any Company Subsidiary or any other securities thereof or any rights, warrants or options to acquire any such shares or other securities;

(ii) issue, deliver, sell or grant (A) any shares of its capital stock, (B) any other voting securities, (C) any securities convertible into or exchangeable for, or any options, warrants or rights to acquire, any such shares, voting securities or convertible or exchangeable securities, or (D) any "phantom" stock, "phantom" stock rights, stock appreciation rights or stock-based performance units, other than the issuance of Company Common Stock (and associated rights under the Company Rights Agreement) upon the exercise of Company Stock Options outstanding on the date of this Agreement and in accordance with the provisions of Section 2.01(e), in the numbers and to those persons set forth in the Company Disclosure Schedule;

(iii) amend its articles of incorporation, by-laws, limited liability company agreement or other comparable charter or organizational documents;

(iv) except as substantially consistent with the Company's practice since December 31, 2007, and except for purchases of property, plant, equipment, inventory and supplies in the ordinary course of business substantially consistent with

such past practice, acquire or agree to acquire (A) by merging or consolidating with, or by purchasing a substantial equity interest in or portion of the assets of, or by any other manner, any business or any corporation, partnership, joint venture, association or other business organization or division thereof, (B) any assets that are material, individually or in the aggregate, to the Company and the Company Subsidiaries taken as a whole, or (C) any water system;

(v) except as disclosed in Section 5.01(b)(v) of the Company Disclosure Schedule, (A) grant to any current or former director or executive officer of the Company or any Company Subsidiary any material increase in compensation, except in the ordinary course of business and generally consistent with past practices, (B) grant to any current or former director or executive officer of the Company or any Company Subsidiary any increase in severance or termination pay, except to the extent required under any agreement in effect as of the date of the most recent audited financial statements included in the Filed Company SEC Reports, (C) enter into or amend any employment, consulting, indemnification, severance or termination agreement with any such director or executive officer or enter into or amend any other transaction that would be or is subject to proxy statement disclosure pursuant to Item 404 of Regulation S-K, (D) establish, adopt, enter into or amend in any material respect the Labor Contract or any other collective bargaining agreement, (E) take any action to accelerate any rights or benefits, or make any material determinations not in the ordinary course of business consistent with prior practice, under the Labor Contract or any other collective bargaining agreement, or (F) forgive any indebtedness of any employee of the Company or any Company Subsidiary in excess of \$25,000 in the aggregate;

(vi) make any change that, individually or in the aggregate, is material to the Company's information systems or any accounting methods, principles or practices affecting the reported consolidated assets, liabilities or results of operations of the Company and the Company Subsidiaries except insofar as may have been required by a change in GAAP;

(vii) except as set forth in Section 5.01(b)(vii) of the Company Disclosure Schedule, sell, lease (as lessor), license or otherwise dispose of, or subject to any Lien, any real estate or other properties or assets, except (A) sales or dispositions of obsolete or worthless assets or (B) sales of assets where the total price paid by one or more purchasers in a single transaction is less than \$50,000 or a series of related transactions is less than \$150,000;

(viii) except as set forth in Section 5.01(b)(viii) of the Company Disclosure Schedule and except as specified in Section 5.01(b)(iv), (A) incur any indebtedness for borrowed money or guarantee any such indebtedness of any Person, (B) issue or sell any debt securities or warrants or other rights to acquire any debt securities of the Company or any Company Subsidiary, (C) guarantee any debt securities of any Person, or (D) make any loans to, or investments in, any Person, other than loans to or investments in the Company or any direct or indirect wholly-owned Subsidiary of the Company;

(ix) except for the total amount of the Company's capital budget identified in Section 3.24 of the Company's Disclosure Schedule, and except for the total estimated 2011 capital budget disclosed by the Company in its 2009 Form 10-K, and except as set forth in Section 5.01(b)(ix) of the Company Disclosure Schedule, make or agree to make new capital expenditures that are in excess of or will exceed \$300,000 in any three-month period;

(x) (A) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) in excess of \$50,000 individually or \$100,000 in the aggregate, other than the payment, discharge or satisfaction, in the ordinary course of business substantially consistent with past practice or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of the Company included in the Filed Company SEC Reports or incurred in the ordinary course of business substantially consistent with past practice (provided that with respect thereto Acquirer consent shall not be unreasonably withheld), (B) cancel any indebtedness owed to it in excess of \$50,000 individually or in the aggregate or waive any claims or rights of substantial value, or (C) waive the benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement to which the Company or any Company Subsidiary is a party;

(xi) enter into, renew, extend, amend, modify, waive any material provision of, or terminate any lease or similar commitment, in any case providing for payments in excess of \$100,000 over the term of such lease or commitment (or until the date on which such lease or commitment may be terminated by the Company or any Company Subsidiary without penalty);

(xii) except as required by their terms, enter into, terminate or breach in any material respect (or take or fail to take any action, that, with or without notice or lapse of time or both, would become a material breach) or materially amend any Material Contract, other than as set forth in Section 5.01(b)(xii) of the Company Disclosure Schedule;

(xiii) except with respect to the eminent domain dispute between the Company and Acquirer, commence any litigation or arbitration other than in accordance with past practice or settle any other litigation or arbitration for money damages or other relief in excess of \$100,000, or if as part of such settlement the Company or any Company Subsidiary would agree to any restrictions on its operations, or which relates to this Agreement or the transactions contemplated hereby;

(xiv) elect or appoint any director or officer of the Company or any Company Subsidiary, except as necessary to replace in the ordinary course of business any director or officer who ceases to be a director or officer of the Company or any Company Subsidiary;

(xv) take any action that would reasonably be expected to result in the inability to satisfy the conditions to closing set forth in Section 7.02;

(xvi) except as set forth in Section 5.01(b)(xvi) of the Company Disclosure Schedule, liquidate, dissolve or effect a recapitalization or reorganization in any form of transaction of the Company and/or any Subsidiary;

(xvii) make any material election with respect to Taxes (in the ordinary course of business substantially consistent with recent past practice) or settle or compromise any material Tax liability or refund;

(xviii) invest funds in debt securities or other investments maturing more than 60 days after the date of investment, except as set forth in Section 5.01(b)(xviii) of the Company Disclosure Schedule; or

(xix) enter into any contract with respect to, or otherwise authorize, agree or commit to do any of the actions described in Section 5.01(b)(i)-(xviii).

(c) The Company shall use its reasonable best efforts to promptly advise Acquirer orally and in writing of any change or event of which the Company becomes aware that has or would reasonably be expected to have a Company Material Adverse Effect. No such notice shall be deemed effective for purposes of determining whether the conditions set forth in Section 7.02(a) are satisfied.

Section 5.02 No Solicitation.

(a) The Company agrees that neither it nor any Subsidiary of the Company shall, and that it shall use its reasonable best efforts to cause its and their respective representatives not to, directly or indirectly: (i) solicit, initiate or knowingly encourage, or take any other action knowingly to facilitate, any inquiry with respect to, or the making, submission or announcement of, any proposal or offer that constitutes, or may reasonable be expected to constitute, a Company Alternative Proposal; (ii) enter into, maintain, participate in or continue any discussions or negotiations regarding, or furnish to any person any nonpublic information with respect to, any proposal that constitutes, or may reasonably be expected to constitute, a Company Alternative Proposal, or in response to any inquiries or proposals that may reasonably be expected to lead to any Company Alternative Proposal, except to notify such person as to the existence of the provisions of this Section 5.02; (iii) agree to, approve, endorse or recommend any Company Alternative Proposal; (iv) authorize or permit any of its or its Subsidiaries' representatives to take any such action; or (v) enter into any letter of intent or similar document or any agreement or commitment providing for any Company Alternative Proposal (except as contemplated by Section 8.02(h) and except for confidentiality agreements permitted under Section 5.02(b)). Subject to Section 5.02(b), the Company shall not release any third party from, or waive any provision of, any confidentiality or standstill agreement to which it is a party. The Company shall, and shall use its reasonable best efforts to cause its and the Subsidiaries' representatives to, (i) immediately cease and cause to be terminated any discussions or negotiations with any parties that may have been conducted heretofore with respect to a Company Alternative Proposal, (ii) with respect to third parties with whom discussions or negotiations have been terminated on or prior to the date of this Agreement, use its reasonable best efforts to obtain the return or the destruction of, in accordance with the terms of the applicable confidentiality agreement, confidential information previously furnished by the

Company, its Subsidiaries or its or their Representatives, and (iii) cause any physical or virtual data room to no longer be accessible to or by any person other than Acquirer and its Affiliates.

(b) The Company will promptly notify Acquirer orally (and then in writing within 24 hours) after it or any of its Subsidiaries has received any proposal, inquiry, offer or request relating to or constituting a Company Alternative Proposal, any request for discussions or negotiations, or any request for information relating to the Company or the Subsidiaries in connection with a Company Alternative Proposal or a potential Company Alternative Proposal or for access to the properties or books and records thereof of which the Company or any of the Subsidiaries or any of their respective representatives is or become aware, or any amendments to the foregoing. Such notice to Acquirer shall indicate the identity of the person making such proposal and the terms and conditions of such proposal, if any. The Company shall also promptly provide Acquirer with (i) a copy of any written notice or other written communication from any person informing the Company or any of the Subsidiaries or their respective representatives that it is considering making, or has made a proposal regarding, a Company Alternative Proposal, (ii) a copy or any Company Alternative Proposal (or any amendment thereof) received by the Company or any of the Subsidiaries, and (iii) such other details of any such Company Alternative Proposal that Acquirer may reasonably request. Thereafter, the Company shall promptly (and in any event within 24 hours) keep Acquirer reasonably informed on a current basis of any change to the terms of any such Company Alternative Proposal. Notwithstanding the limitations set forth in Section 5.02(a) and subject to compliance with this Section 5.02(b), if the Company receives a Company Alternative Proposal (that did not arise or result from any breach of this Section 5.02) at any time prior to obtaining the Company Stockholder Approval (i) which constitutes a Company Superior Proposal, or (ii) which the Board of Directors of the Company determines in good faith, after consultation with the Company's outside legal counsel and financial advisors, could reasonably be expected to result, after the taking of any of the actions referred to in clause (x), (y) or (z) below, in a Company Superior Proposal, the Company may take any or all of the following actions: (x) furnish nonpublic information to the third party (and any persons working in concert with such third party and to their respective potential financing sources and representatives) making any such Company Alternative Proposal, if, and only if, prior to so furnishing such information, the Company receives from the third party an executed confidentiality agreement (it being understood that such confidentiality agreement and any related agreements shall not include any provision calling for any exclusive right to negotiate with such party or having the effect of prohibiting the Company from satisfying its obligations under this Agreement and shall contain a standstill provision substantially similar to the standstill provision in the Confidentiality Agreement to the extent such provisions remain in effect (it being agreed that such confidentiality agreement need not contain any particular standstill provision to the extent the Company irrevocably and simultaneously releases Acquirer from such corresponding standstill provision)); (y) engage in discussions or negotiations with the third party (and such other persons) with respect to the Company Alternative Proposal; and (z) release any third party from, or waive any provision of, a confidentiality or standstill provision to which it is a party if, in the case of this clause (z), the Company Board determines in good faith (after consultation with outside legal counsel) that such action is necessary under applicable Law in order for the directors to comply with their fiduciary duties to the Company's stockholders.

(c) Except as expressly permitted by this Section 5.02, the Company Board shall not (i) withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to Acquirer, the Company Recommendation, (ii) approve or recommend, or propose publicly to approve or recommend, any Company Alternative Proposal, or (iii) cause the Company or any Company Subsidiary to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement related to any Company Alternative Proposal (any event or action described in clause (i), (ii) or (iii), a “*Company Change of Recommendation*”).

(d) In response to the receipt of a Company Alternative Proposal (that did not arise or result from a breach of this Section 5.02) that has not been withdrawn, at any time prior to obtaining the Company Stockholder Approval, the Company Board may effect a Company Change of Recommendation but only if the Company Board has concluded in good faith, after consultation with the Company’s financial advisors and outside legal counsel, that (x) such Company Alternative Proposal constitutes a Company Superior Proposal and (y) effecting a Company Change of Recommendation is required for the Company Board to comply with its fiduciary obligations to the Company and its stockholders under applicable Law. Nothing in this Agreement shall prohibit or restrict the Company Board, in circumstances not involving or relating to a Company Alternative Proposal, from amending, modifying or withdrawing the Company Recommendation to the extent that the Company Board determines in good faith (after consultation with outside legal counsel) that such action is necessary under applicable Law in order for the directors to comply with their fiduciary duties to the Company’s stockholders.

(e) Nothing contained in this Agreement shall prohibit the Company or the Company Board from disclosing to its stockholders a position contemplated by Rules 14d-9 and 14e-2(a) promulgated under the Exchange Act, if, in the good faith judgment of the Company Board, after consultation with its outside legal and financial advisors, such disclosure is required in order for the Company Board to comply with its fiduciary obligation, or is otherwise required, under applicable Law.

(f) As used in this Agreement, “*Company Alternative Proposal*” shall mean any unsolicited, bona fide, written proposal or any unsolicited bona fide, written offer made by any Person (other than a proposal or offer by Acquirer or any of its Affiliates) relating to: (i) any merger, amalgamation, consolidation, share exchange, recapitalization, liquidation, dissolution or other business combination transaction, or a “merger of equals,” in each case involving the Company; (ii) the acquisition by any Person or “group” of Persons, directly or indirectly, of twenty percent (20%) or more of the consolidated assets of the Company and its Subsidiaries; (iii) the acquisition by any Person or “group” of Persons of twenty percent (20%) or more of any class of equity securities of the Company; or (iv) any tender offer or exchange offer that, if consummated, would result in any Person or group of Persons beneficially owning twenty percent (20%) or more of any class of equity securities of the Company.

(g) As used in this Agreement “*Company Superior Proposal*,” shall mean a Company Alternative Proposal that the Company Board determines in good faith, after consultation with the Company’s financial advisors and outside legal counsel and after taking into account relevant financial, legal, regulatory, estimated timing of consummation and other aspects of such proposal and the person or group making such proposal, is more favorable to the Company and its stockholders than the Merger. For purposes of the definition of “*Company*

Superior Proposal,” each reference to 20% in the definition of “*Company Alternative Proposal*” shall be replaced with “50%.”

(h) Notwithstanding anything to the contrary contained herein, the Company may not terminate this Agreement pursuant to Section 8.02(h) unless and until: (x) the Company has promptly (and in any event, within twenty-four (24) hours) provided a written notice to Acquirer (a “*Superior Proposal Notice*”) advising Acquirer that the Company has received a Company Alternative Proposal and specifying the information required by Section 5.02(b) and including written notice of the determination of the Company Board that the Company Alternative Proposal constitutes a Company Superior Proposal; (y) the Company has provided Acquirer with an opportunity, for a period of five (5) business days from the date of delivery to Acquirer of the Superior Proposal Notice (the “*Notice Period*”), to amend (the “*Right to Match*”) the terms and conditions of this Agreement and the Merger, including an increase in, or modification of, the Merger Consideration (any such proposed transaction, a “*Revised Transaction*”), such that the Company Superior Proposal no longer constitutes a Company Superior Proposal; and (z)(1) during such Notice Period, the Company and its representatives negotiate in good faith with Acquirer and its representatives with respect to such Revised Transaction and (2) at the end of such Notice Period, the Company Board, has determined that the Company Superior Proposal continues to be a Company Superior Proposal notwithstanding the Revised Transaction and taking into account all amendments and proposed changes made thereto during the Notice Period.

Section 5.03 Company Stock Option Plans.

The Company shall take all action necessary to implement the measures set forth in Section 2.01(e) with respect to the Company Stock Option Plans.

ARTICLE VI.

ADDITIONAL AGREEMENTS

Section 6.01 Rights Agreement.

The Company Board shall take all action reasonably requested in writing by Acquirer in order to render the Company Rights Agreement inapplicable to the transactions contemplated hereby. Except as approved in writing by Acquirer, the Company Board shall not (i) amend the Company Rights Agreement, (ii) redeem the Rights, or (iii) take any action with respect to, or make any determination under, the Company Rights Agreement, in each case that would adversely affect the ability of Acquirer or Acquisition Subsidiary to effect the Merger on the terms set forth in this Agreement. The Parties acknowledge and agree that an amendment to the Company Rights Agreement solely to extend the term of the Company Rights Agreement in accordance with its terms would not adversely affect the ability of the Acquirer or Acquisition Subsidiary to effect the Merger.

Section 6.02 Eminent Domain Agreement.

The parties acknowledge that they have agreed to resolve and settle the eminent domain dispute pursuant to the Settlement Agreement.

Section 6.03 Acquirer Governing Body Ratification Vote; Financing.

(a) Acquirer shall take all steps necessary to duly call, give notice of, convene and hold a meeting of the Acquirer Governing Body for the purpose of taking action by an affirmative vote of not less than ten (10) members of the Acquirer Governing Body (i) to approve and ratify, pursuant to NH RSA 38:13 the issuance of bonds and notes necessary to defray the costs to be incurred by Acquirer to consummate the Merger pursuant to this Agreement (if so approved and ratified, the “*Acquirer Ratification Vote*”), and (ii) to make the findings required by the Special Legislative Authority (if so made, the “*Acquirer Special Findings Vote*”).

(b) After both the Acquirer Ratification Vote and the Acquirer Special Findings Vote are obtained, Acquirer shall use commercially reasonable best efforts to obtain the financing contemplated by the Acquirer Ratification Vote (the “*Financing*”). Acquirer shall prepare necessary documentation reasonably required to effect the Financing, including any official statements (provided that the Company and its counsel shall be given reasonable opportunity to review and comment on any such official statements prior to their finalization).

(c) Acquirer shall notify the Company promptly of the receipt of any information concluding that there is a substantial reason to believe that the Financing contemplated by the Acquirer Ratification Vote cannot be obtained.

Section 6.04 Regulatory Matters.

(a) The parties hereto shall cooperate with each other and use their commercial best efforts promptly to prepare and file all necessary documentation, to effect all applications, notices, petitions and filings, and to obtain as promptly as practicable all permits, consents, approvals and authorizations of all third parties and Governmental Entities which are necessary or advisable to consummate the transactions contemplated by this Agreement (including, without limitation, the Merger). Acquirer and the Company shall have the right to review in advance, and to the extent practicable each will consult with the other on, in each case subject to applicable Laws relating to the exchange of information, all the information relating to Acquirer or the Company, as the case may be, or any of their respective Subsidiaries, which appear in any filing made with or written materials submitted to, any third party or any Governmental Entity in connection with the transactions contemplated by this Agreement. In exercising the foregoing right, each of the parties hereto shall act reasonably and as promptly as practicable. The parties hereto agree that they will consult with each other with respect to the obtaining of all permits, consents, approvals and authorizations of all third parties and Governmental Entities necessary or advisable to consummate the transactions contemplated by this Agreement, and each party will keep the other apprised of the status of matters relating to the completion of the transactions contemplated hereby. For purposes of this Section 6.04(a), “*Governmental Entity*” shall not include the Acquirer Governing Body.

(b) Acquirer and the Company shall, upon request, furnish each other with all information concerning themselves, their Subsidiaries, directors, officers and stockholders and such other matters as may be reasonably necessary or advisable in connection with any statement, filing, notice or application made by or on behalf of Acquirer, the Company or any of

their respective Subsidiaries to any Governmental Entity in connection with the Merger and the other transactions contemplated by this Agreement.

(c) Acquirer and the Company shall promptly furnish each other with copies of written communications received by Acquirer or the Company, as the case may be, or any of their respective Subsidiaries or Affiliates from, or delivered by any of the foregoing to, any Governmental Entity in respect of the transactions contemplated hereby. For purposes of this Section 6.04(c), “*Governmental Entity*” shall not include the Acquirer Governing Body.

(d) For the avoidance of doubt, the parties shall cooperate with each other and use their commercial best efforts to prepare promptly a petition with the NHPUC to obtain as promptly as practicable all approvals of the NHPUC which are necessary or advisable to consummate the transactions contemplated by this Agreement (including, without limitation, the Merger), and further, the parties intend that such petition to the NHPUC shall reflect the intent of Acquirer as of the Effective Time (i) to operate, conduct and manage the businesses of the Regulated Company Subsidiaries as “public utilities” within the meaning of NHRSA Chapter 362 in the ordinary course consistent in all material respects with prior regulatory status and operating practice of each of the Regulated Company Subsidiaries, and (ii) to include in the rate base of the Regulated Company Subsidiaries an acquisition premium to be recovered through rates with a return that, together with other components of the rates of the Regulated Company Subsidiaries, will be sufficient to enable Acquirer to satisfy all operating and debt service costs of the Regulated Company Subsidiaries and Acquirer’s obligations under the Financing.

Section 6.05 Preparation of Proxy Statement; Stockholders Meeting.

(a) The Company shall, at such time after both the Acquirer Ratification Vote and the Acquirer Special Findings Vote are obtained as the Company shall determine in its reasonable discretion, prepare and file with the SEC a proxy statement relating to the approval of the Merger at the Company Stockholders Meeting, meeting the requirements of SEC Schedule 14A (the “*Proxy Statement*”), in preliminary form (provided that Acquirer and its counsel shall be given reasonable opportunity to review and comment on the Proxy Statement prior to its filing with the SEC), and each of the Company and Acquirer and Acquisition Subsidiary shall use its reasonable best efforts to respond as promptly as practicable to any comments of the SEC with respect thereto. The Company shall notify Acquirer promptly of the receipt of any comments from the SEC or its staff and of any request by the SEC or its staff for amendments or supplements to the Proxy Statement or for additional information and shall supply Acquirer with copies of all correspondence between the Company or any of its representatives, on the one hand, and the SEC or its staff, on the other hand, with respect to the Proxy Statement. If at any time prior to receipt of the Company Stockholder Approval there shall occur any event that should be set forth in an amendment or supplement to the Proxy Statement, the Company shall promptly prepare and mail to its stockholders such an amendment or supplement.

(b) The Company shall, at such time after the Acquirer Ratification Vote and the Acquirer Special Findings Vote are obtained as the Company shall determine in its reasonable discretion, take all action necessary in accordance with the NHBCA and the Company Charter and the Company By-Laws to duly call, give notice of, convene and hold a meeting of its stockholders as promptly as reasonably practicable following the date of this

Agreement, and subject to the last sentence of this Section 6.05(b), for the purpose of obtaining the Company Stockholder Approval (the “*Company Stockholders Meeting*”) and, subject to Section 5.02(c) or (d), shall include in the Proxy Statement the recommendations of its Board of Directors that its stockholders approve and adopt this Agreement, the Merger and the other transactions contemplated hereby (the “*Company Recommendation*”). Subject to Section 5.02, the Company will use its commercially reasonable best efforts to solicit from its stockholders proxies in favor of the adoption and approval of this Agreement and the approval of the Merger. Neither the commencement, disclosure, announcement or submission to the Company of any Company Alternative Proposal (whether or not a Company Superior Proposal), nor any furnishing of information, discussions or negotiations with respect thereto, nor any decision or action by the Company Board to effect a Company Change of Recommendation shall give the Company any right to delay, defer or adjourn the Company Stockholders Meeting. Notwithstanding the foregoing, the Company may adjourn or postpone the Company Stockholders Meeting to the extent reasonably necessary to ensure that any required supplement or amendment to the Proxy Statement is provided to the Company’s stockholders or to permit the dissemination of information which is material to stockholders voting at the Company Stockholders Meeting, or, if as of the time the Company Stockholders Meeting is scheduled (as set forth in the Proxy Statement), there are insufficient shares of Company Common Stock represented (either in person or by proxy) to constitute a quorum necessary to conduct the business of the Company Stockholders Meeting or for the adoption and approval of this Agreement and the approval of the Merger.

Section 6.06 Access to Information; Confidentiality.

(a) Subject to Section 6.06(b) below, the Company shall, and shall cause each Company Subsidiary to, afford to Acquirer, and to Acquirer’s officers, accountants, counsel, financial advisors, underwriters, financing sources, subcontractors and other representatives, upon reasonable notice by Acquirer to any of the Company’s executive officers, reasonable access during normal business hours during the period prior to the Effective Time to all their respective properties, books, contracts, commitments, personnel and records and, during such period, the Company shall, and shall cause each Company Subsidiary to, furnish promptly to Acquirer such information concerning its business, properties, assets, customers, consultants and personnel as Acquirer may reasonably request; provided, however, that (i) direct access to personnel below the executive officer level shall be provided as reasonably determined by one or more of the executive officers of the Company, and (ii) the Company may withhold the documents and information described in Section 6.06 of the Company Disclosure Schedule to the extent required to comply with the terms of a confidentiality agreement with a third party in effect on the date of this Agreement; provided further, that the Company shall use reasonable efforts to obtain, as promptly as practicable, any consent from such third party required to permit the Company to furnish such documents and information to Acquirer. Subject to Section 6.06(b) below, the Company hereby consents, and shall cause each Company Subsidiary to consent, to Acquirer’s and Acquirer’s officers, accountants, counsel, financial advisors, underwriters, financing sources, subcontractors and other representatives contacting and conducting discussions, in a reasonable fashion, with wholesale (but not retail) customers of the Company and each Company Subsidiary and will, upon reasonable notice from Acquirer to an executive officer of the Company, request such customers to cooperate during normal business hours

during the period prior to the Effective Time with any reasonable requests made by or on behalf of Acquirer.

(b) Acquirer and the Company are parties to that certain Confidentiality Agreement, dated of even date herewith, a copy of which is attached to this Agreement as Exhibit D (the “Confidentiality Agreement”). Acquirer and the Company shall comply with the terms of such Confidentiality Agreement.

Section 6.07 Reasonable Efforts; Notification.

(a) Upon the terms and subject to the conditions set forth in this Agreement, each of the parties shall use its reasonable best efforts to take, or cause to be taken, all reasonable actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things reasonably necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated hereby, including without limitation (i) the obtaining of all necessary actions or non-actions, waivers, consents and approvals from any and all Governmental Entities, and the making of all necessary registrations and filings (including filings with Governmental Entities, if any) and the taking of all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any Governmental Entity, (ii) the obtaining of all necessary consents, approvals or waivers from third parties, (iii) the defending of any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated hereby, including, when reasonable, seeking to have any stay or temporary restraining order entered by any court or other Governmental Entity vacated or reversed, and (iv) the execution and delivery of any additional instruments necessary to consummate the transactions contemplated hereby and to fully carry out the purposes of this Agreement; provided, however, that the obligations set forth in this sentence shall not be deemed to have been breached as a result of actions by the Company expressly permitted under Section 5.02 or 8.02. In connection with and without limiting the foregoing, the Company and the Company Board shall, at the request of Acquirer: (i) take all action within its power reasonably requested by Acquirer as necessary to ensure that no state takeover statute or similar statute or regulation is or becomes applicable to this Agreement or the transactions contemplated hereby; and (ii) if any state takeover statute or similar statute or regulation becomes applicable to this Agreement or the transactions contemplated hereby, take all action within its power reasonably requested by Acquirer as necessary to ensure that the transactions contemplated hereby may be consummated as promptly as practicable on the terms contemplated by this Agreement and otherwise to minimize the effect of such statute or regulation on the transactions contemplated hereby.

(b) The Company shall give prompt notice to Acquirer, and Acquirer and Acquisition Subsidiary shall give prompt notice to the Company, of (i) any representation or warranty made by it becoming untrue or inaccurate in any material respect (without giving duplicative effect to any materiality qualifier), or (ii) the failure by it to comply with or satisfy in any material respect (without giving duplicative effect to any materiality qualifier) any covenant, condition or agreement to be complied with or satisfied by it under this Agreement; provided, however, that no such notification shall affect the representations, warranties, covenants or

agreements of the parties or the conditions to the obligations of the parties under this Agreement unless specifically agreed in writing to the contrary.

(c) For purposes of this Section 6.07, “*Governmental Entity*” shall not include the Acquirer Governing Body.

Section 6.08 Company Employee Plans.

(a) Following the Effective Time, Acquirer shall cause the Surviving Corporation to honor and perform, pursuant to their terms, all obligations of the Company under each and every Company Employee Plan, provided, however, that nothing contained herein shall limit any reserved right in any Company Employee Plan to amend, modify, suspend, revoke or terminate any such plan as to non-vested benefits.

(b) Acquirer hereby acknowledges that a “change in control” (or similar phrase) within the meaning of the employment agreements listed in Section 6.08(b) of the Company Disclosure Schedule will occur at or prior to the Effective Time (as applicable). Section 6.08(b) of the Company Disclosure Schedule lists all payments that are or could be due to any employee of the Company or any Company Subsidiary upon the occurrence of a “change in control” (or similar phrase) under the specific terms and conditions of each of the employment agreements listed in Section 6.08(b) of the Company Disclosure Schedule.

Section 6.09 Indemnification; D&O Insurance, etc.

(a) Acquirer shall, to the fullest extent permitted by Law but subject to all applicable conduct requirements, cause the Surviving Corporation (from and after the Effective Time) to honor all the Company’s obligations to indemnify, defend and hold harmless (including any obligations to advance funds for expenses) the current and former directors and officers of the Company and the Company Subsidiaries against all losses, claims, damages or liabilities arising out of or incurred in connection with, and amounts paid in settlement of, any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative and wherever asserted, bought or filed based upon alleged acts or omissions by any such directors and officers occurring prior to the Effective Time (including without limitation any alleged act or omission in connection with the Financing) to the maximum extent that such obligations of the Company exist on the date of this Agreement, whether pursuant to the Company Charter, the Company By-Laws, the NHBCA, individual indemnity agreements or otherwise, and such obligations shall survive the Merger and shall continue in full force and effect in accordance with the terms of the Company Charter, the Company By-Laws, the NHBCA and such individual indemnity agreements from the Effective Time until the expiration of the applicable statute of limitations with respect to any claims against such directors or officers arising out of such acts or omissions, provided that, in the event that any claim for indemnification is asserted or made within the applicable statute of limitations period, all rights to indemnification in respect of such claim shall continue until the disposition of such claim. In the event a current or former director or officer of the Company or any of the Company Subsidiaries is entitled to indemnification under this Section 6.09(a), such director or officer shall be entitled to reimbursement from the Company (prior to the Effective Time) or the Surviving Corporation (from and after the Effective Time) for reasonable attorney fees and

expenses incurred by such director or officer in pursuing such indemnification, including payment of such fees and expenses by the Surviving Corporation or the Company, as applicable, in advance of the final disposition of such action upon receipt of an undertaking by such current or former director or officer to repay such payment if it shall be adjudicated that such current or former director or officer was not entitled to such payment. The indemnity agreements of Acquirer and the Surviving Corporation in this Section 6.09(a) shall extend, on the same terms to, and shall inure to the benefit of and shall be enforceable by any present or former director, officer or employee of the Company or any Company Subsidiary.

(b) For a period of six (6) years from and after the Effective Time, the Surviving Corporation shall either cause to be maintained in effect the current policies of directors' and officers' insurance and fiduciary liability insurance maintained by the Company or its Subsidiaries or provide substitute policies or purchase a "tail policy," in either case, of at least the same coverage and amounts containing terms and conditions and from carriers with comparable credit ratings which are no less advantageous to the insureds with respect to claims arising from facts or events, actions or omissions on or before the Effective Time, except that in no event shall the Surviving Corporation be required to pay with respect to such insurance policies in respect of any one policy year more than 200% of the annual premium payable by the Company for such insurance for the year ending December 31, 2009 (the "Maximum Amount"), and if the Surviving Corporation is unable to obtain the insurance required by this Section 6.09(b) it shall obtain as much comparable insurance as possible for the years within such six-year period for an annual premium equal to the Maximum Amount, in respect of each policy year within such period. The Company may in lieu of the foregoing insurance coverage purchase, prior to the Effective Time, a six-year prepaid "tail policy" on terms and conditions (in both amount and scope) providing substantially equivalent benefits, and from a carrier or carriers with comparable credit ratings, as the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by the Company and its Subsidiaries with respect to matters arising on or before the Effective Time, covering without limitation the transactions contemplated hereby.

(c) Subject to Section 6.09(d), the provisions that are set forth in Article V, Sections 1–7 of the Surviving Corporation's By-Laws, and Article XII of the Surviving Corporation's Articles of Incorporation shall not be amended, repealed or otherwise modified for a period of six (6) years from the Effective Time in any manner that would affect adversely the rights thereunder of individuals who at or at any time prior to the Effective Time were directors, officers, employees or other agents of the Company.

(d) If the Surviving Corporation or any of its successors or assigns
(i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger and the continuing or surviving entity does not assume the obligations of the Surviving Corporation set forth in this Section 6.09, or
(ii) transfers all or substantially all of its properties and assets to any Person, then, and in each such case, proper provision shall be made so that the successors and assigns of the Surviving Corporation assume, as a matter of Law or otherwise, the obligations set forth in this Section 6.09.

Section 6.10 Public Announcements.

Acquirer and Acquisition Subsidiary, on the one hand, and the Company, on the other hand, shall consult with each other before issuing, and provide each other the opportunity to review and comment upon any press release or other public statements with respect to the transactions contemplated hereby prior to the issuance of any such press release or any such public statement, except that a party may, without providing the other party the opportunity to review and comment upon any press release or other public statements, issue such press release or make such public statement as the party may determine, in good faith after consultation with counsel, is required by applicable Law, court process or by obligations pursuant to any listing agreement with any national securities exchange, if such party has used reasonable best efforts to consult with the other party.

Section 6.11 Stockholder Litigation.

The Company shall give Acquirer the opportunity to participate in the defense or settlement of any stockholder litigation against the Company and/or its directors relating to this Agreement or the transactions contemplated hereby; provided, however, that Acquirer shall have the right to prevent the Company from entering into any such settlement without Acquirer's consent, which consent shall not be unreasonably withheld or delayed, if Acquirer agrees to indemnify the Company and each director of the Company for the amount of its, his or her liability, if any, arising from the underlying claim, net of any insurance proceeds actually received by such Person, that is in excess of the amount for which such Person would have been liable under such settlement.

Section 6.12 Resignation of Directors.

At the Closing, the Company shall deliver to Acquirer evidence reasonably satisfactory to Acquirer of the resignation of all directors of the Company and, as specified by the Acquirer, all directors of each Subsidiary of the Company, in each case effective as of the Effective Time.

Section 6.13 Assignment of Agreement by Acquirer.

City, in its sole discretion, may assign its rights, interests and obligations under this Agreement to a board or other municipal instrumentality duly established by the Acquirer Governing Body. Upon assignment by City to such a board pursuant to this Section 6.13, such board shall be treated as the Acquirer for all purposes under this Agreement. Any assignment pursuant to this Section 6.13 shall be with recourse to City, as assignor.

Section 6.14 Acquisition Subsidiary.

Acquirer shall (a) cause the organization of Acquisition Subsidiary, (b) cause Acquisition Subsidiary to execute a copy of this Agreement and deliver such executed copy to each of Acquirer and the Company and (c) cause Acquisition Subsidiary to take all necessary action to complete the Merger and the other transactions contemplated hereby subject to the terms and agreements hereof.

Section 6.15 No Inconsistent Actions.

Prior to the Effective Time, no party will enter into any transaction or make any agreement or commitment, and will use its reasonable best efforts not to permit any event to occur, that could reasonably be anticipated to result in (i) a denial of any of the Requisite Regulatory Approvals or (ii) the imposition of any term, condition, obligation or restriction described in Section 7.02(d).

Section 6.16 Financial and Other Statements.

(a) As soon as reasonably available, but in no event later than forty-five (45) days after the end of each fiscal quarter ending after the date of this Agreement, the Company will deliver to Acquirer the Company's Quarterly Report on Form 10-Q as filed with the SEC under the Exchange Act. As soon as reasonably available, but in no event later than ninety (90) days after the end of each fiscal year ending after the date of this Agreement, the Company will deliver to Acquirer the Company's Annual Report on Form 10-K as filed with the SEC under the Exchange Act. For all purposes under this Agreement and for all times after the date of this Agreement, "*Filed Company SEC Reports*" shall include all reports provided by the Company to Acquirer under this Section 6.16(a).

(b) As soon as practicable, the Company shall furnish to Acquirer copies of all financial statements and reports as the Company shall send to its stockholders, which financial statements shall (i) fairly present in all material respects (subject, in the case of any unaudited statements, to recurring audit adjustments normal in nature and amount), the results of the consolidated operations and changes in stockholders' equity and the consolidated financial position of the Company and the Company Subsidiaries for the respective periods or as of the respective dates stated therein, (ii) comply in all material respects with applicable accounting requirements and with the published rules of the SEC with respect thereto and (iii) be prepared in accordance with GAAP. For all purposes under this Agreement and for all times after the date of this Agreement, "*Filed Company SEC Reports*" shall include all reports provided by the Company to Acquirer under this Section 6.16(b).

(c) Promptly upon receipt thereof, the Company will furnish to Acquirer copies of all internal control reports submitted to the Company or any of the Company Subsidiaries by independent accountants in connection with each annual, interim or special audit of the books of the Company or any of the Company Subsidiaries made by such accountants.

(d) With reasonable promptness, the Company will furnish to Acquirer such additional financial data as Acquirer may reasonably request.

Section 6.17 1033 Election by Shareholders and Stock Option Holders.

Acquirer and the Company hereby acknowledge that this Agreement, together with the Settlement Agreement, represents a comprehensive settlement of the eminent domain dispute between the parties in lieu of the threatened taking of substantially all the Company's assets by the Acquirer by means of eminent domain. The Company may, in its sole discretion, include information in the Proxy Statement regarding the application of Section 1033 of the Internal

Revenue Code, or any other section of the Internal Revenue Code, to the transactions contemplated by this Agreement.

Section 6.18 Pennichuck Water Services Corporation Contracts.

The Company shall take all action necessary so that at the Effective Time there shall be no default or state of facts which with notice or lapse of time or both would constitute a material default on the part of Pennichuck Water Services Corporation under any significant contract to which PWSC is a party. If at the Effective Time (a) there shall be a material default or state of facts which with notice or lapse of time or both would constitute a material default on the part of Pennichuck Water Services Corporation under any significant contract and which would result in a Company Material Adverse Effect, and (b) Acquirer determines that such default constitutes a violation of the covenant made in this Section 6.18 and that Acquirer shall terminate this Agreement, then this Agreement shall be terminated pursuant to Section 8.02(d); provided, however, that in the event of such a termination, pursuant to Section 8.03(b)(i) all costs and expenses incurred in connection with this Agreement shall be paid by the party incurring or required to incur such expenses, and the Company shall not be required to pay Acquirer any penalty amounts, liquidated damages and/or any other damages of any kind as the result of such termination.

Section 6.19 Environmental Confirmation.

As soon as practicable following the Effective Date and prior to the Acquirer Ratification Vote, the Company shall collect and analyze several samples from the stockpile of soil, rock and asphalt located at 31 Will Street, Nashua, New Hampshire to test solely for the presence of asbestos and PCBs. The Company shall furnish to Acquirer copies of the results of such testing. If such testing indicates that such stockpile complies with applicable EPA and NHDES standards for the reuse of road spoils containing PCBs and asbestos (the "Reuse Standards"), then no further action will be required by the Company with respect to such stockpile, and the Company shall be deemed to have satisfied the representation set forth in Section 3.18 with respect to such stockpile as long as the Company continues to manage and maintain such stockpile consistent with past practice. If such testing indicates levels of PCBs and/or asbestos above the Reuse Standards, the Company shall remove such stockpile and then collect and analyze several samples from the ground beneath the removed stockpile to test solely for the presence of asbestos and PCBs in the soil beneath such stockpile. The Company shall furnish to Acquirer copies of the results of such ground sampling tests prior to the Acquirer Ratification Vote. If such testing indicates that the soil beneath the removed stockpile complies with applicable EPA and NHDES standards for soil samples containing PCBs and asbestos ("Soil Standards"), then no further action will be required by the Company with respect to such soil, and the Company shall be deemed to have satisfied the representation set forth in Section 3.18 with respect to the soil and any replacement stockpile as long as the Company continues to manage and maintain such stockpile and soil consistent with past practice. If the testing shows levels of PCBs and/or asbestos above the Soil Standards, the Company shall prepare a comprehensive plan for remediating the soil beneath the removed stockpile pursuant to applicable Soil Standards (the "Remediation Plan") and present it to the Acquirer prior to the Acquirer Ratification Vote. Prior to the date of the Acquirer Ratification Vote, Acquirer shall notify the Company whether Acquirer has determined that (a) the Remediation Plan is satisfactory to Acquirer, or (b) the

events indicated by such testing and the Remediation Plan constitute a violation of the representation set forth in Section 3.18 with the result that Acquirer shall terminate this Agreement. If Acquirer notifies the Company that the Remediation Plan is satisfactory to Acquirer, then the Company shall be deemed to have satisfied the representation set forth in Section 3.18 with respect to the soil and any replacement stockpile as long as the Company completes remediation in accordance with the Remediation Plan prior to the Effective Time and continues to manage and maintain such stockpile consistent with past practice. If Acquirer determines that the events indicated by such testing and the Remediation Plan constitute a violation of the representation set forth in Section 3.18, then the Acquirer shall have the right to terminate this Agreement pursuant to Section 8.02(d); provided, however, that in the event of such a termination, pursuant to Section 8.03(b)(i) all costs and expenses incurred in connection with this Agreement shall be paid by the party incurring or required to incur such expenses, and the Company shall not be required to pay Acquirer any penalty amounts, liquidated damages and/or damages of any kind as the result of such termination.

ARTICLE VII.

CONDITIONS PRECEDENT

Section 7.01 Conditions to Each Party's Obligation to Effect the Merger.

The respective obligations of each party to effect the Merger is subject to the satisfaction or express written waiver on or prior to the Closing Date of the following conditions:

- (a) *Stockholder Approval.* The Company Stockholder Approval shall have been obtained.
- (b) *Acquirer Governing Body Approval.* The Acquirer Governing Body shall have obtained both the Acquirer Ratification Vote and the Acquirer Special Findings Vote.
- (c) *Requisite Regulatory Approvals.* All necessary approvals, authorizations and consents of all Governmental Entities required to consummate the Merger and the other transactions contemplated by this Agreement shall have been obtained and shall remain in full force and effect and all applicable statutory waiting periods in respect thereof shall have expired or been terminated (all such approvals and the expiration of all such waiting periods being referred to herein as the "*Requisite Regulatory Approvals*"). For purposes of this Agreement, the term "*Requisite Regulatory Approvals*" means, to the extent deemed necessary by Acquirer: (i) a final nonappealable order or orders of the NHPUC approving or authorizing or waiving jurisdiction with respect to the Merger and granting any other necessary approvals with respect to the Financing and the other transactions contemplated by this Agreement; and (ii) any other material governmental approvals or orders reasonably deemed necessary by Acquirer to be necessary under applicable law.
- (d) *No Injunctions or Restraints.* No statute, rule, regulation, executive Order, decree, temporary restraining Order, preliminary or permanent injunction or other Order enacted, entered, promulgated, enforced or issued by any Governmental Entity or other legal restraint or prohibition (other than the lack of the *Requisite Regulatory Approvals*) preventing the

consummation of the Merger shall be in effect; provided, however, that prior to asserting this condition each of the parties shall have used all reasonable efforts to prevent the entry of any such injunction or other Order and to appeal as promptly as possible any such injunction or other Order that may be entered.

Section 7.02 Conditions Precedent to Acquirer's and Acquisition Subsidiary's Obligations.

Acquirer and Acquisition Subsidiary shall be obligated to effect the Merger only if each of the following conditions is satisfied at or prior to the Closing Date, unless any such condition is waived in writing by Acquirer:

(a) *Representations and Warranties.* The representations and warranties of the Company set forth in this Agreement (other than the representations and warranties in Sections 3.03, 3.23, and the last sentence of 3.26) shall be true and correct in all respects as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date, in which case such representations and warranties shall be true and correct as of such earlier date) as of the Closing Date with the same force and effect as though made again at and as of the Closing Date, provided, however, that for purposes of determining the satisfaction of this condition, no effect shall be given to any qualification "To the Knowledge of the Company" or any exception in such representations and warranties relating to materiality or a Company Material Adverse Effect, and instead, for purposes of this condition, such representations and warranties shall be deemed to be true and correct in all respects unless the failure or failures of such representations or warranties to be so true and correct, individually or in the aggregate, results or would result in a Company Material Adverse Effect. The representations and warranties in Sections 3.03, 3.23, and the last sentence of 3.26 shall be true and correct in all respects as of the date of this Agreement and as of the Closing Date with the same force and effect as though made again at and as of the Closing Date (other than immaterial numerical inaccuracies in Section 3.03). Acquirer shall have received a certificate signed on behalf of the Company by its Chief Executive Officer and Chief Financial Officer to the foregoing effect.

(b) *Performance of Obligations of Company.* The Company shall have performed in all material respects (without giving duplicative effect to any materiality qualification contained in the applicable obligation) all obligations required to be performed by it under Articles V and VI of this Agreement at or prior to the Effective Time; and Acquirer shall have received a certificate signed on behalf of the Company by its Chief Executive Officer and Chief Financial Officer to the foregoing effect.

(c) *No Company Material Adverse Effect.* There shall not have occurred any change in the business, assets, prospects, financial condition or results of operations of the Company or any of the Company Subsidiaries that has had or is reasonably likely to have, individually or in the aggregate, a Company Material Adverse Effect.

(d) *No Burdensome Condition.* None of the Requisite Regulatory Approvals shall have imposed any term, condition, obligation or restriction upon Acquirer, Acquisition Subsidiary, the Company or any of their respective Subsidiaries that Acquirer reasonably

determines would, individually or in the aggregate (i) be expected to have a Company Material Adverse Effect, or (ii) so fundamentally and materially adversely affect the economic benefits to Acquirer of the transactions contemplated by this Agreement, taken as a whole, as to render inadvisable the consummation of the Merger (a “Burdensome Condition”). Without limiting the generality of the foregoing, the term “Burdensome Condition” shall include, but not be limited to, any order or orders of the NHPUC approving the Merger and the other transactions contemplated by this Agreement that does not, or do not, approve an aggregate acquisition premium to be reflected in the accounts of the Regulated Company Subsidiaries and included in their respective rate bases to be recovered through rates with a return in a manner that, together with other components of the rates of the Regulated Company Subsidiaries, will be sufficient to enable Acquirer to satisfy all of the operating and debt service costs of the Regulated Company Subsidiaries and Acquirer’s obligations under the Financing, as such operating and debt service costs and Financing obligations are mutually agreed to by the parties and reflected in the petition filed with the NHPUC for approval of the Merger and the transactions contemplated by this Agreement. If the NHPUC issues a final and nonappealable order or orders approving the Merger and providing any other necessary approvals with respect to the transactions contemplated by this Agreement and Acquirer determines that such order or orders include a term or provision that is a Burdensome Condition, Acquirer shall provide written notice of such determination to the Company within 90 days after the date on which such order or orders shall have become final and nonappealable (a “Burdensome Condition Notice”). Acquirer shall be deemed to have waived this Section 7.02(d) if Acquirer shall have failed to provide a Burdensome Condition Notice within 90 days after the date on which such order or orders shall have become final and nonappealable.

(e) *Financing.* Acquirer shall have made financing arrangements to provide the funds required to satisfy the cash payment obligations of Acquirer under this Agreement on terms that Acquirer reasonably determines are acceptable to Acquirer; provided, however, that Acquirer shall be deemed to have waived this Section 7.02(e) if, at the end of the 90-day period beginning on the date on which all of the conditions precedent set forth in Article VII except this Section 7.02(e) shall have been satisfied, Acquirer reasonably could have obtained debt financing having the following terms and conditions: (i) general obligations of the City; (ii) a total principal amount of \$160,000,000; (iii) repayment of principal over a term of 30 years with a level payment structure; (iv) subject to optional redemption at par by the City at any time ten years after issuance; (v) a true interest cost of no greater than 6.50%; and (vi) interest on the obligations includable in gross income for federal income tax purposes. Notwithstanding the foregoing, Acquirer shall be deemed to have waived this Section 7.02(e) if Acquirer shall have failed to use its commercial best efforts to obtain such financing arrangements within 90 days after the date on which all of the conditions precedent set forth in Article VII except this Section 7.02(e) shall have been satisfied.

(f) *Dissenters.* The holders of no greater than fifteen percent (15%) of the Company Common Stock shall have exercised statutory rights under the Dissenters’ Rights Provisions and shall not have waived or abandoned those rights as of the Closing.

Section 7.03 Conditions to Obligation of Company.

Company shall be obligated to effect the Merger only if each of the following conditions is satisfied at or prior to the Closing Date, unless any such condition is waived in writing by Company:

(a) *Representations and Warranties.* The representations and warranties of Acquirer and Acquisition Subsidiary set forth in this Agreement shall be true and correct in all respects as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date, in which case such representations and warranties shall be true and correct as of such earlier date) as of the Closing Date with the same force and effect as though made again at and as of the Closing Date, provided, however, that for purposes of determining the satisfaction of this condition, no effect shall be given to any qualification “To the Knowledge of the Acquirer” or any exception in such representations and warranties relating to materiality, a material adverse impact on Acquirer, and instead, for purposes of this condition, such representations and warranties shall be deemed to be true and correct in all respects unless the failure or failures of such representations or warranties to be so true and correct, individually or in the aggregate, have or would have a material adverse impact on Acquirer. The Company shall have received a certificate signed on behalf of the Acquirer by a duly authorized official of the Acquirer to such effect.

(b) *Performance of Obligations of Acquirer and Acquisition Subsidiary.* Acquirer and Acquisition Subsidiary shall each have performed in all material respects (without giving duplicative effect to any materiality qualification contained in the applicable obligation) all obligations required to be performed by them under Article VI of this Agreement at or prior to the Closing Date; and the Company shall have received a certificate signed on behalf of the Acquirer by a duly authorized official of the Acquirer to the foregoing effect.

(c) *Joinder by Acquisition Subsidiary.* Acquisition Subsidiary shall have approved and executed this Agreement.

ARTICLE VIII.

TERMINATION, AMENDMENT AND WAIVER

Section 8.01 Ratification Required.

This Agreement shall not constitute a valid and binding obligation of Acquirer or Acquisition Subsidiary, and shall not be enforceable against Acquirer or Acquisition Subsidiary, until such time as the Acquirer Governing Body shall have obtained the Acquirer Ratification Vote and the Acquirer Special Findings Vote.

Section 8.02 Termination.

This Agreement may be terminated and the Merger abandoned at any time prior to the Effective Time, whether before or after receipt of Company Stockholder Approval:

(a) by mutual written consent of Acquirer and the Company;

(b) by either Acquirer or the Company upon written notice to the other party (i) forty-five (45) days after the date on which any request or application for a Requisite Regulatory Approval shall have been denied or withdrawn at the request or recommendation of the Governmental Entity which must grant such Requisite Regulatory Approval, unless within the forty-five- (45-) day period following such denial or withdrawal a petition for rehearing or an amended application has been filed with the applicable Governmental Entity; provided, however, that no party shall have the right to terminate this Agreement pursuant to this Section 8.02(b)(i) if such denial or request or recommendation for withdrawal shall be due to the failure of the party seeking to terminate this Agreement to perform or observe the covenants and agreements of such party set forth herein, or (ii) if any Governmental Entity of competent jurisdiction shall have issued a final, nonappealable Order enjoining or otherwise prohibiting the consummation of the Merger or any of the other transactions contemplated by this Agreement;

(c) by the Company (provided that the Company is not then in material breach of any representation, warranty, covenant or other agreement contained herein) if the Acquirer has failed to obtain the Financing necessary for Closing the Merger as specified in this Agreement within 90 days after the date on which all of the conditions precedent set forth in Article VII except Section 7.02(e) are satisfied or waived;

(d) by either Acquirer or the Company (provided that the terminating party is not then in material breach of any representation, warranty, covenant, obligation or other agreement contained herein) if there shall have been a material breach of any of the representations, warranties, covenants, obligations or other agreements set forth in this Agreement on the part of the other party, which breach is not cured within 30 days following written notice to the party committing such breach, or which breach, by its nature, cannot be cured prior to Closing;

(e) by either Acquirer or the Company if the Effective Time shall not have occurred prior to December 31, 2011, unless the failure of the Effective Time to occur by such date shall be due to the failure of the party seeking to terminate this Agreement to perform or observe the covenants and agreements of such party set forth herein;

(f) by either Acquirer or the Company if the Acquirer Governing Body shall not have obtained the Acquirer Ratification Vote and the Acquirer Special Findings Vote within 90 days after the Effective Date of this Agreement;

(g) by either Acquirer or the Company if the Company Stockholders Meeting (after any permitted postponements or adjournments thereof) shall have been concluded and the Company Stockholder Approval contemplated by this Agreement shall not have been obtained;

(h) by the Company, at any time prior to obtaining the Company Stockholder Approval, in order to enter into any agreement, understanding or arrangement providing for a Company Superior Proposal (a "*Superior Proposal Agreement*"), if the Company has complied with its obligations under Section 5.02(h); provided, that any such purported termination by the Company pursuant to this Section 8.02(h) shall be void and of no force or effect unless the Company concurrently with such termination pays to Acquirer the Acquirer Termination Fee in accordance with Section 8.03(c); and

(i) by either Acquirer or the Company if the Acquirer shall have provided the Company with a Burdensome Condition Notice as specified in Section 7.02(d).

Section 8.03 Effect of Termination; Expenses and Liquidated Damages.

(a) *Effect of Termination.* In the event of the termination of this Agreement by the Company or Acquirer as provided in Section 8.02, this Agreement shall forthwith become void and have no effect except that (i) Sections 6.06, 6.09, 8.03 and Article IX shall survive any termination of this Agreement, and (ii) notwithstanding anything to the contrary contained in this Agreement, no party shall be relieved or released from any liabilities or damages arising out of fraud or a knowing and intentional breach of any provision of this Agreement, in which case the aggrieved party shall be entitled to all rights and remedies available at law or in equity. For the avoidance of doubt, Acquirer and the Company hereby acknowledge and agree that in the event of a breach of this Agreement arising out of fraud, or a knowing and intentional breach of any provision of this Agreement, the aggrieved party may either (i) seek all rights and remedies that may be available at law or in equity, or (ii) terminate this Agreement and claim liquidated damages in accordance with Section 8.03(b), but may not pursue both legal action and claim liquidated damages.

(b) *Expenses and Liquidated Damages.*

(i) Except as set forth in this Section 8.03(b), whether or not the Merger is consummated, all costs and expenses incurred in connection with the Merger, this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring or required to incur such expenses.

(ii) Subject to Section 6.18 and Section 6.19, if Acquirer terminates this Agreement pursuant to Section 8.02(d), then the Company shall pay Acquirer \$1,500,000 as liquidated damages related to entering into this Agreement and consummating the transactions contemplated by this Agreement.

(iii) If the Company terminates this Agreement pursuant to Section 8.02(d), then Acquirer shall pay the Company \$1,500,000 as liquidated damages related to entering into this Agreement and consummating the transactions contemplated by this Agreement.

(iv) If Acquirer terminates this Agreement pursuant to Section 8.02(g), then the Company shall be liable to Acquirer for \$250,000 as liquidated damages related to entering into this Agreement and consummating the transactions contemplated by this Agreement.

(v) The parties acknowledge and agree that the agreements contained in this Section 8.03(b) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, the parties would not enter into this Agreement. Each of the parties hereto further acknowledges that any payment by one party to the other pursuant to any of the provisions of this Section 8.03(b) is not a penalty, but in each case is liquidated damages in a reasonable amount that will

compensate Acquirer or the Company, as the case may be, in the circumstances in which such fees are payable for the efforts and resources expended and the opportunities foregone while negotiating this Agreement and in reliance of this Agreement and on the expectation of the consummation of the transactions contemplated hereby, which amount would otherwise be impossible to calculate with precision. For the avoidance of doubt, the payment by one party to the other pursuant to any of the provisions of this Section 8.03(b) shall be the exclusive remedy available for termination of this Agreement pursuant to the subsections indicated in this Section 8.03(b).

(c) *Acquirer Termination Fee.* To induce Acquirer to enter into this Agreement and to reimburse Acquirer for incurring the costs and expenses related to entering into this Agreement and consummating the transactions contemplated by this Agreement, pursuant to the provisions of this Section 8.03(c) the Company will make a cash payment to Acquirer (by wire transfer of immediately available funds to an account designated by Acquirer) of FIVE MILLION FIVE HUNDRED THOUSAND DOLLARS (\$5,500,000) (the “*Acquirer Termination Fee*”), less any amount(s) paid by Company to Acquirer under Section 8.03(b), it being understood by the parties that in no event shall Acquirer be entitled to receive under Sections 8.03(a), 8.03(b) and 8.03(c) an amount exceeding the Acquirer Termination Fee, in the event of one or more of the following occurrences:

(i) the Company has terminated this Agreement pursuant to Section 8.02(h); or

(ii) (A) after the date of this Agreement, any bona fide Company Alternative Proposal, with each reference to “20%” in the definition thereof replaced with “50%”, (hereinafter a “*Superior Company Alternative Proposal*”) shall have been publicly announced and not withdrawn prior to the Company Stockholders Meeting and this Agreement is terminated by Acquirer or the Company pursuant to Section 8.02(g), and (B) concurrently with or within twelve (12) months after such termination, any definitive agreement providing for a Superior Company Alternative Proposal shall have been entered into by the Company or a transaction contemplated by any Superior Company Alternative Proposal shall have been consummated; or

(iii) Acquirer has terminated this Agreement pursuant to Section 8.02(d) because a Company Change in Recommendation shall have occurred, and, at the time of the Company Change of Recommendation, a Superior Company Alternative Proposal had been made and not withdrawn; or

(iv) (A) Acquirer has terminated this Agreement pursuant to Section 8.02(d), and (B) the breach of the representation, warranty, covenant, obligation or agreement was caused by the willful conduct or gross negligence of the Company and, at the time of such breach, a bona fide Superior Company Alternative Proposal shall have been publicly announced and not withdrawn, and (C) concurrently with or within twelve (12) months after such termination, any definitive agreement providing for a Superior Company Alternative Proposal shall have been entered into by the Company with any Person other than Acquirer or an Affiliate of Acquirer or a transaction contemplated by any Superior Company Alternative Proposal shall have been consummated.

The Acquirer Termination Fee payable in accordance with this Section 8.03(c) shall constitute liquidated damages and shall be the sole remedy of Acquirer for termination of this Agreement under the circumstances described in this Section 8.03(c). The parties acknowledge and agree that the agreements contained in this Section 8.03(c) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, the parties would not enter into this Agreement. Each of the parties hereto further acknowledges that the payment of the Acquirer Termination Fee is not a penalty, but is liquidated damages in a reasonable amount that will compensate Acquirer, in the circumstances in which such Acquirer Termination Fee is payable for the efforts and resources expended and the opportunities foregone while negotiating this Agreement and in reliance of this Agreement and on the expectation of the consummation of the transactions contemplated hereby, which amount would otherwise be impossible to calculate with precision.

Section 8.04 Amendment.

This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties. This Agreement may be so amended by the parties at any time before or after receipt of the Company Stockholder Approval, or before or after receipt of the approvals of the Acquirer Governing Body referred to in Section 7.01(b); provided, however, that after receipt of such Company Stockholder Approval, or such approvals of the Acquirer Governing Body, there shall be made no amendment that by Law requires further approval by the stockholders of the Company or the Acquirer Governing Body, respectively; and provided, further, that after this Agreement is approved by the Company's stockholders, no such amendment or modification shall be made that reduces the amount or changes the form of Merger Consideration or otherwise materially and adversely affects the rights of the Company's stockholders hereunder, without the further approval of such stockholders.

Section 8.05 Extension; Waiver.

At any time prior to the Effective Time, the parties may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties contained in this Agreement or in any document delivered pursuant to this Agreement, or (c) subject to the proviso in the second sentence of this Section 8.05, waive compliance with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

Section 8.06 Procedure for Termination, Amendment, Extension or Waiver.

A termination of this Agreement, an amendment of this Agreement pursuant to Section 8.04 or an extension or waiver pursuant to Section 8.05 shall, in order to be effective, require, in the case of Acquirer, action by the Acquirer Governing Body, or, in the case of Acquisition Subsidiary or the Company, action by its board of directors.

ARTICLE IX.

GENERAL PROVISIONS

Section 9.01 Nonsurvival of Representations and Warranties.

Except as provided in the last sentence of this Section 9.01, none of the representations, warranties and covenants in this Agreement (including any rights arising out of any breach of such representations, warranties and covenants) or in any instrument delivered pursuant to this Agreement shall survive the Effective Time. This Section 9.01 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time.

Section 9.02 Notices.

All notices, requests, claims, demands and other communications under this Agreement shall be in writing and shall be deemed given (i) five days after mailing by certified mail, (ii) when delivered by hand, (iii) upon confirmation of receipt by telecopy, or (iv) one (1) business day after sending by reputable overnight delivery service, to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) If to Company:

Pennichuck Corporation
P.O. Box 1947
25 Manchester Street
Merrimack, NH 03054
Attn: Duane C. Montopoli
President and Chief Executive Officer

With a copy to:

General Counsel & Corporate Secretary
Pennichuck Corporation
P.O. Box 1947
25 Manchester Street
Merrimack, NH 03054
Attn: Roland E. Olivier, Esq.

And a copy (which shall not constitute notice) to:

Nutter, McClennen & Fish, LLP
World Trade Center West
155 Seaport Boulevard
Boston, MA 02210
Attn: Michael K. Krebs, Esq.

(b) If to Acquirer or Acquisition Subsidiary:

Mayor Donnalee Lozeau
City of Nashua
229 Main Street
Nashua, NH 03060

With a copy to:

Office of Corporation Counsel
City of Nashua
229 Main Street
Nashua, NH 03060
Attn: James McNamee, Esq.

And a copy (which shall not constitute notice) to:

Rath, Young and Pignatelli, P.C.
One Capital Plaza
P.O. Box 1500
Concord, NH 03302
Attn: William F. J. Ardinger, Jr., Esq.

Section 9.03 Definitions.

For purposes of this Agreement:

“*Acquirer Governing Body*” means, with respect to the City, the Board of Aldermen of the City of Nashua.

An “*Affiliate*” of any Person means another Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first Person. As used in this definition the term “control” (including the terms “controlled by” and “under common control with”) means, with respect to the relationship between or among two or more Persons, the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, as trustee or executor, by contract or otherwise, including, without limitation, the ownership, directly or indirectly, of securities having the power to elect a majority of the board of directors or similar body governing the affairs of such Person.

A “*business day*” shall mean any calendar day which is not a Saturday, Sunday, federal holiday or bank holiday under the laws of the states of New York or New Hampshire.

“*Company Material Adverse Effect*” means any change, effect, event, occurrence, state of facts or development that has had a material adverse effect on the business, assets, financial condition, or past or future operations of the Company and the Company Subsidiaries, taken as a whole, but shall not include: (a) facts, circumstances, events or changes (i) generally affecting the industry in which the Company operates, (ii) generally affecting the economy or the

financial, debt, credit or securities markets, in the United States or elsewhere, (iii) resulting from any political conditions or developments in general, (iv) reflecting or resulting from changes or proposed changes in Law (including rules and regulations) or interpretations thereof or GAAP, or (v) resulting from actions of the Company or any of the Company Subsidiaries which Acquirer has expressly requested in writing or to which Acquirer has expressly consented in writing; (b) any change in the price of the Company Common Stock on the NASDAQ stock exchange or any failure to meet internal or published projections, forecasts or revenue or earnings predictions for any period (provided that the underlying causes of such change or failure may, to the extent applicable, be considered in determining whether there is a Company Material Adverse Effect); or (c) any facts, circumstances, events or changes resulting from the announcement or the existence of, or compliance (other than the obligation of the Company to comply with its obligations to operate in the ordinary course of business) with, this Agreement and the transactions contemplated hereby; provided, however, that this clause (c) shall not diminish the effect of, and shall be disregarded for purposes of, the representations and warranties relating to required consents, approvals, change in control provisions or similar rights of acceleration, termination, modification or waiver based upon the entering into of this Agreement and the consummation of the Merger. The existence of an inaccuracy, misstatement, deviation or nonconformity with respect to any representation, warranty, covenant or obligation which does not, taken individually, have a Company Material Adverse Effect shall nevertheless be taken into account and aggregated for purposes of determining whether a Company Material Adverse Effect results from another inaccuracy, misstatement, deviation or non-conformity or all inaccuracies, misstatements, deviations or nonconformities, taken collectively.

A “*Person*” means any individual, firm, corporation, partnership, company, limited liability company, trust, joint venture, association, Governmental Entity or other entity.

A “*Subsidiary*” of any Person means another Person, an amount of the voting securities, other voting ownership or voting partnership interests of which is sufficient to elect at least a majority of its board of directors or other governing body (or, if there are no such voting interests, a majority of the equity interests of which) is owned directly or indirectly by such first Person.

“*To the Knowledge*” of any specified entity means with respect to a party hereto, with respect to any matter in question, that any of the executive officers of such party has actual knowledge of such matter; provided that such executive officer shall have made reasonable inquiry of the employees responsible for such matter in question; and provided, further, that if any executive officer does not make such reasonable inquiry, then such executive officer shall be deemed to have actual knowledge of those facts or matters that such executive officer would have had, had he or she made such inquiry.

Section 9.04 Definitions Cross Reference Table.

The following terms defined elsewhere in this Agreement in the Sections set forth below shall have the respective meanings therein defined:

“Acquirer” Preamble
“Acquirer Termination Fee” Section 8.03(c)

EXECUTION DOCUMENT

“Acquirer Governing Body”	Section 9.03
“Acquirer Ratification Vote”	Section 6.03(a)
“Acquirer Special Findings Vote”	Section 6.03(a)
“Acquisition Subsidiary”	Preamble
“Affiliate”	Section 9.03
“Agreement”	Preamble
“Approvals”	Section 3.01
“Articles of Merger”	Section 1.03
“Burdensome Condition”	Section 7.02(d)
“Burdensome Condition Notice”	Section 7.02(d)
“business day”	Section 9.03
“Certificates”	Section 2.02(b)
“CIAC”	Section 5.01(a)(viii)
“City”	Preamble
“Closing”	Section 1.02
“Closing Date”	Section 1.02
“Code”	Section 3.11(a)
“Company”	Preamble
“Company Alternative Proposal”	Section 5.02(f)
“Company Board”	Section 3.04
“Company By-Laws”	Section 3.02
“Company Charter”	Section 3.02
“Company Change of Recommendation”	Section 5.02(c)
“Company Common Stock”	Preamble
“Company Disclosure Schedule”	Article III
“Company Employee Plans”	Section 3.11(a)
“Company Intellectual Property Rights”	Section 3.19
“Company’s Internal Control System”	Section 3.07(f)
“Company Material Adverse Effect”	Section 9.03
“Company Permits”	Section 3.06(b)
“Company Recommendation”	Section 6.05(b)
“Company Required Consents”	Section 3.05(c)
“Company Rights Agreement”	Section 3.22
“Company Stock Option Plans”	Section 3.11(c)
“Company Stock Options”	Section 3.03
“Company Stock Purchase Plan”	Section 3.24
“Company Stockholder Approval”	Section 3.04
“Company Stockholders Meeting”	Section 6.05(b)
“Company Subsidiaries”	Section 3.01
“Company Superior Proposal”	Section 5.02(g)
“Confidentiality Agreement”	Section 6.06(b)
“December Company Balance Sheet”	Section 3.09
“Dissenters’ Rights Provisions”	Section 2.01(d)
“Dissenters’ Shares”	Section 2.01(d)
“Effective Date”	Preamble
“Effective Time”	Section 1.03

EXECUTION DOCUMENT

“Environmental Agencies”	Section 3.05(c)
“Environmental Laws”	Section 3.18
“Environmental Permits”	Section 3.18
“ERISA”	Section 3.11(a)
“Exchange Act”	Section 3.05(a)
“Exchange Fund”	Section 2.02(a)
“Filed Company SEC Reports”	Section 3.07(a)
“Financing”	Section 6.03(b)
“GAAP”	Section 3.07(b)
“Governmental Entity(ies)”	Section 3.05(c)
“IRS”	Section 3.11(b)
“Laws”	Section 3.05(b)
“Liens”	Section 3.03
“Material Contracts”	Section 3.05(a)
“Maximum Amount”	Section 6.09(b)
“Merger”	Preamble
“Merger Consideration”	Section 2.01(c)
“NHBCA”	Section 1.01
“NHPUC”	Section 3.14(a)
“NHRSA”	Preamble
“Notice Period”	Section 5.02(h)
“Orders”	Section 3.05(b)
“Paying Agent”	Section 2.02(a)
“Person”	Section 9.03
“Proxy Statement”	Section 6.05(a)
“PUCs”	Section 3.05(c)
“Regulated Company Subsidiaries”	Section 3.16
“Related Party Contracts”	Section 3.05(a)
“Remediation Plan”	Section 6.19
“Requisite Regulatory Approvals”	Section 7.01(c)
“Revised Transaction”	Section 5.02(h)
“Reuse Standards”	Section 6.19
“Rights”	Section 3.23
“Right to Match”	Section 5.02(h)
“SEC”	Section 3.07(a)
“Securities Act”	Section 3.07(a)
“Settlement Agreement”	Preamble
“Soil Standards”	Section 6.19
“Special Legislative Authority”	Preamble
“Subsidiary”	Section 9.03
“Subsidiary Documents”	Section 3.02
“Superior Company Alternative Proposal”	Section 8.03(c)(ii)
“Superior Proposal Agreement”	Section 8.02(i)
“Superior Proposal Notice”	Section 5.02(h)
“Surviving Corporation”	Section 1.01
“Tax” or “Taxes”	Section 3.17(a)

“Tax Returns” Section 3.17(a)
“To the Knowledge”Section 9.03

Section 9.05 Interpretation.

When a reference is made in this Agreement to a Section, such reference shall be to a Section of this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.”

Section 9.06 Severability.

If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule or law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

Section 9.07 Counterparts; Facsimile Signatures.

This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when two or more counterparts have been signed by each of the parties and delivered to the other parties. Any signature on this Agreement or any related instrument or agreement that is delivered by facsimile or by electronic data file shall have the same effect as an original.

Section 9.08 Entire Agreement; No Third-Party Beneficiaries.

This Agreement, taken together with the Company Disclosure Schedule and the Settlement Agreement, (a) constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the transactions contemplated hereby, and (b) is not intended to confer upon any Person other than the parties any rights or remedies except for the provisions of Section 6.09 (which are intended to be for the benefit of the parties specified therein and may be enforced by such parties).

Section 9.09 Governing Law.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of New Hampshire, without giving effect to any law or principle which would refer enforcement to the law of any other jurisdiction.

Section 9.10 Assignment.

Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties without the prior written consent of the other parties, except that (i) the City may assign its rights interests and agreements under this Agreement as provided in Section 6.13 and (ii) Acquisition Subsidiary may assign, in its sole discretion, any of or all its rights, interests and obligations under this Agreement to Acquirer or to any direct or indirect wholly owned Subsidiary of Acquirer. Any purported assignment without such consent shall be void. Subject to the preceding sentences, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

Section 9.11 Enforcement.

The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any New Hampshire state court or any Federal court located in the State of New Hampshire, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any New Hampshire state court or any Federal court located in the State of New Hampshire in the event any dispute arises out of this Agreement or any transactions contemplated hereby, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (c) agrees that it will not bring any action relating to this Agreement or any transactions contemplated hereby in any court other than any New Hampshire state court or any Federal court sitting in the State of New Hampshire, and (d) waives any right to trial by jury with respect to any action related to or arising out of this Agreement or any transactions contemplated hereby.

Section 9.12 Consents.

Whenever this Agreement requires or permits consent by or on behalf of any party hereto, such consent shall be given in writing in a manner consistent with the requirements for a waiver of compliance as set forth in Sections 8.05 and 8.06. Acquisition Subsidiary hereby agrees that any consent or waiver of compliance given by Acquirer hereunder shall be conclusively binding upon it, whether given expressly on its behalf or not.

Section 9.13 Rules of Construction.

The parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefor, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document. The parties hereto acknowledge that certain matters set forth in the Company Disclosure Schedule are included for informational purposes only, notwithstanding the fact that, because they do not rise above applicable materiality thresholds or otherwise, they would not be required to be set forth

EXECUTION DOCUMENT

therein by the terms of this Agreement. The parties agree that disclosure of such matters shall not be taken as an admission by the Company that such disclosure is required to be made under the terms of any provision of this Agreement and in no event shall the disclosure of such matters be deemed or interpreted to broaden or otherwise amplify the representations and warranties contained in this Agreement or to imply that such matters are or are not material and neither party shall use, in any dispute between the parties, the fact of any such disclosure as evidence of what is or is not material for purposes of this Agreement.

IN WITNESS WHEREOF, City and Company have caused this Agreement and Plan of Merger to be executed as an instrument under seal as of the date first written above by their respective officers thereunto duly authorized.

CITY OF NASHUA

By: 
Name: Donnalee Lozeau
Title: Mayor

PENNICHUCK CORPORATION

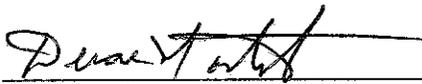
By: 
Name: Duane C. Montopoli
Title: President and Chief Executive Officer

EXHIBIT A TO MERGER AGREEMENT

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
PENNICHUCK CORPORATION

ARTICLE I - NAME

The name of the corporation is PENNICHUCK CORPORATION.

ARTICLE II – CAPITAL STOCK

The aggregate number of shares of capital stock that the Corporation shall have authority to issue is 1000 shares of Common Stock with a par value of \$0.01 per share. The acquisition, ownership and exercise of all of the rights of the capital stock of the Corporation by the City of Nashua, New Hampshire (the “City of Nashua”) are authorized pursuant to Chapter 347, Section 5 of the 2007 Laws of New Hampshire, as amended by Chapter 1, Section 118 of the 2010 Special Session Laws of New Hampshire (the “Special Legislative Authorization”).

ARTICLE III – REGISTERED AGENT AND ADDRESS

The name of the Corporation’s initial registered agent, and the address of the initial registered office of the Corporation is Paul R. Bergeron, City Clerk, 229 Main Street, Nashua, New Hampshire 03060.

ARTICLE IV – SECURITIES LAW STATEMENT

The capital stock of the Corporation will be sold or offered for sale within the meaning of the New Hampshire Uniform Securities Act (RSA 421-B).

ARTICLE V – PURPOSES AND POWERS

The Corporation is organized for the purposes of transacting any and all lawful business for which a corporation may be incorporated under the New Hampshire Business Corporation Act, and such purposes and powers shall be subject to the provisions of the Special Legislative Authorization.

ARTICLE VI – SOLE SHAREHOLDER

The sole holder of all of the outstanding shares of the capital stock of the Corporation shall be the City of Nashua (the “Sole Shareholder”), and all powers and rights of such shares of capital stock shall be exercised by the Sole Shareholder pursuant to the authority and provisions of the Special Legislative Authorization. The Sole Shareholder shall exercise such powers and rights pursuant to vote of the Board of Aldermen of the City of Nashua, considered and adopted in accordance with applicable law and the provisions of the City Charter.

EXHIBIT A TO MERGER AGREEMENT

ARTICLE VII – BY-LAWS

The procedures and policies for the internal governance of the Corporation shall be as set forth in the By-Laws of the Corporation, as amended and restated, from time to time.

ARTICLE VIII – BOARD OF DIRECTORS

The Sole Shareholder determines pursuant to the Special Legislative Authority that, subject to the Reserved Powers as set forth in Article VIII hereof, the construction, management, control and direction of the Corporation shall be vested in a Board of Directors (hereinafter, the “Board”). The composition of the Board and the election and appointment of members of the Board shall be in accordance with the By-Laws. The compensation (if any) of any member of the Board shall be determined, fixed and approved by the Sole Shareholder.

ARTICLE IX – RESERVED POWERS

The actions of the Board designated in this Article VIII are subject to powers reserved to the Sole Shareholder (each such action is referred to individually as a “Reserved Power” and collectively referred to as the “Reserved Powers”). Notwithstanding any other provision of these Articles or the By-Laws, no act shall be taken, sum expended, decision made or obligation incurred by the Corporation with respect to a matter within the scope of any of the Reserved Powers unless and until the same has been approved by the Sole Shareholder.

The Reserved Powers referred to in this Article VIII shall be the following:

- (1) any action to change to the name of the Corporation or to the name of any corporation, partnership, or limited liability company directly or indirectly wholly-owned by the Corporation (such entities are referred to herein as the “Subsidiaries”);
- (2) any action to amend to the By-Laws of the Corporation or any of the Subsidiaries;
- (3) any action to (A) create, incur or assume any indebtedness for borrowed money or guarantee any such indebtedness of any person, (B) issue or sell any debt securities or warrants or other rights to acquire any debt securities of the Corporation or any of its Subsidiaries, or (C) guarantee any debt securities of any person;
- (4) any action to authorize the Corporation or any of the Subsidiaries to merge or consolidated with or into, or acquire all or substantially all of the assets of, any corporation, partnership, limited liability company, or any other business entity or person;
- (5) any action to sell, lease, transfer or otherwise dispose of all or any substantial part of the assets (whether in a single transaction or series of transactions during any consecutive 12-month period) of the Corporation or any of the Subsidiaries other than in the ordinary course of the business of the Corporation or any of the Subsidiaries; and

EXHIBIT A TO MERGER AGREEMENT

- (6) any action to make any loan or advance to any person or purchase or otherwise acquire any capital stock, obligations or other securities of, or make any capital contribution to, or otherwise invest in, any person other than the Subsidiaries.

ARTICLE X – LIMITATION OF LIABILITY

A director or an officer of the Corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 8.33 of the New Hampshire Business Corporation Act, or (iv) for any transaction from which the director derived any improper personal benefit. If the New Hampshire Business Corporation Act is amended after approval of this Article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the New Hampshire Business Corporation Act, as so amended. Any repeal or modification of Article IX by the Sole Shareholder of the Corporation shall not adversely affect any right or protection of a director or an officer of the corporation existing at the time of such repeal or modification.

ARTICLE XI – AMENDMENT

These Articles of Incorporation may be amended only by action of the Sole Shareholder.

EXHIBIT B TO MERGER AGREEMENT

BY-LAWS
OF
PENNICHUCK CORPORATION

ARTICLE I

SOLE SHAREHOLDER

Section 1. City of Nashua, New Hampshire as Sole Shareholder. As set forth in the Articles of Incorporation of the Corporation, the sole holder of all of the outstanding shares of the capital stock of the Corporation shall be the City of Nashua, New Hampshire (the "Sole Shareholder"). All actions of the Sole Shareholder taken pursuant to these By-Laws shall comply with all requirements for such actions applicable to actions taken by the City of Nashua.

Section 2. Place of Meetings. All annual and special meetings of the Sole Shareholder shall be held at such places within the State of New Hampshire as the Board of Directors may designate.

Section 3. Annual Meetings. A meeting of the Sole Shareholder for the election of Directors and for the transaction of any other business of the Corporation shall be held annually, at such time and on such date as the Board of Directors may designate.

Section 4. Special Meetings. Special meetings of the Sole Shareholder for any purpose or purposes, unless otherwise prescribed by the laws of the State of New Hampshire, may be called at any time by the Chairman of the Board, the President or a majority of the Board of Directors and shall be called upon the written request of the Sole Shareholder. Such written request shall state the purpose or purposes of the meeting and shall be delivered at the principal office of the Corporation addressed to the Chairman of the Board, the President or the Secretary not less than fourteen days before the date of the meeting.

Section 5. Notice of Meetings. Written notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than five nor more than sixty days before the date of the meeting, either personally or by mail, by or at the direction of the Chairman of the Board, the President, the Secretary or the officers or persons calling the meeting, to the Sole Shareholder. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the Sole Shareholder at the address that appears on the stock transfer books or records of the Corporation as of the record date prescribed in Section 5 of this Article II, with postage thereon prepaid. Subject to Article I, Section 7 below (relating to RSA Chapter 91-A), the Sole Shareholder may waive notice of any meeting.

Section 6. Conduct and Requirements of Meetings. All meetings of the Sole Shareholder shall comply with all provisions and requirements applicable to meetings of the Board of Aldermen of the City of Nashua, New Hampshire. The Sole Shareholder shall exercise all powers and rights of the Sole Shareholder pursuant to vote of the Board of Aldermen of the City of Nashua, considered and adopted in accordance with applicable law and the provisions of the City Charter.

EXHIBIT B TO MERGER AGREEMENT

Section 7. Right-to-Know Law. All meetings of the Sole Shareholder shall comply in all respects with the requirements of RSA Chapter 91-A.

ARTICLE II

BOARD DIRECTORS

Section 1. Establishment of Board of Directors. Pursuant to the Articles of Incorporation, the management of the Corporation shall be vested in a Board of Directors which shall have the composition and be subject to election and appointment as provided in this Article II.

Section 2. Number and Qualifications.

A. The Board of Directors shall consist of a number to be determined at the annual meeting of the Sole Shareholder between seven and thirteen persons with the following qualifications:

- (1) at least five shall be residents of the City of Nashua; and
- (2) at least one shall be a natural person (a) who is not a resident of the City of Nashua, and (b) who takes water service from Pennichuck Water Works, Inc., Pennichuck East Utility, Inc., or Pittsfield Aqueduct Company, Inc. (the "Water Utility Subsidiaries).

B. During the term of any member of the Board of Directors, a member of the Board of Directors shall not be:

- (1) except as set forth in Article II, Section 4 below with respect to the initial Board of Directors, the Mayor of the City of Nashua;
- (2) a member of the Board of Aldermen of the City of Nashua or of an elected member of the governing body of any municipality having residents served by any of the Water Utility Subsidiaries;
- (3) the director of the City of Nashua Public Works Department or a member of the Board of Public Works of the City of Nashua;
- (4) any person who served at any time during the two-year period immediately preceding the date on which he or she stands for election as a member of the Board of Directors as (i) Mayor of the City of Nashua, (ii) an elected member of the governing body of any municipality having residents served by any of the Water Utility Subsidiaries, or (iii) as the director of the City of Nashua Public Works Department or a member of the Board of Public Works of the City of Nashua; or
- (5) any person who is an immediate family member (as that term is defined below) of the Mayor of the City of Nashua or of any person who is excluded from service as a member of the Board of Directors under paragraphs (2), (3) or (4) above.

EXHIBIT B TO MERGER AGREEMENT

C. For all purposes of these By-Laws, the term “immediate family member” shall mean a person’s spouse, parent, stepparent, parent-in-law, child, child’s spouse, stepchild, stepchild’s spouse, son-in-law, daughter-in-law, sibling, grandparent, grandchild, or grandchild’s spouse.

Section 3. Classes and Term. At the time of his or her election, each director shall be assigned to Class A, Class B, or Class C, each of which shall consist of at least two directors. Each director shall hold office for a term of three years, except that for the initial Board established at the time that the City of Nashua first becomes the Sole Shareholder of the Corporation (the “Commencement Date”):

- (1) Directors in Class A shall have their term expire in the first full calendar year following the Commencement Date (and every three years thereafter);
- (2) Directors in Class B shall have their term expire in the second full calendar year following the Commencement Date (and every three years thereafter); and
- (3) Directors in Class C shall have their term expire in the third full calendar year following the Commencement Date (and every three years thereafter).

Section 4. Initial Board of Directors. On the Commencement Date, the initial Board of Directors shall be established pursuant to this Section 4.

A. Mayor to Serve on the Initial Board of Directors. Notwithstanding the prohibition in Article II, Section 2 above, at the Commencement Date, the Mayor of the City of Nashua shall be appointed as a member of the Board of Directors, to hold office as a Class B Director. Upon conclusion of the initial term as a Class B Director, the Mayor of the City of Nashua shall no longer serve as a member of the Board of Directors.

B. Other Members of the Initial Board of Directors. Each member of the initial Board of Directors (other than the Mayor of the City of Nashua) shall be nominated by the Mayor and approved and appointed at any meeting called for such purpose by the City of Nashua Board of Aldermen by a vote of a majority of those members present at such meeting. In addition to the Mayor, the initial Board of Directors, and their respective classes shall be as set forth in the following chart:

[NOTE: THIS CHART TO BE ESTABLISHED NEAR CLOSING DATE BY WHATEVER PROCESS IS DEEMED APPROPRIATE BY THE CITY OF NASHUA.]

Class	Name	Address
Class A		
Class A		
Class B		
Class B		

EXHIBIT B TO MERGER AGREEMENT

Class B		
Class C		
Class C		

Section 5. Election Subsequent to the Initial Board of Directors.

A. Nomination. Subsequent to the initial Board of Directors, each member of the Board of Directors shall be nominated by a nominating committee duly appointed by the Board of Directors, and then shall be approved for submission to the Sole Shareholder by action of the full Board of Directors.

B. Approval and Appointment by Sole Shareholder. A nominee, having been nominated pursuant to paragraph A and having met the qualifications set forth in Section 2 above, shall be elected by the Sole Shareholder at the annual meeting of the Board.

Section 6. Vacancy. Any vacancy occurring in the Board of Directors in between annual meetings of the Sole Shareholder, due to death, or resignation, may be filled by the affirmative vote of Sole Shareholder at a meeting duly called for such purpose; provided, however, that any person who may fill a vacancy shall satisfy the qualification requirements set forth above.

Section 7. Removal. Any Director may be removed from office with or without cause by a vote of the Sole Shareholder at a meeting duly called for such purpose.

Section 8. Regular Meetings. The Board of Directors shall hold regular meetings not less frequently than quarterly on such dates and at such times as the Board may designate. The annual meeting of the Board of Directors shall be held immediately following the annual meeting of the Sole Stockholder.

Section 9. Special Meetings. Special meetings of the Board in lieu of or in addition to the regular meetings shall be held at such times as the Chairman of the Board, President or any four Directors may require.

Section 10. Notice. Notice of regular and special meetings shall be sent by the Clerk or President, by mailing, a written notice of such meeting, at least five days prior to the day of the meeting. Any Director may waive notice of any meeting in writing filed with the Secretary.

Section 11. Quorum. No less than a majority of Directors shall constitute a quorum for the transaction of business at the meetings of the Board, and the concurrence of a majority of those present at any meeting shall be necessary to give validity to any vote.

Section 12. Duties and Powers. Subject to the provisions of the Articles of Incorporation (including but not limited to those provisions concerning certain reserved powers) and these By-Laws, the Board of Directors shall be vested with the management and direction of the affairs of the Corporation and shall have and exercise all the powers possessed by the Corporation so far as

EXHIBIT B TO MERGER AGREEMENT

such delegation of authority is not inconsistent with the laws of the State of New Hampshire, the Articles of Incorporation and these By-Laws.

Section 13. Executive Committee: Other Committees. The Board of Directors, by resolution adopted by a majority of the full Board, may designate from its members an Executive Committee and one or more other committees each of which, subject to the limitations of the laws of the State of New Hampshire, shall have and may exercise all of the authority of the Board to the extent provided in these By-Laws or in any such resolution.

Section 14. Compensation. The compensation (if any) of any member of the Board shall be determined, fixed and approved by the Sole Shareholder.

Section 15. Right-to-Know Law. All meetings of the Board of Directors shall comply in all respects with the requirements of RSA Chapter 91-A.

ARTICLE III

OFFICERS

Section 1. Number. The officers of the Corporation shall consist of a Chairman of the Board, a President, one or more Vice Presidents, a Treasurer, a Clerk and such other officers as the Board of Directors may, from time to time, determine. Two or more offices may be held by the same person.

Section 2. Election.

A. Chair of the Board, President, Clerk and Treasurer. Each year at the first regular meeting of the Board of Directors following the annual meeting of the Sole Shareholder, the Board of Directors shall elect persons to serve in the offices of Chair of the Board, President, Clerk and Treasurer for the ensuing year and until their successors are duly qualified, or until their death or until they shall resign or be removed in the manner hereinafter provided. The Board of Directors may from time to time fill any vacancy that may exist in any office and may elect such other officers as they may determine to be necessary to manage the affairs of the Corporation.

B. Other Officers. Each year at the annual meeting of the Board of Directors, the Directors shall determine the number of offices other than Chair of the Board and President to be filled and shall elect officers to fill such positions for the ensuing year and until their successors are duly qualified, or until their death or until they shall resign or be removed in the manner hereinafter provided. Directors from time to time may fill any vacancy that may exist in any office and may elect such other officers as they may determine to be necessary to manage the affairs of the Corporation.

C. General Provisions. Election or appointment of an officer, employee or agent, shall not of itself create contract rights. The Board of Directors may authorize the Corporation to enter into an employment contract with any officer in accordance with applicable law and regulation, but no such contract shall impair the right of the Board of Directors to remove any

EXHIBIT B TO MERGER AGREEMENT

officer at any time in accordance with Section 3 of this Article III. All officers shall be sworn to the faithful performance of their duties.

Section 3. Removal. The appointing body may at any time suspend the right of any officer to perform such officer's duties and may remove any officer with or without cause at any duly called meeting, whenever, in the judgment of the appointing body, the best interests of the Corporation will be served thereby, but such removal, other than for cause, shall be without prejudice to the contract rights, if any, of the person so removed.

Section 4. Duties and Powers. The duties of certain officers shall be as specified in this Section 4, as otherwise provided in these By-Laws, and as determined from time to time by the Board of Directors.

A. Chair of the Board. The Chair of the Board, if any, shall preside at all meetings of the Board and shall exercise overall supervision of the officers and affairs of the Corporation.

B. President. The President shall be the Chief Executive Officer of the Corporation and shall have the general management of the affairs of the Corporation as far as they are not specifically regulated by the Sole Shareholder or the Directors, including the Chair of the Board, if any. The President shall preside at all the meetings of the Board in the absence of the Chair.

C. Executive Vice President. A Vice President of the Corporation may be designated by the Board as Executive Vice President and in addition to the duties and powers provided in these By-Laws and otherwise delegated by the Board and the Chief Executive Officer, the Executive Vice President shall have the powers of the President during the absence or disability of the President.

D. Treasurer. The Treasurer shall be the Chief Financial Officer of the Corporation and shall negotiate loans and receive and disburse all other funds of the Corporation, and, for this purpose, shall have authority to sign checks upon any account of the Corporation in any bank or similar type of institution. The Treasurer shall supervise the keeping of the accounts of the Corporation in books which shall be the property of the Corporation and shall cause to be prepared periodic statements of the financial condition of the Corporation and shall submit such statements to the Board.

E. Clerk. The Clerk shall record the proceedings of the meetings of the Sole Shareholder and Directors showing the names of the persons present. The Clerk may give notice of all meetings of the Sole Shareholder and the Directors required by these By-Laws. The Clerk shall furnish a certificate identifying the officers annually to the clerk of the City of Nashua.

ARTICLE V

INDEMNIFICATION

Section 1. Suits, etc., Other Than by or in the Right of the Corporation. The Corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal or administrative or investigative, other than an action by or in the right of the Corporation, by

EXHIBIT B TO MERGER AGREEMENT

reason of the fact that he is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 2. Suits, etc.. by or in the Right of the Corporation. The Corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses, including attorneys' fees, actually and reasonably incurred by him in connection with the defense or settlement of the action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which the person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Corporation unless and only to the extent that the court in which the action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, the person is fairly and reasonably entitled to indemnity for expenses which the court shall deem proper.

Section 3. Scope of Indemnification. To the extent that a Director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1 or 2 above, or in defense of any claim, issue or matter based on Section 1 or 2 above, he shall be indemnified against expenses, including attorneys, fees, actually and reasonably incurred by him in connection therewith.

Section 4. Determination of Indemnification. Any indemnification under Section 1 or 2 above, unless ordered by a court, shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the Director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 1 or 2 above. This determination shall be made:

- (1) By the Board of Directors by a majority of vote of a quorum consisting of Directors who were not parties to the action, suit or proceeding;

EXHIBIT B TO MERGER AGREEMENT

- (2) By independent legal counsel in a written opinion if such a quorum is not obtainable, or, even if obtainable, if a quorum of disinterested Directors so directs; or
- (3) By the Sole Shareholder.

Section 5. Payment of Expenses. Expenses, including attorneys' fees, incurred in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of the action, suit or proceeding as authorized in the manner provided in Section 4 above, upon receipt of an undertaking by or on behalf of the Director, officer, employee or agent to repay the amount unless it shall ultimately be determined that he is entitled to be indemnified by the Corporation as authorized in this section.

Section 6. Other Rights. The indemnification provided by this section shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any Bylaw, agreement, vote of the Sole Shareholder or disinterested Directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office, and shall continue as to a person who has ceased to be a Director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of that person.

Section 7. Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee, agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against this liability under the provisions of this section.

ARTICLE VI

CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 1. Documents and Instruments. To the extent permitted by the laws of the State of New Hampshire, and except as otherwise prescribed by these Bylaws with respect to certificates for shares, the Chair of the Board, President, and Vice President or the Treasurer shall be authorized to execute contracts, deeds, leases and all other documents. Notwithstanding the foregoing, the Board of Directors may by special vote authorize any officer, employee or agent of the Corporation to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation. Such authority may be general or confined to specific instances.

Section 2. Loans. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by the Sole Shareholder. Such authority may be general or confined to specific instances.

Section 3. Checks. Drafts, etc. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by one or more officers, employees or agents of the Corporation in such manner as shall from time to time be determined by the Board of Directors.

EXHIBIT B TO MERGER AGREEMENT

Section 4. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in any of its duly authorized depositories as the Board of Directors may select.

ARTICLE VII

FISCAL YEAR; ANNUAL AUDIT

The fiscal year of the Corporation shall be the calendar year.

ARTICLE VIII

CONFLICT OF INTEREST

A director shall not participate in debate or vote on matters that involve a direct personal and pecuniary interest for the director or any immediate family member of the director.

ARTICLE IX

DISCRIMINATION PROHIBITED

In administering its affairs, the Corporation shall not discriminate against any person on the basis of race, creed, color, national or ethnic origin, sex, physical disability, age or sexual orientation.

ARTICLE X

INSPECTION OF BOOKS AND RECORDS

The Sole Shareholder of the Corporation shall have such right to inspect and copy the books and records of the Corporation as is provided by the New Hampshire Business Corporation Act, N.H. RSA 293-A, or any successor thereto, exercise of which right shall be subject to compliance with all notice or other requirements set forth therein, and subject to payment of reasonable copying or other fees as may be provided therein. The books and records of the Corporation shall be subject to the requirements and exemptions set forth in RSA Chapter 91-A.

ARTICLE XI

AMENDMENTS

These By-Laws may be amended at any time by the Sole Shareholder at a meeting expressly called for such purpose.

EXHIBIT C TO MERGER AGREEMENT

SETTLEMENT AGREEMENT

This Settlement Agreement (the “Agreement”) dated as of November 11, 2010 (the “Effective Date”) is made and entered into by and between the City of Nashua, New Hampshire (“City”) and Pennichuck Corporation (“PNNW”), Pennichuck Water Works, Inc. (“PWW”), Pennichuck East Utility, Inc. (“PEU”), Pittsfield Aqueduct Company, Inc. (“PAC”) and Pennichuck Water Service Corporation (“PWSC”). (PNNW, PWW, PEU, PAC and PWSC are collectively referred to as “Pennichuck”.)

WHEREAS, the City and Pennichuck are parties to an eminent domain proceeding pursuant to RSA Chapter 38 before the New Hampshire Public Utilities Commission (“PUC”), docketed by the PUC as DW 04-048 (the “PUC Eminent Domain Proceeding”);

WHEREAS, on July 25, 2008, the PUC issued its Order No. 24,878 (the “PUC Approval Order”) concluding, among other things, that (i) the taking of the plant and property of PWW by eminent domain is in the public interest, (ii) the initial valuation of such plant and property as of December 31, 2008 was \$203 million, and (iii) the City must establish a \$40 million mitigation fund to protect the interests of the customers of PEU and PAC;

WHEREAS, on March 25, 2010, the New Hampshire Supreme Court affirmed the PUC Approval Order No. 24,878 and the PUC’s Order No. 24,948, which decision became effective upon issuance of the Court’s mandate on April 7, 2010;

WHEREAS, it is the City’s and Pennichuck’s desire, and it is mutually beneficial to them and, they believe, in the public interest to resolve their differences on a consensual basis, rather than through continuation of the administrative litigation process (including potential appeals) that would otherwise be necessary to conclude the eminent domain process under NH RSA 38;

WHEREAS, the City and Pennichuck have executed and delivered that certain Agreement and Plan of Merger dated as of November 11, 2010 (the “Merger Agreement”) which provides for the City directly or indirectly to acquire all of the issued and outstanding shares of PNNW stock and common stock equivalents (the “Merger”) as a means of acquiring control over the water systems owned and operated by Pennichuck;

WHEREAS, the City and Pennichuck have entered into the Merger Agreement, together with this Agreement, to effect a comprehensive settlement of the eminent domain dispute between the parties relating to the acquisition by the City of the water system owned and operated by PWW, pursuant to the provisions of NH RSA Chapter 38 and Chapter 347, Section 5 of 2007 N.H. Laws, as amended by Chapter 1, Section 118 of the Laws of the 2010 Special Session (the “Special Legislative Authority”);

WHEREAS, as a condition and material inducement to Pennichuck’s entry into the Merger Agreement and in consideration therefor, the City has entered into this Agreement with Pennichuck; and

EXHIBIT C TO MERGER AGREEMENT

WHEREAS, it is the City's and Pennichuck's intention that this Agreement shall be binding and enforceable on each of them.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and conditions set forth below, the City and Pennichuck agree as follows:

1. Settlement and Resolution of the PUC Eminent Domain Proceeding. In consideration of the agreements set forth herein and in the Merger Agreement, the City and Pennichuck agree to settle all claims, controversies and disputes between the parties in the PUC Eminent Domain Proceeding, in accordance with the terms and conditions of this Agreement.
2. Final Determination of Price; Ratification Vote. The City and Pennichuck agree that they intend that \$29.00 per share for the common stock and/or common stock equivalents of PNNW (the "Price"), as stated in the Merger Agreement, shall constitute the "final determination of the price to be paid for the plant and property to be acquired under the provisions of RSA 38:8, 38:9 or 38:10 and any consequential damages under RSA 38:33" within the meaning of NH RSA 38:13. Accordingly, the City agrees that it shall, within 90 days after the date of the Merger Agreement, take all steps necessary to duly call, give notice of, convene and hold a meeting of the City's Board of Aldermen for the purpose of taking action by an affirmative vote of not less than 10 members of the City's Board of Aldermen (a) to approve and ratify, pursuant to NH RSA 38:13 and the Special Legislative Authority, the issuance of bonds and notes necessary to defray the costs to be incurred by the City to consummate the Merger pursuant to the terms and conditions of the Merger Agreement (if so approved and ratified, the "Acquirer Ratification Vote"), and (b) to make the findings required by the Special Legislative Authority (if so made, the "Acquirer Special Findings Vote"). The City agrees that (i) an affirmative vote of less than 10 members of the City's Board of Aldermen regarding the Acquirer Ratification Vote, or (ii) the failure by the Board of Alderman to take a vote within the 90-day period specified in this Paragraph 2, shall each constitute a vote in the negative for purposes of RSA 38:13.
3. Withdrawal Notice; Escrow Agreement. The City and Pennichuck agree that the petition filed by the City in DW 04-048 should be dismissed with prejudice, subject to the terms and conditions of this Settlement Agreement, except to the extent necessary for the PUC to approve the Merger and the other transactions contemplated by the Merger Agreement. Contemporaneous with the execution of this Agreement, the City and Pennichuck have each executed the Joint Notice of Withdrawal and Motion for Dismissal with Prejudice attached hereto as Exhibit A (the "Withdrawal Notice"). The City and Pennichuck agree to cause the executed Withdrawal Notice to be delivered to a person who shall hold the Withdrawal Notice as escrow agent pursuant to the terms of an Escrow Agreement substantially in the form attached hereto as Exhibit B (the "Escrow Agreement").
4. Filing of the Withdrawal Notice with the PUC. Upon the termination of the Merger Agreement by either the City or Pennichuck in accordance with the terms of Section 8.02 thereof, the City and Pennichuck agree that, in accordance with the terms of the Escrow

EXHIBIT C TO MERGER AGREEMENT

Agreement, Pennichuck shall have the right, upon providing five (5) days prior written notice to the escrow agent (the “Notice”), with a contemporaneous copy to the City (addressed to City Corporation Counsel), to direct the Escrow Agent to release the Withdrawal Notice to Pennichuck’s independent attorneys, McLane, Graf, Raulerson & Middleton (“Pennichuck’s Attorney”). Such Notice to the Escrow Agent shall include evidence that Pennichuck has provided the required Notice copy to the City. The Escrow Agreement shall provide that the Escrow Agent shall release the Withdrawal Notice to Pennichuck’s Attorney no sooner than five days after the Escrow Agent’s receipt of such Notice. Promptly after the Escrow Agent’s disbursement of the Withdrawal Notice to Pennichuck’s Attorney, Pennichuck shall cause Pennichuck’s Attorney to file the Withdrawal Notice with the PUC.

5. Effect of Filing of the Withdrawal Notice. The City and Pennichuck each agree that, upon the filing of the Withdrawal Notice and the dismissal of the PUC Eminent Domain Proceeding, they each release and forever discharge the other party and their officers, members, shareholders, directors, attorneys, agents, representatives, employees, and subsidiaries of and from any and all actions, claims, debts, controversies, promises, compensation, and liabilities of whatsoever kind and nature, including any claim for monetary damages or lost profits that they may have and/or could have had against one another, arising out of or in connection with the PUC Eminent Domain Proceeding; provided however, that each of the parties shall be fully subject to the terms and conditions and provisions of the Merger Agreement, this Agreement and the Escrow Agreement, including but not limited to the obligation to pay any liquidated damages or the Company Termination Fee, as that term is defined in the Merger Agreement; and provided further that the parties acknowledge this Agreement, including the foregoing release, shall not affect, restrict, diminish or extinguish any rights that Pennichuck Water Works has or may have to recover its defense-related expenses associated with the PUC Eminent Domain Proceeding through PUC approved rates it charges its customers (including the City).
6. Representations and Warranties of the Parties. Each of the parties hereto represents and warrants to the other party as follows:
 - (a) Authority and Enforceability. Each party has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement by each party has been duly authorized by all authorities required to approve such actions. This Agreement has been duly and validly executed and delivered by each party and constitutes a valid and binding agreement of each party, enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws of general applicability relating to or affecting the enforcement of creditors’ rights and by the effect of the principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).
 - (b) No Conflicts or Consents. The execution and delivery and performance of this Agreement does not conflict with (i) any statute, rule, regulation or law to which

EXHIBIT C TO MERGER AGREEMENT

any party is subject, or (ii) any note, bond, mortgage, indenture, contract, agreement, lease or other instrument or obligation to which any party is a party or is otherwise subject. The execution and delivery of this Agreement by each party does not, and the performance of this Agreement by each party will not, require any consent, approval, authorization or permission of any governmental entity or person, except to the extent that the requests made through the filing of the Withdrawal Notice will be subject to the review and approval of the PUC.

7. Equitable Remedies. Because an award of money damages would be inadequate for any breach of this Agreement by a party, and any such breach would cause any other party irreparable harm, the parties also agree that, in the event of any breach or threatened breach of this Agreement, any such aggrieved non-breaching party will also be entitled, without the requirement of posting a bond or other security, to equitable relief, including injunctive relief and specific performance. Such remedies will not be the exclusive remedies for any breach of this Agreement but will be in addition to all other remedies available at law or equity.
8. Other Provisions.
 - (a) Modification. This Agreement may be modified or waived only by a separate writing signed by each party.
 - (b) Severability. If any term or other provision of this Agreement is determined to be invalid, illegal or incapable of being enforced because of any law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect.
 - (c) Governing Law. This Agreement shall be governed by and construed under the laws of the State of New Hampshire without regard to conflicts-of-laws principles.
 - (d) Counterparts; Facsimile Signatures. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when two or more counterparts have been signed by each of the parties and delivered to the other parties. Any signature on this Agreement or any related instrument or agreement that is delivered by facsimile or by electronic data file shall have the same effect as an original.

[Remainder of this page is intentionally left blank;
the signature page follows on the next page.]

EXHIBIT C TO MERGER AGREEMENT

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first set forth above.

CITY OF NASHUA

By: _____
Donnalee Lozeau, Mayor

PENNICHUCK CORPORATION

By: _____
Duane C. Montopoli, CEO

PENNICHUCK WATER WORKS, INC.

By: _____
Duane C. Montopoli, CEO

PENNICHUCK EAST UTILITY, INC.

By: _____
Duane C. Montopoli, CEO

PITTSFIELD AQUEDUCT COMPANY, INC.

By: _____
Duane C. Montopoli, CEO

PENNICHUCK WATER SERVICE CORPORATION

By: _____
Duane C. Montopoli, CEO

Exhibit A – Notice of Withdrawal and Motion for Dismissal with Prejudice by City of Nashua
Exhibit B – Form of Escrow Agreement

EXHIBIT D TO MERGER AGREEMENT

CONFIDENTIALITY AGREEMENT

Agreement made this 11th day of November, 2010 (the "Effective Date") by and between the City of Nashua, New Hampshire, a New Hampshire municipal corporation with an address of 229 Main Street, Nashua, New Hampshire ("Nashua") and Pennichuck Corporation, a New Hampshire business corporation with its principal office at 25 Manchester Street, Merrimack, New Hampshire ("Pennichuck")(collectively, Nashua and Pennichuck are sometimes referred to herein as the "Parties" and individually as a "Party").

Subject to the provisions of this Agreement, the Parties have executed that certain Merger Agreement of even date herewith (the "Merger Agreement"). The transactions contemplated by the Merger Agreement (the "Transactions") could become the basis to resolve and settle an administrative proceeding (No. DW-04-048) before the New Hampshire Public Utilities Commission ("NHPUC") involving the Parties as well as certain Pennichuck subsidiaries (the "Eminent Domain Case"). In connection with discussions to resolve and settle the Eminent Domain Case and to negotiate and perform obligations under the Merger Agreement, each Party has received and may receive certain Confidential Information (as defined below) of the other Party. (For purposes of this Agreement, the Party that discloses Confidential Information is sometimes referred to as the "Discloser," and the Party that receives Confidential Information is sometimes referred to as the "Recipient.")

In consideration of the Merger Agreement and as a condition to each Party furnishing access to such Confidential Information, the Parties agree to the terms and conditions set forth in this Agreement:

- Confidential and Proprietary Nature of the Information.** Each Party acknowledges the confidential and proprietary nature of the Confidential Information (as defined below), agrees to hold and keep the Confidential Information as provided in this Agreement and otherwise agrees to each and every restriction and obligation of this Agreement.
- Confidential Information.** As used in this Agreement, the term "Confidential Information" means any information, whether oral or documented in written, electronic or other format, concerning the operations, strategies, plans and affairs of Discloser and any of its subsidiaries (which shall include, without limitation, Discloser's organizational information and plans, legal arrangements and plans, income and other tax plans and strategies, personnel information, severance arrangements, capital expenditure programs and plans, business plans and budgets, historical and projected financial information, contracts and contractor arrangements), which has been or may hereafter be provided or otherwise disclosed by Discloser or by the directors, officers, employees, agents, consultants, advisors, or other representatives, including legal counsel, accountants and financial advisors ("Representatives") of Discloser to Recipient

EXHIBIT D TO MERGER AGREEMENT

or to any of Recipient's Representatives. Confidential Information includes all notes, analyses, compilations, studies, summaries, and other material prepared by Recipient and/or its Representatives containing any Confidential Information or prepared using any Confidential Information. Discloser or its Representatives shall identify to Recipient in writing which information it considers to be confidential, either by marking documents as "Confidential" or by promptly confirming in writing any oral or other information that it considers to be confidential. If Recipient or its Representatives are unsure whether certain information provided to it should be considered Confidential Information, it shall treat that information as Confidential Information until it receives a response to a specific inquiry via notice made to the Discloser, which response Discloser shall provide by return notice within 10 business days following its receipt of notice pursuant to Section 11 of this Agreement. Confidential Information does not include information that Recipient or its Representatives already know from disclosures not then subject to a duty of confidentiality or information that becomes publicly available through no fault of Recipient and/or its Representatives. For the avoidance of doubt, the term "Confidential Information" does not include Proposals, Prior Disclosures and Prior Privileged Information as those terms are defined in Section 9 of this Agreement; provided, however, to the extent, and only to the extent, that any of such Proposals, Prior Disclosures and Prior Privileged Information include any Confidential Information as defined in this Section 2, the Recipient and its Representatives shall treat such portion of any Proposal, Prior Disclosure or Prior Privileged Information as Confidential Information in accordance with all of the terms and conditions of this Agreement.

3. Restricted Use of Confidential Information.

- (a) Each Party agrees that the Confidential Information (i) will be kept confidential by Recipient and its Representatives and (ii) without limiting the foregoing, will not be disclosed by Recipient or its Representatives to any person and/or third party, other than the Discloser and its Representatives, except with the prior written consent of the Discloser, (as applicable, James McNamee in the case of Nashua and Roland Olivier in the case of Pennichuck), or except as otherwise expressly permitted by this Agreement.

- (b) It is understood that Recipient may only disclose Confidential Information to those of its Representatives who (i) require such material for the purpose of evaluating the possible Transactions and (ii) are informed by Recipient of the confidential nature of the Confidential Information and the obligations of this Agreement. Each Party further agrees that Recipient and its Representatives will not use any of the Confidential Information for any reason or purpose other than for the purpose of consummating the Transactions and the Merger Agreement. Each Party also agrees to enforce the terms of this Agreement as to such Party's Representatives and to take such action, legal or otherwise, to the extent necessary to cause them to comply with the terms and conditions of this Agreement.

EXHIBIT D TO MERGER AGREEMENT

- (c) The Parties acknowledge and agree that from and after the Effective Date of this Agreement, any information constituting Proposals, Prior Disclosures or Prior Privileged Information shall not be subject to the nondisclosure requirements of this Section 3, except to the extent, and only to the extent, that such Proposals, Prior Disclosures or Prior Information include Confidential Information that is subject to nondisclosure under the terms and conditions of this Agreement.
4. **Use of Confidential Information, Proposals, Prior Disclosures or Prior Privileged Information in Any Proceeding Between the Parties.** The Parties hereby agree that all communications between the Parties and/or their respective Representatives which disclose any of the Confidential Information, Proposals, Prior Disclosures or Prior Privileged Information shall not be admissible or discoverable for any purpose in any adjudicative proceeding, including impeachment, including, without limitation, the Eminent Domain Case or any other litigation or proceeding of any kind in any forum involving the Parties, and shall be protected from disclosure to anyone as settlement discussions for purposes of all applicable rules of evidence, including specifically Rule 408 of the Federal Rules of Evidence and Rule 408 of the New Hampshire Rules of Evidence, which the Parties agree, for purposes of enforcing this Agreement, shall be deemed to apply to proceedings before the NHPUC and to any other litigation, appeal or proceeding of any kind in any forum involving any of the Parties to this Agreement. The Parties agree that a copy of this Agreement may be introduced into evidence in any administrative or court proceeding in which any person seeks the disclosure of information which is the subject of this Agreement for the sole purpose of protecting the confidentiality and privilege of such information, provided that the Agreement is placed under seal. For avoidance of doubt, and except as otherwise expressly permitted under this Agreement, the Parties agree that Confidential Information, Proposals, Prior Disclosures and Prior Privileged Information, shall not be disclosed as part of any answer to a data request or other request for production in the Eminent Domain Case.
5. **Exceptions.** All of the foregoing obligations and restrictions do not apply to that part of the Confidential Information that Recipient demonstrates (a) was or becomes generally available to the public prior to, and other than as a result of, a disclosure by Recipient or its Representatives, or (b) was available, or becomes available, to Recipient on a nonconfidential basis prior to its disclosure to Recipient by Discloser or Discloser's Representative, but only if the source of such information is not bound by a confidentiality obligation with respect to that part of the Confidential Information.
6. **Legal Proceedings.** If either Party or any of its Representatives becomes legally compelled (by oral questions, interrogatories, requests for information or documents, subpoena, civil or criminal investigative demand or similar process, including but not limited to a proceeding to require disclosure of information pursuant to NHRSA Chapter 91-A) (such questions, interrogatories, requests, documents, subpoena, demand or similar process and/or proceeding referred to

EXHIBIT D TO MERGER AGREEMENT

collectively herein as “Legal Proceedings”) to make any disclosure of Confidential Information that is prohibited or otherwise constrained by this Agreement, such Party or such Representative, as the case may be, will provide the other Party with prompt written notice of such Legal Proceedings so that either or both Parties (with cooperation of the other Party or both Parties respectively) may seek an appropriate protective order and/or other appropriate relief or so that the other Party, in its sole discretion, may waive compliance with the provisions of this Agreement. In the absence of such relief or receiving such a waiver from the other Party, Recipient (i.e., the Party being compelled to legally disclose) or its Representative is permitted (with Discloser’s cooperation but at the Recipient’s expense) to disclose that portion (and only that portion) of the Confidential Information that Recipient or its Representative is legally compelled to disclose. Subject to the foregoing, Recipient or such Representative may furnish that portion (and only that portion) of the Confidential Information that, in the written opinion of its counsel, Recipient is legally compelled or is otherwise required to disclose or else stand liable for contempt or suffer other censure or penalty; provided, however, that Recipient and the Recipient’s Representatives must use reasonable efforts to obtain reliable assurance that confidential treatment will be accorded any Confidential Information so disclosed.

For the avoidance of doubt, the Parties further intend that any Confidential Information be treated as exempt from disclosure pursuant to NH RSA 91-A and specifically that the Parties further intend that any Confidential Information, be treated as “confidential, commercial or financial information” of the Parties, as set forth in NH RSA 91-A:5, IV. Consistent with the terms of this Agreement and the provisions of NH RSA Chapter 91-A, Nashua shall take action to protect such Confidential Information from disclosure.

7. **Destruction or Return of Confidential Information.** Upon the written request of the Discloser, Recipient agrees that it will destroy or return (at Discloser’s sole option) all documents or other matters constituting the Discloser’s Confidential Information in the possession or control of Recipient or Recipient’s Representatives. Upon the termination of the Merger Agreement for any reason, both Parties agree that they will destroy or return (at the Discloser’s sole option) all documents or other matters constituting Confidential Information. Any such destruction or return pursuant to the foregoing shall be certified in writing by an authorized officer supervising such destruction.

8. **Remedies.** Because an award of money damages would be inadequate for any breach of this Agreement by either Party and/or its Representatives, and any such breach would cause the non-breaching Party irreparable harm, each Party also agrees that, in the event of any breach or threatened breach of this Agreement, the non-breaching Party will also be entitled, without the requirement of posting a bond or other security, to equitable relief, including injunctive relief and specific performance. Such remedies will not be the exclusive remedies for any breach of

EXHIBIT D TO MERGER AGREEMENT

this Agreement but will be in addition to all other remedies available at law or equity to the non-breaching Party.

9. **Entire Agreement and Termination of Prior Agreements.** This Agreement constitutes the entire agreement of the Parties with respect to the matters covered by this Agreement and supersedes all prior agreements and understandings, both written and oral, among the Parties with respect to the matters covered by this Agreement, and all amendments thereto, including, but not limited to, the Confidentiality Agreement between Nashua and Pennichuck dated January 14, 2009 (the “2009 Confidentiality Agreement”), the Confidentiality Agreement between Nashua and Pennichuck dated August 8, 2006, supplemented by a First Supplement to such Confidentiality Agreement dated August 28, 2006 (the “2006 Confidentiality Agreement”), and as further modified by a Agreement between Steven Camerino and Alan Reische dated October 5, 2006 (collectively, the “Prior Agreements”). Accordingly, the Parties hereby agree to terminate the Prior Agreements as of the Effective Date. Notwithstanding the termination of the Prior Agreements, with respect to all Proposals (as that term is defined in the 2009 Confidentiality Agreement, which shall be referred to in this Agreement as “Proposals”), Discussions and Communications (as those terms are defined in the Prior Agreements, and collectively such Discussions and Communications shall be referred to in this Agreement as “Prior Disclosures”) and with respect to all information or activities that were deemed privileged pursuant to Section 4 of the 2006 Confidentiality Agreement (collectively such information and activities are referred to in this Agreement as “Prior Privileged Information”), the Parties specifically acknowledge that said Prior Disclosures and Prior Privileged Information shall be subject to the terms and conditions of this Agreement, in accordance with the express references to Prior Disclosures and Prior Privileged Information set forth in this Agreement. Furthermore, in terminating the Prior Agreements, the Parties agree that those persons who obtained access to Confidential Information pursuant to the Prior Agreements, including those persons listed on Exhibit A to the 2006 Confidentiality Agreement, remain subject to the confidentiality, nondisclosure and privilege obligations with respect only to Confidential Information as expressly specified in this Agreement as Representatives of their respective Party.
10. **Term and Termination.** The term of this Agreement shall commence on the Effective Date and shall continue until December 31, 2016, after which date the Parties shall have no further obligations hereunder.
11. **Notices.** Any notice required or permitted to be given under this Agreement shall be deemed to have been duly given if delivered personally, or mailed by overnight courier service with proof of delivery or by registered mail, postage prepaid, return receipt requested to the person and address set forth below for such Party or to such other address as such Party shall provide by written notice. Notice delivered personally shall be deemed received as of actual receipt; mailed notices

EXHIBIT D TO MERGER AGREEMENT

shall be deemed received one business day after sending by overnight courier, or five business days after the date of mailing by registered mail.

In the case of any notice sent to Nashua, the notice shall be sent to:

Corporation Counsel
City of Nashua
Attn: Mr. James McNamee
229 Main Street
Nashua, New Hampshire

In the case of any notice sent to Pennichuck, the notice shall be sent to:

General Counsel and Corporate Secretary
Pennichuck Corporation
Attn: Mr. Roland Olivier
25 Manchester Street
P.O. Box 1947
Merrimack, New Hampshire 03054

12. Miscellaneous.

- (a) **Modification.** This Agreement may be modified or waived only by a separate writing signed by both Parties.
- (b) **Severability.** The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect. If any covenant or provision of this Agreement is determined to be unenforceable by reason of its extent, duration, scope, or otherwise, the Parties contemplate that the court making such determination shall reduce such extent, duration, scope, or other provision and enforce such provision in its reduced form for all purposes contemplated by this Agreement.
- (c) **Governing Law.** This Agreement shall be governed by and construed under the laws of the State of New Hampshire without regard to conflicts-of-laws principles.
- (d) **Execution of Agreement.** This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement, and all of which, when taken together, shall be deemed to constitute one and the same agreement.

EXHIBIT D TO MERGER AGREEMENT

IN WITNESS WHEREOF, the duly authorized representative of each Party has executed this Agreement as of the Effective Date.

CITY OF NASHUA

By: _____
Name: Donnalee Lozeau
Its: Mayor

PENNICHUCK CORPORATION

By: _____
Name: Duane C. Montopoli
Its: President & CEO

COMPANY DISCLOSURE SCHEDULE

PENNICHUCK CORPORATION
COMPANY DISCLOSURE SCHEDULE

The following are the Company Disclosure Schedules that are set forth in the Agreement and Plan of Merger dated November 11th, 2010 (“Agreement”) by and between Pennichuck Corporation (“Company”) along with all of its Subsidiaries and the City of Nashua, New Hampshire (“Acquirer”) and Acquirer’s wholly-owned Subsidiary (“Acquirer Sub”). The capitalized terms in this Company Disclosure Schedule shall be the same as those in the Agreement.

COMPANY DISCLOSURE SCHEDULE

Section 3.01 - All of the Subsidiaries of the Company are set forth in the following Section of the Company Disclosure Schedule (the “*Company Subsidiaries*”), together with the jurisdiction of organization of each Company Subsidiary and the percentage of each Company Subsidiary's outstanding capital stock or membership interests owned by the Company, another Company Subsidiary or any third party along with a list of all Persons in which the Company or any Company Subsidiary holds any equity interest:

1. Pennichuck Water Works, Inc., 100% owned Subsidiary incorporated in New Hampshire (“PWW”)
2. Pennichuck East Utility, Inc., 100% owned Subsidiary incorporated in New Hampshire (“PEU”)
3. Pittsfield Aqueduct Company, Inc., 100% owned Subsidiary incorporated in New Hampshire (“PAC”)
4. Pennichuck Water Service Corporation, 100% owned Subsidiary incorporated in New Hampshire (“PWSC”)
5. The Southwood Corporation, 100% owned Subsidiary incorporated in New Hampshire (Southwood”)
6. HECOP IV, LLC, a limited liability company formed in New Hampshire, 50% owned by The Southwood Corporation, 50% owned by John P. Stabile, II (“HECOP IV”)
7. Salmon Brook Development Corporation, a 100% owned inactive Subsidiary incorporated in New Hampshire (“Salmon Brook”)

Company does not directly or indirectly own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for, any equity or similar interest in, any Person, other than the Company Subsidiaries listed above and HECOP IV. HECOP IV is not defined as a Subsidiary in the Agreement.

Section 3.03 – Capitalization Matters

1. Attached is a true and complete list of all outstanding stock options under the Company Stock Option Plans (1995 Plan and the 2000 Plan which, as amended and restated was renamed as the 2009 Plan), the name of each holder thereof, the number of shares purchasable or acquirable thereunder or upon conversion or exchange thereof and (if any) the per share exercise or conversion price or exchange rate of each Company Stock Option.
 - a. See attached list of all stock options

2. Attached is a list of all options, warrants or other similar rights, convertible or exchangeable securities, “phantom stock” rights, stock appreciation rights, stock based performance units, agreements, arrangements, commitments or understandings to which the Company is a party, whether or not in writing, of any character relating to the issued or unissued capital stock or other securities of the Company or any of the Company Subsidiaries or obligating the Company or any of the Company Subsidiaries to issue (whether upon conversion, exchange or otherwise) or sell any share of capital stock of, or other equity interests in or other securities of, the Company or any of the Company Subsidiaries.
 - a. None except the attached list of stock options

3. All shares of Company Common Stock subject to issuance, except those attached to this Section of the Company Disclosure Schedule, shall, upon issuance on the terms and conditions specified in the instruments pursuant to which they are issuable, be duly authorized, validly issued, fully paid and nonassessable.
 - a. True

4. The following lists all obligations, contingent or otherwise, of Company or any Company Subsidiaries to repurchase, redeem or otherwise acquire any shares of Common Stock or capital stock of any Company Subsidiary or any other securities of the Company or any of the Company Subsidiaries or to provide funds to or make any investment (in the form of a loan, capital contribution or otherwise) in any such Company subsidiary or any other entity:

COMPANY DISCLOSURE SCHEDULE

- a. The HECOP IV LLC Operating Agreement, attached hereto and previously disclosed to the Acquirer, lists certain repurchase and capital contribution obligations of the Southwood Corporation with respect to the operation of this LLC.
5. List all preemptive rights, security interests, liens, claims, pledges, taking actions, agreements, limitations in the Company's voting rights, charges or other encumbrances of any nature whatsoever (collectively, "*Liens*") on the Common Stock or securities of the Company and/or any of the Company Subsidiaries or other entities:
- a. The August 2006 Amendment to the Bank of America line of credit borrowing facility grants BOA a pledge and security interest in 100% of the stock of PWW, PEU, PAC, PWSC and Southwood as security for any outstanding balance due.
 - b. HECOP IV LLC – John P. Stabile, II has the right of first refusal to purchase Southwood Corporation's ownership interest in this LLC.

Section 3.05(a) – Material Contracts

1. Attached is a list of all contracts, agreements, arrangements or understandings, whether or not in writing, to which the Company or any of the Company Subsidiaries is a party or by which any of them is bound as of the date of the Agreement, (i) that are required to be filed as “material contracts” with the SEC pursuant to the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the “*Exchange Act*”); (ii) under which, To the Knowledge of the Company, the consequences of a default, nonrenewal or termination could have a Company Material Adverse Effect; or (iii) pursuant to which payments might be required or acceleration of benefits may occur upon a “change of control” of the Company or the Company Subsidiaries (collectively, along with the Related Party Contracts, the “*Material Contracts*”).
 - a. Attached is a list of all applicable Material Contracts
 - b. Attached is a copy of the Company’s Labor Contract
 - c. Attached is a copy of the Purchase and Sale Agreement, as amended, by and among Pennichuck Corporation and Southwood Corporation, as Sellers, and North Concord Street, LLC, as Buyer, for Parcel F, a parcel of land south of the Pennichuck watershed and the Company’s water treatment plan in Nashua, NH.
2. The following is a list (and if any of the same is not in writing, a fair summary thereof) of all contracts, agreements, arrangements or understandings, whether or not in writing, between the Company or any Company Subsidiary on the one hand, and the Company or any other Company Subsidiary on the other hand (collectively the “*Related Party Contracts*”).
 - a. Intracompany Cost Sharing Agreement (attached hereto)
 - b. Money Pool Agreement (attached hereto)
3. Except as set forth below, neither the Company nor any Company Subsidiary has received any written notice, or, To the Knowledge of the Company, any oral or other communication, reasonably indicating the intent of any Person to terminate any Material Contract:
 - a. Attached is a copy of the Anheuser-Busch, Inc. termination letter dated June 30, 2010 regarding the Third Special Contract for water services between Anheuser-Busch and PWW

COMPANY DISCLOSURE SCHEDULE

Section 3.05(b) – No default or Material Adverse Effect

1. Except with respect to the following list, To the Knowledge of the Company, the execution and delivery of this Agreement by the Company does not, and the performance of this Agreement by the Company will not:
 - a. Conflict with or violate the Company Charter or the Company By-Laws or any Subsidiary Document,
 - i. None
 - b. Conflict with or violate any law, rule or regulation, whether federal, state, local or foreign (collectively, “*Laws*”), or any order, judgment or decree, whether federal, state, local or foreign (collectively, “*Orders*”), applicable to the Company or any of the Company Subsidiaries or by which its or any of their respective properties is bound or affected, or
 - i. None
 - c. To the Knowledge of the Company, result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or result in a modification of any right or benefit under, or impair the Company’s or any of the Company Subsidiaries’ rights or alter the rights or obligations of any third party under, or give to others any right of termination, amendment, acceleration or cancellation of, or repayment, repurchase or increased payment under, any Material Contract, or result in the creation of a Lien on any of the properties or assets of the Company or any of the Company Subsidiaries pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or any of the Company Subsidiaries is a party or by which the Company or any of the Company Subsidiaries or its or any of their respective properties is bound or affected, except in the case of (ii) or (iii) only for any such conflicts, violations, breaches, defaults or other occurrences that would not, individually or in the aggregate, have a Company Material Adverse Effect and subject to obtaining or making the Company Required Consents (as defined below).
 - i. Business Finance Authority of the State of New Hampshire debt (all series): “Mandatory Redemption Upon Condemnation of Principal Assets. The Bonds are subject to redemption as a whole, or in part in Authorized Denominations, within 15 days following receipt by the Trustee of written notice from the Borrower that title to, or the temporary use of, all or substantially all of the Project, or any substantial part of the Capital Properties (as such term is defined under “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Agreement”) of the Borrower, has been taken under the

COMPANY DISCLOSURE SCHEDULE

exercise of the power of eminent domain by any governmental body or by any person, acting under governmental authority (or a bona fide sale in lieu of such taking has occurred). In such event the Bonds will be redeemed....”

- ii. CoBank \$4.5 Million loan to PEU dated February 9, 2010: “Article 8 EVENTS OF DEFAULT Each of the following shall constitute an “Event of Default hereunder....Section 8.11. Changes in Ownership. The Company shall cease to be owned 100% by the Guarantor or 50% or more of the voting stock in the Guarantor should be acquired by a Person or a Person and one or more affiliates of that Person.”
- iii. Bank of America Line of Credit Amendment dated June 19, 2008: “Article VI Section 6.2 Merger, Consolidation or Acquisitions. The Borrower and the Guarantor shall not be a party to any merger, consolidation or any other reorganization, or acquire by purchase, lease or otherwise all or substantially all the assets or capital stock of any person, partnership, corporation or entity....”

- 2. Except with respect to the following list, there is no default or state of facts which with notice or lapse of time or both would constitute a default on the part of the Company or any of the Company Subsidiaries or To the Knowledge of the Company on the part of any other party under a Material Contract, and the Company has not received or given notice of any default or claimed default or state of facts which with notice or lapse of time or both would constitute a default on the part of any party under a Material Contract.

None

Section 3.05(c) – Consents and Approvals

The execution and delivery of this Agreement by the Company does not, and the performance of this Agreement by the Company will not, require any consent, approval, authorization or permit of, or filing with or notification to, any national, federal, state or local governmental, regulatory or administrative authority, agency, commission, court, tribunal, arbitral body or self-regulated entity, domestic or foreign (each a “*Governmental Entity*,” and, collectively, “*Governmental Entities*”), except for:

1. Applicable requirements of the Exchange Act,
2. The filing and recordation of appropriate merger or other documents as required by the NHBCA,
3. Laws, Orders and practices of any state public utility control or public service commissions or similar state regulatory bodies (“*PUCs*”), each of which is set forth in the list below:
 - a. New Hampshire Public Utility Commission
 - b. New Hampshire Department of Environmental Services
 - c. U.S. Securities and Exchange Commission (proxy for shareholder vote)
 - d. New Hampshire Department of Securities (plan of merger)?
4. Laws, Orders and practices of any state or local departments of public health or departments of health or similar state or local regulatory bodies or of any federal, state or local regulatory body having jurisdiction over environmental protection or environmental conservation or similar matters (“*Environmental Agencies*”), each of which is identified in the list below:
 - a. New Hampshire Department of Environmental Services
 - b. United States Environmental Protection Agency
 - c. Massachusetts Department of Environmental Protection (with respect to operations and maintenance services provided to customers in Massachusetts by PWSC)

Section 3.07 – SEC Filings and Financial Statements

1. **Section 3.07(b)** - Except with respect to the following meetings since December 31, 2009 for which minutes have not been approved, the minute books and other similar records of the Company and each Company Subsidiary contain complete and accurate records, in all material respects, of all votes taken since December 31, 1999 at any meeting of the shareholders or directors of such entity and of all written consents executed since December 31, 1999 in lieu of such meetings, in each case as required to be so reflected, recorded or taken under applicable Law:
 - a. Regular Board Meeting on March 3, 2010
 - b. Special Board Meeting on April 21, 2010
 - c. Annual Meeting of the Company Shareholders on May 5, 2010
 - d. Annual Meeting of the Board of Directors of the Company on May 5, 2010
 - e. Annual Meeting of the Shareholder and the Boards of Directors of the Company Subsidiaries (PWW, PEU, PAC, PWSC and Southwood) on May 5, 2010
 - f. Special Meeting of the Board of Directors on May 25, 2010
 - g. Special Meeting of the Board of Directors on June 28, 2010
 - h. Action by Consent in lieu of a Special Meeting on July 13, 2010 regarding a corporate guaranty by Pennichuck Corporation of New Hampshire State Revolving Loan Fund loan of \$1,600,000 to PWW for the interconnection between the Drew Woods Community Water System and the Town of Derry Water System.
 - i. Regular Meeting of the Board of Directors on August 4, 2010
 - j. Special Meeting of the Board of Directors on September 10, 2010
 - k. Regular Meeting of the Board of Directors on October 28, 2010
 - l. Special Meeting of the Board of Directors on November 10, 2010

COMPANY DISCLOSURE SCHEDULE

2. **Section 3.07(c)** – The following sets forth a list of all registration statements and prospectuses which the Company maintains effective under the Securities Act. No such registration statement or prospectus contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading:
- a. Form S-3, Registration Statement under the Securities Act of 1933 (“Shelf Registration”) for 1,000,000 shares of Pennichuck Corporation Common Stock as filed with the Securities and Exchange Commission on July 9, 2009, Registration No. 333-160198.
 - b. Amendment No. 1 to Form S-3, Registration under the Securities Act of 1933 (Dividend Reinvestment and Common Stock Purchase Plan) for 300,000 shares of Pennichuck Corporation Common stock as filed with the Securities and Exchange Commission on March 13, 2009, Registration No. 333-157905. This Form S-3 also relates to rights to purchase shares of Series A Junior Participating Preferred Stock pursuant to the terms of the Company’s Rights Agreement dated April 20, 2000, as amended.
 - c. Forms S-8 (No. 333-57354 and No. 333-145673) for the 2000 Stock Option Plan, as amended in August 2007 to increase the number of available stock options to 500,000 shares.

Section 3.08 – Absence of Certain Changes or Events

Except as set forth in the Filed Company SEC Reports and except as set forth in this Company Disclosure below, since December 31, 2009:

1. Section 3.08(a) - there has not been any Company Material Adverse Effect, and To the Knowledge of the Company, no fact or condition exists that will, or is reasonably likely to, cause a Company Material Adverse Effect;
 - a. True
2. Section 3.08(b) - the Company and the Company Subsidiaries have carried on their respective businesses in the ordinary and usual course substantially consistent with past practices;
 - a. True
3. Section 3.08(c) - neither the Company nor any of the Company Subsidiaries has declared, paid or set apart any sum or property for any dividend or other distribution, or paid or transferred any funds or property to any equity holder of the Company or any Company Subsidiary, or, directly or indirectly, acquired any of its capital stock;
 - a. True
4. Section 3.08(d) – Except as listed below, neither the Company nor any of its Subsidiaries has increased the wages, salaries, compensation, pensions or other fringe benefits or perquisites payable to any executive officer, employee or director from the amount thereof in effect as of December 31, 2009 (which amounts have been previously disclosed to Acquirer), granted any severance or termination pay, entered into any contract to make or grant any severance or termination pay or paid any bonus, other than year-end bonuses for 2009 other than as listed in this Section of the Company Disclosure Schedule below:
 - a. See attached new Officer Severance Agreements
 - b. See attached Key Manager Employment Agreements
 - c. See attached Employee Severance Plan
 - d. See attached 2010 Officer and Non-Officer Bonus Plan. Per past practice, the Company will budget a similar Officer and Non-Officer Bonus Plan for 2011.
 - e. See attached Executive Employment Agreement with Mr. Montopoli, which describes the maximum amount of his annual discretionary bonus that requires review and approval by the Company's Board of Directors

COMPANY DISCLOSURE SCHEDULE

- f. See attached Schedule of Stock Option Grants YTD 2010
 - g. See attached Schedule of 2010 Salary Adjustments for non-union employee salaries that are adjusted annually on April 1. Union payroll is adjusted as per Union Contract which provided for 2% adjustment in 2010 with certain other specific changes as detailed in the contract. The union contract calls for a wage adjustment of 3% in 2011. Therefore, an overall average increase of about 3% will also be budgeted for 2011 by the Company for non-union employees, including officers, effective as of April 1, 2011.
 - h. The Company's normal and customary practice has been to pay each union and non-union employee, who does not otherwise participate in the Officer or Non-Union Bonus Plan for any year, a holiday bonus at Christmas averaging about \$400 each.
5. Section 3.08(e) - neither the Company nor any of the Company Subsidiaries has suffered any strike, work stoppage, slowdown or other labor disturbance;
- a. True
6. Section 3.08(f) - there has not been any material change in any of the accounting methods, principles or practices of the Company or any of the Company Subsidiaries, or a material change (other than normal recurring depreciation) in the value at which assets were carried on the December Company Balance Sheet (as defined in Section 3.09);
- a. True
7. Section 3.08(g) - neither the Company nor any Company Subsidiary has received any written notice, or, To the Knowledge of the Company, any oral or other communication reasonably indicating the intention of any Person to terminate any material agreement with the Company or any Company Subsidiary, or any written notice, or, To the Knowledge of the Company, any oral or other communication reasonably indicating, from any material customer or material supplier of the Company or any Company Subsidiary, that it intends to cease doing business with, materially change the price or other terms on which business is transacted with, or materially reduce the volume of business transacted with, the Company or any Company Subsidiary.
- a. See reference to Anheuser-Busch, Inc. termination letter set forth in Company Disclosure Schedule 3.05(a)(3) above.

COMPANY DISCLOSURE SCHEDULE

Section 3.09 – Undisclosed Liabilities – Except as listed in this Section of the Company Disclosure Schedule, neither the Company nor any of the Company Subsidiaries has any undisclosed liability or obligation of any nature whatsoever (whether known, unknown, absolute, accrued, contingent or otherwise) except liabilities (a) adequately provided for in the Company’s audited balance sheet (including any related notes thereto) as of December 31, 2009 (the “*December Company Balance Sheet*”), (b) incurred on or before December 31, 2009 in the ordinary course of business and not required under GAAP to be reflected on the December Company Balance Sheet, (c) incurred since December 31, 2009 in the ordinary course of business substantially consistent with past practice, (d) incurred in connection with this Agreement, (e) disclosed in the Filed Company SEC Reports, or (f) which would not individually or in the aggregate have a Company Material Adverse Effect.

1. Upon the closing of the transactions contemplated by the Merger Agreement, and as further described in Company Disclosure Schedule 6.08(b) below, Mr. Montopoli’s employment agreement requires the Company to make him whole with respect to any additional tax liability associated with the application of IRC Section 280G to him (a “gross-up provision”). If such a “make whole” payment becomes required, the cost to the Company, post closing, could be in the range of \$500,000 or more (comprised of the grossed-up non-deductible make-whole payment and the separate loss of tax deduction for a substantial portion of the IRC 280G payments to the employee).
2. Attached to Company Disclosure Schedule 3.10 are two Writs, which the Company has previously furnished the Acquirer, that were filed against the Company and PAC in August 2010 relating to a single outbreak of Giardia contamination that occurred in the water supply for the Birch Hill community water system in North Conway, New Hampshire during September 2007. The Center for Disease Control (“CDC”) characterizes giardiasis as a “common cause of waterborne disease in humans in the United States” resulting from ingesting Giardia cysts. Healthy people normally recover within 2-6 weeks without medicine and more quickly with medicine. There were 16 confirmed cases of giardiasis at Birch Hill in September 2007, two of which resulted in some prolonged physical effects. The 3-year statute of limitations has now run out on filing any new claims relating to this outbreak. Therefore, these are the only cases we expect to have filed with respect to this incident.

Water utilities are not required by federal or state water quality standards to test for Giardia. To our knowledge, this is the only known outbreak of Giardia at Birch Hill (and throughout all of the Company’s water systems for that matter). The water quality of the wells servicing the Birch Hill community was determined to meet all state/federal water quality standards when we purchased the system in 2006, and we have continued to operate them in accordance with those standards. To date, the source and means by which Giardia cysts infected the well remains unknown. Normally, if there is an outbreak of

COMPANY DISCLOSURE SCHEDULE

Giardia, it usually occurs in surface water or in a shallow gravel-packed well close to surface water. It is highly unusual for a bedrock well, such as the one in question at Birch Hill, to become infected with Giardia cysts. The infected well was immediately shut-down, and abandoned, as soon as the presence of Giardia cysts was confirmed in September 2007. Since then, the Birch Hill water system has been interconnected to the North Conway Water District water system. The Company expects that both of these claims will be covered by the Company's primary and/or umbrella insurance policies and that there will not be any Company Material Adverse Effect resulting from these claims..

COMPANY DISCLOSURE SCHEDULE

Section 3.10 – Absence of Litigation – Except for the claims, actions, suits, proceedings or investigations listed in this Section of the Company Disclosure Schedule below, there are no other claims, actions, suits, proceedings or investigations pending before any Governmental Entity or, To the Knowledge of the Company, threatened against the Company or any of the Company Subsidiaries, or any properties or rights of the Company or any of the Company Subsidiaries by any Person. Neither the Company nor any of the Company Subsidiaries is subject to any outstanding Order that could reasonably be expected to result in a Company Material Adverse Effect or that could reasonably be expected to prevent or delay the Company in any material respect from performing its obligations under, or consummating the transactions contemplated by, this Agreement.

1. Giardia litigation cases as further described in Company Disclosure Schedule 3.09 above and in the attached Writs filed against Pittsfield Aqueduct Company, Inc. and Pennichuck Corporation:
 - a. Peggy Grondin & Daniel MacLeon v. Pittsfield Aqueduct Company, Inc. & Pennichuck Corporation, Docket Number 10-C-321, July 20, 2010.
 - b. Lance R. Feck and Sandra L. Feck v. Pittsfield Aqueduct Company, Inc. and Pennichuck Corporation, Case Number 212-2010-CV-00189, August 5, 2010.

Section 3.11 – Employee Benefit Plans; Employment Agreements

1. **Section 3.11(a)** – Attached is a list, with respect to the Company and the Company Subsidiaries, of the following plans, agreements or arrangements (collectively the “Company Employee Plans”):
 - a. All employee pension plans (as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended (“*ERISA*”)), maintained or contributed to by the Company or the Company Subsidiaries on behalf of employees and intended to qualify under Section 401(a) of the Internal Revenue Code of 1986 as amended (the “*Code*”);
 - i. Pension Plan
 - ii. Defined Contribution 401(k) Plan
 - b. All employee welfare plans (as defined in Section 3(1) of ERISA) maintained or contributed to by the Company or the Company Subsidiaries on behalf of employees;
 - i. Employee Welfare Benefit Plans (“*VEBA Plans*”) for union and non-union employees
 - ii. Medical Benefits for Early Retirees
 - c. All other stock option or stock purchase arrangements with employees not set forth in Section 3.03 of the Company Disclosure Schedule;
 - i. 1995 and 2000 Stock Option Plans, as amended in 2009 (“2009 Equity Incentive Plan”)
 - d. All other employment, executive compensation, consulting or severance agreements, written or otherwise, between the Company or any of the Company Subsidiaries and any individual who is an employee of or consultant to the Company or any of the Company Subsidiaries where the aggregate amount of expense during the last fiscal year or the aggregate amount of payments in any future one year period exceeds \$25,000; and
 - i. Officer Severance Agreements
 - ii. Key Manager Change of Control Agreements
 - iii. Employee Severance Plan for 2010

COMPANY DISCLOSURE SCHEDULE

e. All other pension, excess benefit, bonus, incentive or deferred compensation arrangements with employees.

i. See attached Maurice Arel Deferred Compensation Agreement

Except as listed below, there have been made available to Acquirer copies of:

a. Each such written Company Employee Plan,

i. True

b. The most recent annual report on Form 5500, with accompanying schedules and attachments, filed with respect to each Company Employee Plan required to make such a filing, and

i. True

c. The most recent actuarial valuation for each Company Employee Plan subject to Title IV of ERISA.

i. True

COMPANY DISCLOSURE SCHEDULE

2. **Section 3.11(b)** – Except as listed in Company Disclosure Schedule 3.11(a) above:
- a. Except as listed below, none of the Company Employee Plans provides retiree medical or life insurance benefits to any former employee of the Company or a Company Subsidiary (other than post-employment benefits provided in accordance with the health care continuation provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, or comparable state law), and none of the Company Employee Plans is a “multiemployer plan” as such term is defined in Section 3(37) of ERISA;
 - i. VEBA Plans and Medical Benefits for Early Retirees listed in Company Disclosure Schedule 3.11(a) above.
 - b. All Company Employee Plans are in material compliance with the applicable requirements prescribed by ERISA and the Code, and the Company and the Company Subsidiaries have performed all material obligations required to be performed by them under each of the Company Employee Plans;
 - i. True
 - c. Each Company Employee Plan intended to qualify under Section 401(a) of the Code and each trust intended to qualify under Section 501(a) of the Code is the subject of a favorable determination letter from the Internal Revenue Service (the “IRS”) or the time within which an application for such a determination with respect to any such plan may be filed has not expired;
 - i. True
 - d. All contributions required to be made to any Company Employee Plan pursuant to Section 412 of the Code, or the terms of the Company Employee Plan or any collective bargaining agreement, have been made on or before their due dates;
 - i. True
 - e. With respect to each Company Employee Plan, no “reportable event” within the meaning of Section 4043 of ERISA (excluding any such event for which the 30 day notice requirement has been waived under the regulations to Section 4043 of ERISA) nor any event described in Section 4062, 4063 or 4041 of ERISA has occurred;
 - i. True

COMPANY DISCLOSURE SCHEDULE

- f. Neither the Company nor any Company Subsidiary has incurred, and neither the Company nor any Company Subsidiary reasonably expects to incur, any liability under Title IV of ERISA (other than liability for premium payments to the Pension Benefit Guaranty Corporation arising in the ordinary course);
 - i. True

- g. There is no pending or, To the Knowledge of the Company or any Company Subsidiary, threatened litigation, administrative action or proceeding relating to any Company Employee Plan (other than claims for benefits in the ordinary course of business) that can reasonably be expected to give rise to any material liability to the Company or any Company Subsidiary or to affect adversely the tax-qualified status of any Company Employee Plan; and
 - i. True

- h. Except as listed below, the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not increase the amount of, accelerate the time of payment of, or the vesting of compensation (including, by way of clarification and not limitation, any severance or displacement pay) payable to any employee under any Company Employee Plan.
 - i. Vesting of all stock options granted by the Company will be accelerated upon consummation of the contemplated transactions; and
 - ii. Vesting of all pension benefits and 401(k) matching Company amounts by will be accelerated upon consummation of the contemplated transactions.

COMPANY DISCLOSURE SCHEDULE

3. **Section 3.11(c)** - Attached are true and complete copies of the following:
- a. The Company's 1995 Stock Option Plan, the 2000 Stock Option Plan, which has been amended and restated as the 2009 Equity Incentive Plan (together, the "*Company Stock Option Plans*"), including the form of option certificates, grant agreements and other documents related to such Company Stock Option Plans
 - i. See attached 1995 Stock Option Plan and 2009 Equity Incentive Plan
 - b. A true and complete list of each individual who holds any Company Stock Option as of the date hereof, together with the number of shares of Company Common Stock subject to such Company Stock Option, the option price of such Company Stock Option (to the extent determined as of the date hereof), the vesting Schedule of such Company Stock Option, whether such Company Stock Option is intended to qualify as an incentive stock option within the meaning of Section 422(b) of the Code and the expiration date of such option.
 - i. See list attached to Company Disclosure Schedule 3.03 above.

COMPANY DISCLOSURE SCHEDULE

4. **Section 3.11(d)** - Attached is a true and complete list of the following:
- a. All employment agreements by and between the Company or any of the Company Subsidiaries and their employees and officers;
 - i. See employment agreements set forth in Company Disclosure Schedule 3.08(d)
 - b. Each agreement with a consultant who is an individual, natural person obligating the Company or any of the Company Subsidiaries to make annual cash payments in an amount exceeding \$50,000; and
 - i. None
 - c. All plans, programs, agreements and other arrangements of the Company or any of the Company Subsidiaries with or relating to its employees which contain change of control or similar provisions.
 - i. Officer Severance Agreements
 - ii. Key Manager Change of Control Agreements
 - iii. Employee Severance Plan

Section 3.12 – Employment and Labor Matters

1. Section 3.12(c) – Union Severance Benefits

- a. Describe any severance benefits for union employees under the Labor Contract and any other effects on any employee resulting from the Merger and the other transactions contemplated by the Agreement
 - i. See copy of Labor Contract attached to Company Disclosure Schedule 3.05(a).

- b. Attach a schedule, that is accurate in all material respects, of the cost of all severance payments payable under the Labor Contract and/or the Non-Union Severance Agreements
 - i. Union Severance Benefits – See copy of Labor Contract attached to Company Disclosure Schedule 3.05(a).

 - ii. Key Manager Employment Agreements and Employee Severance Plan for each non-union, non-officer employee are set forth in Company Disclosure Schedule 3.08(d)

Section 3.13 – Title to Property

1. **Section 3.13(a)** - Except for the following Liens, the Company and each of the Company Subsidiaries have good and marketable title to all of their properties and assets, free and clear of all Liens, except Liens for taxes not yet due and payable and such Liens or other imperfections of title, if any, as do not materially detract from the value of or interfere with the present use of the property affected thereby or which would not, individually or in the aggregate, have a Company Material Adverse Effect.
 - a. Liens on the stock of each of the Company Subsidiaries securing the Company's line of credit with Bank of America

Section 3.14 – Real and Personal Property

1. **Section 3.14(a)** – List any franchises, leases, easements and license agreements for all real property (including all buildings, fixtures and other improvements thereto) that the Company and the Company Subsidiaries need for their operations:
 - a. Easements – See attached Indexes of Company Deeds for Penn Corp, PAC, PWW, PEU, Southwood and Salmon Brook
 - b. Leases – See attached Index of all Company Contracts
 - c. Franchises and Licenses – See attached Index of Company Permits for PWW, PEU and PAC

2. **Section 3.14(a)** - Except with respect to the following real property, all real property used by the Company and the Company Subsidiaries is in good condition and repair, subject to normal wear and tear, and is suitable in all material respects for the purposes for which it is now being used in the conduct of the businesses of the Company and the Company Subsidiaries.
 - a. Salmon Brook Dam located in Nashua has an outstanding letter of deficiency from the NHDES, which could require the Company to rebuild this dam. The Company requested the attached waiver in June 2010 from the NHDES regarding the rules requiring the rebuild. The Company has contacted the NHDES each month since the waiver request was sent and there has been no action to date. In the event the waiver is not granted, the capital budget for PWW in the attached 2010-2014 Penn Corp CIP Budget shows a \$368,000 investment in 2011 to rebuild the dam to meet the NHDES standards.
 - b. Berry Pond Dam, located in Pittsfield, has an outstanding letter of deficiency from the NHDES. The dam is currently under repair and all work required to address the letter of deficiency will be completed by mid-November 2010.
 - c. Berry Pond Reservoir Dam, located in Pittsfield, has an outstanding letter of deficiency from the NHDES. PAC has hired HL Turner to evaluate whether it is better to remove this dam or repair it. The dam is no longer required for water supply purposes. The capital budget for PAC in the attached 2010-2014 Penn Corp CIP Budget shows a \$100,000 estimate for the work required to complete

COMPANY DISCLOSURE SCHEDULE

the study and then either repair or remove the dam. The NHDES is aware of the study that HL Turner is preparing and will be a party to any decision to repair or remove the dam.

3. **Section 3.14(a)** – Except as listed below, or in the Capital Budget for 2010 attached to Company Disclosure Schedule 3.23 and/or the next 4 years attached to Company Disclosure Schedule 3.14(a) hereto, to the Knowledge of the Company, neither it nor any of the Company Subsidiaries has any material capital improvements, capital expenditures or alterations to any of their respective real properties or facilities required by applicable health and safety, water quality or other Laws
 - a. See Company Disclosure Schedule for 3.14(a) above relating to repairs or removal of Salmon Brook Dam in Nashua and Berry Pond Reservoir Dam in Pittsfield.

4. **Section 3.14(b)** – Except with respect to the following personal property, all personal property used by the Company and the Company Subsidiaries is in good working condition, subject to normal wear and tear, and is suitable in all material respects for the purposes for which it is now being used in the conduct of the businesses of the Company and the Company Subsidiaries.
 - a. None

COMPANY DISCLOSURE SCHEDULE

Section 3.15 – Water Quality compliance – Except as otherwise listed in this Section of the Company Disclosure Schedule below, the Company and each Company Subsidiary is in compliance with the water quality standards specified in Section 3.15 of the Agreement

1. None

Section 3.16 – Regulation as a Utility

1. The Company Subsidiaries set forth below in this Section of the Company Disclosure Schedule (“*Regulated Company Subsidiaries*”) are regulated as public utilities in New Hampshire only:
 - a. Pennichuck Water Works, Inc.
 - b. Pennichuck East Utility, Inc.
 - c. Pittsfield Aqueduct Company, Inc.
2. Except as otherwise set forth below, neither the Company nor any Company Subsidiary or any affiliate of the Company is subject to regulation as a public utility or public service company (or similar designation) by any other state in the United States, by the United States or any agency or instrumentality of the United States or by any foreign country.
 - a. Pennichuck Water Service Corporation must comply with Massachusetts Department of Environmental Protection (“DEP”) rules and regulations when providing water services to its customers in Massachusetts
3. Except as set forth in Section 3.16 of the Company Disclosure Schedule, all assets which are included in the rate base calculations of the Regulated Company Subsidiaries are “used and useful” within the meaning of NH RSA Chapter 378:28, and no assets of the Company or any of the Regulated Company Subsidiaries have been disallowed in any ratemaking procedure before the NHPUC.
 - a. None

Section 3.17(b) – Taxes

1. Attached to this Section of the Company Disclosure Schedule, is a schedule all tax reserves which the Company is maintaining
2. Except as set forth on this Section of the Company Disclosure Schedule below, neither the Company nor any Company Subsidiary:
 - a. Has any unamortized adjustments attributable to a change in accounting method under Section 481 of the Code;
 - i. None
 - b. Has liability for the Taxes of any other entity or person under Treasury Regulation Section 1.1502-6 as a transferee or successor, by contract or otherwise;
 - i. None
 - c. Has ever been included in a consolidated or combined Tax Return (other than a consolidated group the common parent of which is the Company); or
 - i. HECOPs I, II, III and IV LLCs have each filed a separate tax return in the past and HECOP IV is expected to continue filing a separate tax return in the future.
 - d. Is currently under examination or audit by any Tax authority or has been notified that it will be under examination or audit.
 - i. None

Section 3.18 – Environmental Matters

1. Except as otherwise listed in this Section of the Company Disclosure Schedule and in all cases as have not had and would not, individually or in the aggregate, have a Company Material Adverse Effect, to the Knowledge of the Company, the Company and each of the Company Subsidiaries:
 - a. Have given all notifications and obtained all applicable permits, licenses and other authorizations (collectively, the “*Environmental Permits*”) that are required to be given or obtained under all applicable federal, state or local laws or any regulation, code, plan, order, decree, judgment, notice or demand letter issued, entered, promulgated or approved thereunder relating to pollution or protection of human health and the environment, including laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants, wastes or hazardous or toxic materials or substances (including petroleum or its fractions, asbestos or polychlorinated biphenyls) into ambient air, surface water, ground water, or land or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, wastes or hazardous or toxic materials or substances (“*Environmental Laws*”) by the Company or the Company Subsidiaries (or their respective agents), which Environmental Permits are in full force and effect;
 - i. True
 - b. Are in compliance with all terms and conditions of such Environmental Permits;
 - i. True
 - c. Are in compliance with all limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in applicable Environmental Laws;
 - i. True
 - d. As of the date of the Agreement, are not aware of nor have received written or, To the Knowledge of the Company, have received any oral notice or other notice of any past or present violations of Environmental Laws or Environmental Permits or any event, condition, circumstance, activity, practice, incident, action or plan which is reasonably likely to interfere with or prevent continued compliance with Environmental Permits or which would give rise to any common law or statutory liability, or otherwise form the basis of any claim, action, suit or proceeding, against the Company or any of the Company Subsidiaries based on or resulting from the

COMPANY DISCLOSURE SCHEDULE

- manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling, or the emission, discharge or release into the environment, of any pollutant, contaminant, waste or hazardous or toxic material or substance; and
- i. True
 - e. Have taken all actions necessary under applicable Environmental Laws to register any products or materials required to be registered by the Company or the Company Subsidiaries (or any of their respective agents) thereunder.
 - i. True
2. Attached to this Section of the Company Disclosure Schedule is a complete list of all Environmental Permits currently held by the Company or any Company Subsidiary.
- a. See list of Permits for PWW, PEU and PAC attached to Company Disclosure Schedule 3.14(a)
3. The Company and the Company Subsidiaries have delivered or otherwise made available to Acquirer complete and correct copies of all reports, studies or analyses currently in the possession of Company and/or the Company Subsidiaries or prepared since December 31, 1999 for the Company or any Company Subsidiary pertaining to pollutants, contaminants, wastes or hazards or toxic materials or substances (including petroleum and its fractions, asbestos, and polychlorinated biphenyls) in, or, beneath or adjacent to any property currently or formerly owned, operated or controlled by Company or any Company Subsidiary. All such reports, studies or analyses are attached hereto to this Section of the Company Disclosure Schedule.
- a. The only Company facility operating under an NHDES Groundwater Management Permit is PWW's Will Street Operation Center in Nashua ("Will Street"). Attached is a copy of PWW's 2005 Groundwater Management Permit Renewal Application for Will Street, the 2004 and 2006-2009 Annual Groundwater Monitoring Summary Reports, and the April 2010 Soil Delineation Report, for Will Street.

Section 3.20 – Insurance

1. Attached to this Section of the Company Disclosure Schedule is a list, with respect to the Company and the Company Subsidiaries, of all material insurance policies and contracts in effect as of the date of this Agreement.
 - a. See attached Listing of Corporate Insurance Policies as of 10/13/2010
2. Except as otherwise specified below, all property, automobile liability, workers compensation, employer's liability, fire and casualty, general liability, business interruption, product liability, professional liability and sprinkler and water damage insurance policies maintained by the Company or any of the Company Subsidiaries are, To the Knowledge of the Company, with reputable insurance carriers, provide, To the Knowledge of the Company, full and adequate coverage from all normal risks incident to the business of the Company and the Company Subsidiaries and their respective properties and assets, except as would not, individually or in the aggregate, have a Material Adverse Effect.
 - a. None
3. Except as otherwise specified below, neither Company nor any Company Subsidiary has received any notice of cancellation or termination with respect to any insurance policy, and each of the Company and each Company Subsidiary has fulfilled all of its material obligations under each insurance policy, including the timely payment of premiums.
 - a. None

Section 3.22 – Rights Agreement.

1. Attached is a resolution of the Company's Board of Directors, which was passed on October 28, 2010 that extends the Final Expiration Date of the Company's Rights Agreement from November 1, 2010 to the date of the 2011 annual meeting of the Company's shareholders. Pursuant to the second resolution attached to this Company Disclosure Schedule 3.22, which was passed on October 28, 2010 by the Company's Board of Directors, it is possible that the Company will seek to further extend the Rights Agreement subject to shareholder vote at the 2011 annual meeting of shareholders.
2. Attached is a resolution of the Company's Board of Directors, which was passed by the Board on November 10, 2010 which acknowledges that the signing of the Agreement, and acquisition of the Company's Common Stock by the Acquirer Sub, will not constitute a violation of the Company's Rights Agreement.

Section 3.23 – Capital Budget.

1. Attached to this Section of the Company Disclosure Schedule is a true and complete copy of the Company's 2010 budget for any pending capital project of the Company or any Company Subsidiary as of October 11, 2010.
 - a. See attached 2010 Capital Budget updated as of October 11, 2010

2. Except for the projects listed below in this Section of the Company Disclosure Schedule, To the Knowledge of the Company, such projects are proceeding on-schedule and on-budget.
 - a. None

3. Except for the disputes listed in this Section of the Company Disclosure Schedule below, to the Knowledge of the Company it has no dispute with any contractor performing work on the projects, cost overrun, labor stoppage, refusal to proceed, breach, default or any other deviation or development which could reasonably be expected to have a Company Material Adverse Effect.
 - a. None

Section 3.24 – Stock Purchase Plan

1. Attached to this Section of the Company Disclosure Schedule is a true and complete copy of the Company's Dividend Reinvestment and Common Stock Purchase Plan dated April 14, 2009, as amended, or approved by the Company's Board of Directors to be amended, through the date of this Agreement (the "*Company Stock Purchase Plan*").
 - a. See attached Dividend Reinvestment and Common Stock Purchase Plan dated April 14, 2009, as amended

COMPANY DISCLOSURE SCHEDULE

Section 3.26 Authorized Powers. Attached to this Section of the Company Disclosure Schedule is a list of all bank accounts and safe deposit boxes maintained by the Company and each Company Subsidiary and the names of persons having signature authority with respect thereto or access thereto.

1. See attached list of bank accounts and Authorized Signer Matrix as of 10/13/2010

COMPANY DISCLOSURE SCHEDULE

Section 5.01(a) - Conduct of Business by the Company.

1. Except for matters set forth in this Section of the Company Disclosure Schedule below and/or in any attachment hereto, matters expressly agreed to in writing by Acquirer and matters otherwise expressly permitted by the Agreement, from the Effective Date of the Agreement to the earlier to occur of the date of the termination of the Agreement in accordance with Article VIII or the Effective Time, the Company shall, and shall cause each Company Subsidiary to, conduct the business of the Company and the Company Subsidiaries in the usual, regular and ordinary course in substantially the same manner as previously conducted and use all commercially reasonable efforts to preserve intact its current business organization, keep available the services of its current officers and employees and maintain its existing relationships with customers, suppliers and others having business dealings with them.
 - a. No exceptions

2. Without limiting the generality of the foregoing, except for matters set forth in this Section of the Company Disclosure Schedule, the Company shall, and shall cause each of the Company Subsidiaries to, observe the covenants, and take the actions listed, in Section 5.01(a) of the Agreement except with the prior written consent of Acquirer, which consent will be given or denied within a reasonable time after any written request for such consent.
 - a. No exceptions

COMPANY DISCLOSURE SCHEDULE

Section 5.01(b) – Conduct of Business

1. Except for matters set forth in this Section of the Company Disclosure Schedule below and/or attached hereto, matters expressly agreed to in writing by Acquirer and matters otherwise expressly permitted by the Agreement, from the date of the Agreement to the earlier to occur of the date of the termination of the Agreement in accordance with Article VIII or the Effective Time, the Company shall not, and shall not permit any Company Subsidiary to, do any of the acts or take any of the actions listed in Section 5.01(b) of the Agreement, without the prior written consent of Acquirer which consent will be given or denied in the sole reasonable discretion of Acquirer within a reasonable time after any written request for such consent; including, without limiting anything in the foregoing, or Section 5.01(b) of the Agreement, to the contrary, the following:
2. **Section 5.01(b)(v)** - Except as disclosed in this Section of the Company Disclosure Schedule:
 - a. Grant to any current or former director or executive officer of the Company or any Company Subsidiary any material increase in compensation, except in the ordinary course of business and generally consistent with past practices,
 - i. Describe 2010 Officer and Non-Officer Bonus Plans, state that the Plans will be administered by the Company in accordance with the provisions of the Plans, attach copy of the Plans, and attach a the projected payouts to each officer and non-officer under the Plans
 1. See attached copies of the 2010 Officer and Non-Officer Bonus Plans and a schedule titled “Bonus Accrual Projection for 2010” listing the payout amounts by pool based on the plans and discretionary amounts which could be paid to the CEO and certain other supervisors and employees, which is anticipated to be about \$400,000 in total payouts for 2010. The specific amounts to be paid pursuant the said Plans, and/or on a discretionary basis, for 2010 is subject to the recommendation of the Company’s Compensation Committee to the Board of Directors and approval by the entire Board of Directors. Consequently, the actual bonus amounts paid by the Company could be more or less than the bonus pool amounts shown on the Bonus Accrual Projection for 2010.

COMPANY DISCLOSURE SCHEDULE

2. The Company intends to administer the Plans, and pay the projected payout and/or any discretionary amounts for the CEO and certain other supervisors and employees in accordance with the Company's past practices.
 - ii. The Company's Labor Contract listed under Company Disclosure Schedule 3.05(a) specifies a 3% wage increase for all union employees in 2011 effective as of February 15, 2011.
 - iii. An average 3.5% wage increase will be budgeted by the Company for all non-union employees and officers for 2011, effective as of April 1, 2011
- b. Except as specified below, grant to any current or former director or executive officer of the Company or any Company Subsidiary any increase in severance or termination pay, except to the extent required under any agreement in effect as of the date of the most recent audited financial statements included in the Filed Company SEC Reports,
 - i. See Officer Change of Control Agreements attached to Company Disclosure Schedule 3.08(d)
- c. Except as specified below, enter into or amend any employment, consulting, indemnification, severance or termination agreement with any such director or executive officer or enter into or amend any other transaction that would be or is subject to proxy statement disclosure pursuant to Item 404 of Regulation S-K
 - i. See Officer Change of Control Agreements attached to Company Disclosure Schedule 3.08(d)
- d. Establish, adopt, enter into or amend in any material respect the Labor Contract or any other collective bargaining agreement; provided, however, that upon giving the Acquirer prior written notice the Company may enter into a new collective bargaining agreement with its union workers on or before the expiration of the Company's current Labor Contract on February 15, 2013,
 - i. True
- e. Take any action to accelerate any rights or benefits, or make any material determinations not in the ordinary course of business consistent with prior

COMPANY DISCLOSURE SCHEDULE

practice, under the Labor Contract or any other collective bargaining agreement,
or

i. True

f. Forgive any indebtedness of any employee of the Company or any Company
Subsidiary in excess of \$25,000 in the aggregate.

i. True

COMPANY DISCLOSURE SCHEDULE

3. **Section 5.01(b)(vii)** – Except as set forth in this Section of the Company Disclosure Schedule, sell, lease (as lessor), license or otherwise dispose of, or subject to any Lien, any real estate or other properties or assets, except
 - a. Sales or dispositions of obsolete or worthless assets or
 - i. None
 - b. Sales of assets where the total price paid by one or more purchasers in a single transaction is less than \$50,000 or a series of related transactions is less than \$150,000;
 - i. None
4. **Section 5.01(b)(viii)** – Except as set forth in this Section of the Company Disclosure Schedule, and except as specified in Section 5.01(b)(iv),
 - a. Incur any indebtedness for borrowed money or guarantee any such indebtedness of any Person,
 - i. None
 - b. Issue or sell any debt securities or warrants or other rights to acquire any debt securities of the Company or any Company Subsidiary,
 - i. None
 - c. Guarantee any debt securities of any Person, or
 - i. None
 - d. Make any loans to, or investments in, any Person, other than loans to or investments in the Company or any direct or indirect wholly-owned Subsidiary of the Company;
 - i. None
5. **Section 5.01(b)(ix)** - Except as set forth in this Section of the Company Disclosure Schedule, except for the total amount of the Company’s 2010 Capital Budget identified in Section 3.23 of the Company Disclosure Schedule, and except for the total estimated

COMPANY DISCLOSURE SCHEDULE

2011 capital budget disclosed by the Company in its 2009 Form 10-K, make or agree to make new capital expenditures that are in excess of \$300,000 in any three-month period.

- a. See 2010 – 2014 Capital Expenditure Budget for the Company’s regulated Subsidiaries (PWW, PEU and PAC) attached to Company Disclosure Schedule 3.11

6. **Section 5.01(b)(xii)** - Except as set forth in this Section of the Company Disclosure Schedule, and except as required by their terms, enter into, terminate or breach in any material respect (or take or fail to take any action, that, with or without notice or lapse of time or both, would become a material breach) or materially amend any Material Contract.

- i. None

7. **Section 5.01(b)(xvi)** - Except as set forth in this Section of the Company Disclosure Schedule, liquidate, dissolve or effect a recapitalization or reorganization in any form of transaction of the Company and/or any Subsidiary

- a. Merge Salmon Brook Development Corporation into Pennichuck Corporation before Closing

8. **Section 5.01(b)(xviii)** – Except as set forth in this Section of the Company Disclosure Schedule, invest funds in debt securities or other investments maturing more than 60 days after the date of investment.

- i. None

COMPANY DISCLOSURE SCHEDULE

Section 6.06 – Access to Information, Confidentiality. Provided that the Company complies with the other provisions of Section 6.06 of the Agreement, the Company may withhold the following documents and information to the extent required to comply with the terms of a confidentiality agreement with a third party in effect on the Effective Date of the Agreement.

1. None

COMPANY DISCLOSURE SCHEDULE

Section 6.08(b) – Company Employee Plans

1. Acquirer hereby acknowledges that a “change in control” (or similar phrase) within the meaning of the employment agreements listed in this Section of the Company Disclosure Schedule will occur at or prior to the Effective Time (as applicable).
 - a. Officer Employment or Severance Agreements
 - b. Non-Officer Change of Control Agreements
 - c. Employee Severance Benefit Plan
2. Attached is a list of all payments that are or could be due to any employee of the Company or any Company Subsidiary upon the occurrence of a “change in control” (or similar phrase) under the specific terms and conditions of each of the employment agreements listed in this Section of the Company Disclosure Schedule above.
 - a. See attached list of all “change of control” severance payments for officers, key managers and non-officers
 - b. The Montopoli employment agreement includes a requirement to make him whole with respect to any additional tax liability associated with the application of IRC 280G to the employee (a “gross-up provision”). It has not yet been determined whether such “make whole” payment will be required. However, if it is, the cost to the Company, post closing, could be in the range of \$500,000 or more (comprised of the grossed-up non-deductible make-whole payment and the separate loss of tax deduction for a substantial portion of the IRC 280G payments to the employee).

OFFICIAL STATEMENT DATED JANUARY 10, 2012

Ratings: See "Ratings" herein.
Fitch: AAA
Moody's: Aa2

New Issue

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel, based upon an analysis of existing law, interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes. Under existing law, interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "Tax Matters" herein.

**CITY OF NASHUA, NEW HAMPSHIRE
\$150,570,000 GENERAL OBLIGATION
PENNICHUCK CORPORATION ACQUISITION BONDS
(FEDERALLY TAXABLE)**

DATED
Date of Delivery

DUE
January 15
(as shown below)

The Bonds are issuable only in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in denominations of \$5,000 or any integral multiple thereof. See "Book Entry Transfer System" herein.

Principal of the Bonds will be paid on January 15 of the years in which the Bonds mature. Interest on the Bonds will be payable semiannually on January 15 and July 15, commencing July 15, 2012. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC. Disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants as more fully described herein.

An opinion of Bond Counsel will accompany the Bonds to the effect that the Bonds are valid general obligations of the City of Nashua, New Hampshire and that all taxable property in the City is subject to taxation without limitation as to rate or amount to pay the Bonds and the interest thereon; provided that, to the extent the City has established any development districts pursuant to Chapter 162-K of the New Hampshire Revised Statutes Annotated, taxes levied on certain taxable property located within any such district may be restricted and unavailable to pay the principal of and interest on the Bonds.

The Bonds are subject to redemption prior to their stated maturity dates as described herein.

MATURITIES, AMOUNTS, RATES, YIELDS AND CUSIPS

Due January 15	Principal Amount	Interest Rate	Yield	Cusip 631294	Due January 15	Principal Amount	Interest Rate	Yield	Cusip 631294
2013	\$ 3,390,000	0.500 %	0.500 %	3M5	2021	3,690,000	2.877 %	2.877 %	3V5
2014	3,250,000	0.924	0.924	3N3	2022	3,795,000	3.047	3.047	3W3
2015	3,280,000	1.140	1.140	3P8	2023	3,910,000	3.197	3.197	3X1
2016	3,320,000	1.502	1.502	3Q6	2024	4,035,000	3.347	3.347	3Y9
2017	3,370,000	1.782	1.782	3R4	2025	4,170,000	3.517	3.517	3Z6
2018	3,430,000	2.159	2.159	3S2	2026	4,315,000	3.667	3.667	4A0
2019	3,505,000	2.459	2.459	3T0	2027	4,475,000	3.767	3.767	4B8
2020	3,590,000	2.757	2.757	3U7					

\$25,260,000 Coupon Rate 4.226% Term Bond Maturing January 15, 2032 Yield @ 4.226% Cusip #631294 4C6
\$69,785,000 Coupon Rate 4.376% Term Bond Maturing January 15, 2042 Yield @ 4.376% Cusip #631294 4D4

The Bonds are offered subject to the final approving opinion of Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel, as aforesaid, and to certain other conditions referred to herein. Certain matters will be passed upon for the Underwriters by Nixon Peabody LLP, Boston, Massachusetts. See "Other Legal Matters and Services" herein. First Southwest Company has acted as Financial Advisor to the City of Nashua, New Hampshire, with respect to the Bonds. The Bonds in definitive form will be delivered to DTC, or its custodial agent, on or about January 25, 2012 for settlement in Federal Funds.

J. P. Morgan

BofA Merrill Lynch

Morgan Keegan

Morgan Stanley

RBC Capital Markets

Wells Fargo Securities

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No dealer, broker, sales person or other person has been authorized by the City or the Underwriters to give any information or to make any representations with respect to the City or the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The Underwriters may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriters.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
SUMMARY STATEMENT	ii		
OFFICIAL STATEMENT	1	CITY FINANCES:	
INTRODUCTION	1	Major Sources of Revenues	29
THE BONDS:		New Hampshire School Finance	29
Description of the Bonds	1	Assessed Valuations	29
Redemption Provisions	2	Tax Rates and Tax Levies	29
Record Date	4	Tax Levies Calculations	30
Book Entry Transfer System	4	Tax Collections	30
Tax Matters	5	Largest Taxpayers	30
Source of Payment and Remedies	8	Equalized Assessed Valuations and Estimated	
Authorization of the Bonds	9	Full Value Tax Rates	31
Use of Proceeds	9	Tax Increment Financing for Development	
Acquisition of Pennichuck Water Utilities	9	Districts	31
Merger Agreement between the City and Pennichuck	10	Budget Process	31
Summary of Pennichuck and its Businesses	10	Budget Control Charter Amendment	32
Service Areas and Customers	10	Budget Trends	32
Operation of Pennichuck and its Businesses		Budget Summary	33
After the Merger	11	Accounting Methods	33
Debt Service on the Bonds	12	Investment of City Funds	33
Sources and Use of Bond Proceeds	12	Financial Statements	34
Continuing Disclosure	13	Governmental Funds Balance Sheet	
Financial Advisory Services of First Southwest	13	June 30, 2011	35
Ratings	13	June 30, 2010	36
Other Legal Matters and Services	13	June 30, 2009	37
		Statement of Revenues, Expenditures	
		and Changes In Fund Balances	
THE CITY OF NASHUA, NEW HAMPSHIRE:		June 30, 2011 through June 30, 2007	38
General	14	INDEBTEDNESS:	
History	14	Authorization Procedure and Limitations	43
Form of Government	14	Trend in Tax Anticipation Note Borrowings	43
Principal Executive Officers	14	Debt Ratios	43
Municipal Services	15	Direct Debt Summary	44
Economy	15	Principal Payments by Purpose	44
Location of Industry	16	Debt Service Requirements	45
Housing Development	18	Authorized Unissued Debt and Prospective	
Infrastructure Investment	18	Financing	45
Economic Development Strategic Plan	19	Capital Equipment Reserve Fund (CERF)	45
Large-Scale Residential Developments	20	Wastewater Enterprise Capital Reserve Fund	45
Large-Scale Commercial Developments	21	Solid Waste Capital Reserve Fund	45
Major Industries Located at Industrial Park Areas	23	RETIREMENT SYSTEM	46
Industry and Commerce	24	New Hampshire Retirement System	46
Largest Employers	25	Board of Public Works Employee Retirement System	47
Retail Sales	25	Other Post Employment Benefits	47
Unemployment	26	EMPLOYEE RELATIONS	49
Unemployment Rates	26	UNDERWRITING	50
Building Permits	26	LITIGATION	50
Education	26	APPENDIX A – June 30, 2011 City CAFR	
Transportation and Utilities	27	APPENDIX B – Proposed Form of Legal Opinion of	
Income Levels and Educational Attainment	27	Bond Counsel	
Population Trends	28	APPENDIX C – Proposed Form of Continuing	
		Disclosure Certificate	

The information set forth herein has been obtained from the City and from other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds described herein shall, under any circumstances, create any implication that there has been no change in the affairs of the City of Nashua since the date hereof.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

SUMMARY STATEMENT

The information set forth below is qualified in its entirety by the information and financial statements appearing elsewhere in the Official Statement.

Issuer:	City of Nashua, New Hampshire.
Issue:	\$150,570,000 General Obligation Pennichuck Corporation Acquisition Bonds (Federally Taxable) in book-entry form, referred to as the "Bonds". See "Book Entry Transfer System" herein.
O. S. Dated:	January 10, 2012.
Dated Date of the Bonds:	As of the delivery of the Bonds.
Principal Due:	January 15, 2013 through January 15, 2042, as detailed herein.
Interest Due:	Semi-annually on January 15 and July 15, commencing July 15, 2012.
Purpose and Authority:	Bond proceeds will finance the acquisition of the privately owned water systems serving the City and other communities through a stock acquisition of the current owner of the utility, Pennichuck Corporation ("Pennichuck"), as authorized under the New Hampshire Municipal Finance Act, Chapter 347 of N.H. Laws of 2007, as amended by Chapter 1 of N.H. Special Session Laws of 2010, and Resolution No. 10-82 of the Board of Aldermen approved by the Mayor on January 11, 2011.
Redemption:	The Bonds are subject to redemption prior to their stated maturities as detailed herein. Refer to "Redemption Provisions" herein.
Security:	The Bonds are valid general obligations of the City of Nashua, New Hampshire, and the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the City without limitation as to rate or amount; provided that, to the extent the City has established any development districts pursuant to Chapter 162-K of the New Hampshire Revised Statutes Annotated, taxes levied on certain taxable property located within any such district may be restricted and unavailable to pay the principal of and interest on the Bonds.
Credit Ratings:	Fitch Ratings and Moody's Investors Service ratings have assigned ratings of AAA and Aa2 respectively.
Tax Matters:	Federally Taxable. Refer to "Tax Matters" herein and Appendix C, "Proposed Form of Legal Opinion".
Continuing Disclosure:	Refer to Appendix D.
Paying Agent:	U. S. Bank National Association, Boston, Massachusetts.
Financial Advisor:	First Southwest Company, Boston, Massachusetts.
Bond Counsel:	Edwards Wildman Palmer LLP, Boston, Massachusetts.
Underwriters' Counsel:	Nixon Peabody LLP, Boston, Massachusetts.
Delivery and Payment:	It is expected that delivery of the Bonds in book-entry only form will be made to The Depository Trust Company, or its custodial agent, on or about January 25, 2012 against payment in Federal Funds.
Issuer Official:	Questions concerning the Official Statement should be addressed to: Mr. David G. Fredette, Treasurer, City of Nashua, New Hampshire, Telephone: (603) 589-3193 or Cynthia F. McNerney, Managing Director, First Southwest Company, Boston, Massachusetts, Telephone: (617) 619-4408.

OFFICIAL STATEMENT
CITY OF NASHUA, NEW HAMPSHIRE
\$150,570,000 GENERAL OBLIGATION PENNICHUCK CORPORATION
ACQUISITION BONDS
(FEDERALLY TAXABLE)
INTRODUCTION

This Official Statement is provided for the purpose of presenting certain information relating to the City of Nashua, New Hampshire (the "City") in connection with the sale of \$150,570,000 aggregate principal amount of its General Obligation Pennichuck Corporation Acquisition Bonds (Federally Taxable), hereinafter referred to as the "Bonds". The information contained herein has been furnished by the City, except information attributed to another governmental agency or official as the source.

Bond proceeds will be used by the City to acquire 100% of the outstanding shares of Pennichuck Corporation ("Pennichuck"), the private utility providing water services to the City and other communities and are issued pursuant to the Municipal Finance Act and special legislation enacted by the New Hampshire Legislature. The acquisition was approved by the New Hampshire Public Utilities Commission ("NHPUC") on November 23, 2011 by Order No. 25,292. This transaction is a consensual resolution of a decade-long effort by the City to acquire the water utility assets owned by Pennichuck and its subsidiaries. The City's main objective with the acquisition has always been to secure and protect its critical water resources for future generations. Additionally, the City expects that the acquisition will result in lower rates for water customers over time than would otherwise exist without the acquisition. Following the acquisition, the City will own all of the shares of Pennichuck and will oversee the operations of Pennichuck and its subsidiaries in the City's capacity as sole shareholder of Pennichuck and through a newly-appointed Pennichuck Board of Directors, as discussed further, herein. The 3 regulated utilities of Pennichuck -- Pennichuck Water Works, Inc. ("PWW"), Pittsfield Aqueduct Company, Inc. ("PAC"), and Pennichuck East Utility, Inc. ("PEU") -- will each continue to operate in their current corporate forms, and the cash flow from these utilities will be paid to the City sufficient to offset debt service on the City's general obligation bonds issued to finance the Pennichuck acquisition. Additionally, \$5 million of Bond proceeds will be deposited with PWW to serve as a rate stabilization fund, to backstop the cash flow payments from Pennichuck and its utilities to the City to offset the City's debt service obligations under the Bonds.

THE BONDS

Description of the Bonds

The Bonds will be dated as of their date of delivery and will bear interest payable semiannually on January 15 and July 15 of each year until maturity, commencing July 15, 2012. The Bonds shall mature on January 15 of the years and in the principal amounts as set forth on the first page of this Official Statement.

The Bonds are issuable only in fully registered form without coupons, and, when issued will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof, and purchasers will not receive certificates representing their interests in Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. (See "Book-Entry Transfer System" herein.)

Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

Redemption Provisions

The Bonds are subject to redemption as described below.

Optional Redemption with Make-Whole Payment.

The Bonds will be subject to redemption on any date prior to their stated maturity dates at the option of the City, in whole or in part (on a pro rata basis as described below), at any time, at a redemption price equal to the greater of:

- (i) 100% of the principal amount of the Bonds to be redeemed; or
- (ii) the sum of the present values of the Remaining Scheduled Payments (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis points,

plus accrued and unpaid interest on the Bonds being redeemed to the date fixed for redemption. For the purpose of determining the Treasury Rate, the following definitions will apply:

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Bond, the United States, Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond, (a) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (b) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the City.

“Reference Treasury Dealer” means each of not less than four firms, specified by the City from time to time, that are primary U.S. Government securities dealers in the City of New York (each a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the City shall substitute another Primary Treasury Dealer.

“Reference Treasury Deal Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, at least two (2) business days but not more than forty-five (45) calendar days preceding such redemption date.

“Remaining Scheduled Payments” means, with respect to the Bonds of each maturity to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due assuming such Bonds were not so optionally redeemed but, however, giving effect to any mandatory sinking fund installments applicable to such Bonds; provided, however, that, if such redemption date is not an interest payment date with respect to the Bonds, the amount of the next succeeding scheduled interest payment thereon will be deemed to be reduced by the amount of interest accrued thereon to such redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

Notice of Redemption. The City shall give notice of redemption to the owners of the applicable Bonds not less than 30 days prior to the date fixed for redemption. So long as the book-entry-only system remains in effect for such Bonds, notices of redemption will be sent by the City only to DTC or its nominee. Any failure on the part of DTC, any DTC participant or any nominee of a beneficial owner of any such Bond (having received notice from a DTC participant or otherwise) to notify the beneficial owner so affected, shall not affect the validity of the redemption.

On the specified redemption date, all Bonds called for redemption shall cease to bear interest, provided the City has monies on hand to pay such redemption in full.

Pro Rata Redemption of the Bonds. If the Bonds are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, partial redemptions will be done in accordance with DTC procedures. It is the City's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the City and the beneficial owners be made in accordance with these same proportional provisions. However, the City can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among beneficial owners on such a proportional basis.

If the Bonds are not registered in book-entry-only form, any redemption of less than all of the Bonds of any maturity will be allocated among the registered owners of such Bonds as nearly as practicable in proportion to the principal amounts of the Bonds of such maturity owned by each registered owner, subject to the authorized denominations applicable to the Bonds. This will be calculated based on the formula: (principal amount of applicable maturity to be redeemed) x (principal amount of applicable maturity owned by owner) / (principal amount of applicable maturity outstanding). The particular Bonds to be redeemed will be determined by the City, using such method as it deems fair and appropriate.

Mandatory Redemption

The Bonds maturing January 15, 2032 and January 15, 2042 (the "Term Bonds"), shall be retired in part prior to maturity by mandatory serial redemptions on January 15 in each of the years and in each of the principal amounts set forth below (the particular portion of such Term Bond to be redeemed or to mature on the final maturity date to be determined on a pro rata basis as described above), at a redemption price of par, plus accrued interest, if any, to the redemption date.

\$25,260,000 Term Bond Maturing January 15, 2032

<u>Year</u>	<u>Principal Amount</u>
2028	\$ 4,640,000
2029	4,840,000
2030	5,045,000
2031	5,255,000
2032 *	5,480,000

\$69,785,000 Term Bond Maturing January 15, 2042

<u>Year</u>	<u>Principal Amount</u>
2033	\$ 5,710,000
2034	5,960,000
2035	6,220,000
2036	6,495,000
2037	6,780,000
2038	7,075,000
2039	7,385,000
2040	7,710,000
2041	8,050,000
2042 *	8,400,000

*Final maturity.

Notice of Redemption

So long as DTC is the registered owner of the Bonds, notice of any redemption of Bonds prior to their maturities, specifying the Bonds (or the portion thereof) to be redeemed shall be mailed by registered mail to DTC not more than 60 days nor less than 30 days prior to the redemption date. Any failure on the part of DTC to notify the DTC Participants of the redemption or failure on the part of the DTC Participants, Indirect Participants, or of a nominee of a Beneficial Owner (having received notice from DTC Participant or otherwise) to notify the Beneficial Owner shall not affect the validity of the redemption.

Record Date

The record date for each payment of interest on the Bonds is the last business day of the month preceding the interest payment date. With respect to overdue interest or interest on any overdue amount, the Paying Agent may establish a special record date to the Bondowner. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the Bondowners at least ten (10) days before the special record date.

Book Entry Transfer System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued in fully-registered form registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated securities. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a AA+ rating from Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the securities on DTC's records. The ownership interest of each actual purchaser of each security deposited with DTC ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the securities deposited with DTC are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the securities deposited with DTC, except in the event that use of the book-entry system for such securities is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to securities deposited with it unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on securities deposited with DTC will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the City or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to securities held by it at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to Beneficial Owners.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Tax Matters

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel to the City ("Bond Counsel"), under existing law, interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). Bond Counsel expresses no opinion regarding any other federal tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Bonds.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. Bond Counsel has not opined as to any other New Hampshire tax consequences arising with respect to the Bonds. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than New Hampshire.

A complete copy of the proposed opinion of Bond Counsel with respect to the Bonds is set forth in Appendix B hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to beneficial owners of the Bonds that acquire their Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the Internal Revenue Service ("IRS") with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to investors who may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, real estate investment trusts, regulated investment companies, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors who hold their Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, the following discussion does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a beneficial owner of Bonds. In addition, this summary generally is limited to investors who become beneficial owners of Bonds pursuant to the initial offering for the issue price that is applicable to such Bonds (i.e., the price at which a substantial amount of such Bonds is first sold to the public) and who will hold their Bonds as "capital assets" within the meaning of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Bond who for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust with respect to which a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Bond (other than a partnership) who is not a U.S. Holder. If an entity classified as a partnership for U.S. federal income tax purposes is a beneficial owner of Bonds, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partners in such partnerships should consult their own tax advisors regarding the tax consequences of an investment in the Bonds (including their status as U.S. Holders or Non-U.S. Holders).

U.S. Holders

Interest. Stated interest on the Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

"Original issue discount" will arise for U.S. federal income tax purposes in respect of any Bond if its stated redemption price at maturity exceeds its issue price by more than a de minimis amount (as determined for tax purposes). For any Bonds issued with original issue discount, the excess of the stated redemption price at maturity of that Bond over its issue price will constitute original issue discount for U.S. federal income tax purposes. The stated redemption price at maturity of a Bond is the sum of all scheduled amounts payable on such Bond other than qualified stated interest. U.S. Holders of Bonds generally will be required to include any original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders of Bonds issued with original issue discount generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

"Premium" generally will arise for U.S. federal income tax purposes in respect of any Bond to the extent its issue price exceeds its stated principal amount. A U.S. Holder of a Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Bond.

Disposition of the Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the City), reissuance or other disposition of a Bond will be a taxable event for U.S. federal income tax purposes. In such event, a U.S. Holder of a Bond generally will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Bond which will be taxed in the manner described above under "Interest") and (ii) the U.S. Holder's adjusted tax basis in the Bond (generally, the purchase price paid by the U.S. Holder for the Bond, increased by the amount of any original issue discount previously included in income by such U.S. Holder with respect to such Bond and decreased by any payments previously made on such Bond, other than payments of qualified stated interest, or decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. A material modification of the terms of any Bond may result in a deemed reissuance thereof, in which event a beneficial owner of the modified Bonds generally will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the beneficial owner's adjusted tax basis in the Bond.

In the case of a non-corporate U.S. Holder of a Bond, the maximum marginal U.S. federal income tax rate applicable to any such gain may be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Bond exceeds one year. The deductibility of capital losses is subject to limitations.

The Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) requires certain U.S. holders that are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, interest and gains from the sale or other disposition of the Bonds for taxable years beginning after December 31, 2012. U.S. holders that are individuals, estates or trusts should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the Bonds.

Non-U.S. Holders

The following discussion applies only to non-U.S. Holders. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to non-U.S. Holders in light of their particular circumstances. For example, special rules may apply to a non-U.S. Holder that is a "controlled foreign corporation" or a "passive foreign investment company," and, accordingly, non-U.S. Holders should consult their own tax advisors to determine the United States federal, state, local and other tax consequences of holding the Bonds that may be relevant to them.

Interest. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," payments of principal of, and interest on, any Bond to a Non-U.S. Holder, other than a bank which acquires such Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, generally will not be subject to any U.S. withholding tax provided that the beneficial owner of the Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the Bonds. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition of a Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the State) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that at the time of such individual's death, payments of interest with respect to such Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding—U.S. Holders and non-U.S. Holders

Interest on, and proceeds received from the sale of, a Bond generally will be reported to U.S. Holders, other than certain exempt recipients, such as corporations, on IRS Form 1099. In addition, a backup withholding tax may apply to payments with respect to the Bonds if the U.S. Holder fails to furnish the payor with a correct taxpayer identification number or other required certification or fails to report interest or dividends required to be shown on the U.S. Holder's federal income tax returns.

In general, a non-U.S. Holder will not be subject to backup withholding with respect to interest payments on the Bonds if such non-U.S. Holder has certified to the payor under penalties of perjury (i) the name and address of such non-U.S. Holder and (ii) that such non-U.S. Holder is not a United States person, or, in the case of an individual, that such non-U.S. Holder is neither a citizen nor a resident of the United States, and the payor does not know or have reason to know that such certifications are false. However, information reporting on IRS Form 1042-S may still apply to interest payments on the Bonds made to non-U.S. Holders not subject to backup withholding. In addition, a non-U.S. Holder will not be subject to backup withholding with respect to the proceeds of the sale of a Bond made within the United States or conducted through certain U.S. financial intermediaries if the payor receives the certifications described above and the payor does not know or have reason to know that such certifications are false, or if the non-U.S. Holder otherwise establishes an exemption. Non-U.S. Holders should consult their own tax advisors regarding the application of information reporting and backup withholding in their particular circumstances, the availability of exemptions and the procedure for obtaining such exemptions, if available.

Backup withholding is not an additional tax, and amounts withheld as backup withholding are allowed as a refund or credit against a holder's federal income tax liability, provided that the required information as to withholding is furnished to the IRS.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular holder of Bonds in light of the holder's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Bonds, including the application and effect of state, local, foreign and other tax laws.

Circular 230 Disclaimer

The preceding tax matters discussion related to the Bonds is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under federal tax law in connection with the Bonds. Such discussion was written to support the promotion or marketing of the Bonds. Each purchaser of the Bonds should seek advice based on such purchaser's particular circumstances from an independent tax advisor.

Source of Payment and Remedies

In the opinion of Bond Counsel, the Bonds when duly issued will constitute valid general obligations of the City of Nashua and all taxable property in the City is subject to taxation, without limit as to rate or amount, to pay the same; provided that, to the extent the City has established any development districts pursuant to Chapter 162-K of the New Hampshire Revised Statutes Annotated, taxes levied on certain taxable property located within any such district may be restricted and unavailable to pay the principal of and interest on the Bonds. See "City Finances-Tax Increment Financing for Development Districts" below.

Chapter 33 of the New Hampshire Revised Statutes Annotated ("RSA"), known as the "Municipal Finance Act", provides that the amount of each payment of principal and interest on all loans issued by a municipality shall, without vote of the municipality, be annually assessed and collected. Except for certain taxes on the increased assessed value in development districts, no provision is made, however, for a lien on any portion of the tax levy to secure bonds or notes, or judgments thereon, in priority to other claims. See "City Finances-Tax Increment Financing for Development Districts".

The obligations of the City and the enforcement thereof are subject to the exercise of the sovereign police powers of the State of New Hampshire and the constitutional powers of the United States of America, to the federal bankruptcy act and other existing and future laws affecting creditors' rights to the extent the same may be constitutionally applied, and to the exercise of judicial discretion in accordance with general equitable principles.

Authorization of the Bonds

The Bonds are being issued pursuant to the New Hampshire Municipal Finance Act, Section 5 of Chapter 347 of the N.H. Laws of 2007, as amended and supplemented by Section 118 of Chapter 1 of the N.H. Special Session Laws of 2010, and Loan Resolution No. 10-82 of the Board of Aldermen approved by the Mayor on January 11, 2011.

Use of Proceeds

Bond proceeds will be used to purchase shares and options from the shareholders of Pennichuck, pay transaction costs including legal, accounting, investment banking, environmental and engineering fees and insurance costs incurred by both the City and Pennichuck in connection with the negotiation and completion of the merger, pay costs associated with severance packages for certain employees of Pennichuck and its subsidiaries, and to establish a \$5 million rate stabilization fund to be used to ensure stable water rates in the event of adverse revenue developments.

Acquisition of Pennichuck Water Utilities

The acquisition of the stock of Pennichuck is the culmination of a long dispute between the City and Pennichuck. Beginning in January 2003, when the voters of Nashua authorized the City to acquire the water system owned by Pennichuck by eminent domain, the City pursued legal avenues to accomplish the taking of the water system assets. These avenues included obtaining approval by the NHPUC on July 25, 2008 to take the assets of PWW (the utility subsidiary serving the City's residents) by eminent domain, and an order of the New Hampshire Supreme Court affirming the taking decision on March 25, 2010.

Several times during this litigation, the City and Pennichuck explored negotiated resolutions to the dispute. In connection with exploring these options, the New Hampshire State Legislature enacted legislation in 2007 (Chapter 347, Section 5 of 2007 N.H. Laws) which authorized the City to acquire and hold the shares of Pennichuck and/or any of its subsidiaries, subject to a finding by the NHPUC that the acquisition is in the public interest. In 2010, the State Legislature enacted an amendment to the 2007 legislation (Chapter 1, Section 118 of 2010 Special Session Laws) which authorized the City to issue general obligation bonds to finance the acquisition without such bonds being subject to the limit on general obligation borrowing by the City.

On November 11, 2010, the City and Pennichuck entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which the City would acquire, subject to certain conditions and contingencies, all of the outstanding common stock of Pennichuck for \$29.00 per share or approximately \$138 million in the aggregate. On January 11, 2011, the City's Board of Aldermen approved and ratified the Merger Agreement and authorized the issuance of general obligation bonds to finance the acquisition. Pennichuck's shareholders approved the Merger Agreement on June 15, 2011.

On February 4, 2011, the City and Pennichuck filed a joint petition with the NHPUC requesting that the NHPUC approve the acquisition as in the public interest. After submission of written testimony and months of discovery, the parties, including the NHPUC staff, entered into a settlement agreement recommending that the NHPUC approve the acquisition. After a final public hearing, the NHPUC on November 23, 2011 issued Order No. 25,292

concluding that the proposed acquisition was in the public interest, adopting the provisions and requirements of the settlement agreement, and approving the acquisition. This order became final and nonappealable on December 23, 2011 (the period for filing a motion for rehearing having expired).

Merger Agreement Between the City and Pennichuck

Pursuant to the Merger Agreement, the City will acquire all of the outstanding Pennichuck shares for \$29.00 per share, or approximately \$138 million in the aggregate. The City will effect the merger by establishing a wholly-owned subsidiary ("MergerCo") which will be merged into Pennichuck, with Pennichuck being the surviving corporation. The City will pay the merger consideration and transaction costs with the proceeds of the Bonds by transferring a total amount of approximately \$150 million to MergerCo in the form of (i) an equity contribution of approximately \$30 million in exchange for MergerCo common stock, and (ii) a loan of approximately \$120 million in exchange for a Senior Unsecured Note due 2042 (the "Note") pursuant to which MergerCo will be obligated to pay the principal amount with interest over 30 years. Following this merger, the City will be the sole shareholder of Pennichuck. Also, Pennichuck will assume all obligations of MergerCo, including those under the Note.

Summary of Pennichuck and its Businesses

Pennichuck is an investor-owned holding company headquartered in Merrimack, New Hampshire. Pennichuck owns all of the outstanding stock of five operating subsidiaries: the 3 regulated water supply and distribution utility subsidiaries, PWW, PEU, and PAC; Pennichuck Water Service Corporation which conducts non-regulated water-related services; and Southwood Corporation which owns several parcels of undeveloped land. The three regulated water utility subsidiaries, which are regulated by the NHPUC, are engaged principally in the collection, storage, treatment and distribution of potable water to approximately 34,000 customers throughout the State of New Hampshire. Pennichuck and its subsidiaries have approximately 105 employees. Prior to the effective date of the merger, Pennichuck's shares will continue to be traded on NASDAQ under the symbol PNNW.

Service Areas and Customers

<u>PWW</u>	<u>Customers</u>	<u>PEU</u>	<u>Customers</u>	<u>PAC</u>	<u>Customers</u>
Nashua (1)	22,502	Litchfield	1,852	Pittsfield	639
Amherst	1,192	Londonderry	1,831	Total	639
Bedford	997	Barnstead	848		
Derry	779	Windham	698		
Merrimack	281	Pelham	361		
Milford	264	Raymond	345		
Plaistow	193	Conway	211		
Hollis	93	Derry	218		
Newmarket	78	Hooksett	93		
Epping	72	Bow	79		
Salem	72	Middleton	78		
Total	26,523	Exeter	52		
		Tilton	39		
		Lee	34		
		Chester	33		
		Weare	28		
		Sandown	11		
		Plaistow	20		
		Atkinson	5		
		Total	6,836		

(1) Nashua customers represent 66.2% of the total of 33,998 customers and 88.8% of PWW customers.

Operation of Pennichuck and its Businesses After the Merger

After the merger, the City will become the sole shareholder of Pennichuck and will maintain the current corporate structure of Pennichuck and its subsidiaries. The City anticipates that Pennichuck's businesses and operations will continue with little or no changes. The business and affairs of Pennichuck will be managed and overseen by a corporate board of directors. After the initial board of directors is established pursuant to the Merger

Agreement, new board members will be nominated by the Pennichuck board and subject to election by the City, in its capacity as sole shareholder. Pennichuck and its subsidiaries will be operated and managed by the current employees at the operational and customer support level. The City anticipates that certain current management positions which mainly support Pennichuck's publicly-traded status will be eliminated following the acquisition.

Pennichuck's three regulated water utility subsidiaries – PWW, PEU and PAC – will continue their current status as public utilities subject to regulation by the NHPUC. Under the terms of the settlement agreement approved by the NHPUC in Order No. 25,292 approving the acquisition, each of these three utilities is required to request any future rate adjustments using a special ratemaking structure set forth in the settlement agreement. The NHPUC concluded that this ratemaking structure is reasonably structured to provide for the collection of revenues sufficient to enable the City to satisfy all of the operating, capital improvement, and debt service costs of PWW, PEU and PAC and to offset the City's debt service obligations under the Bonds. Under the Note, which Pennichuck will assume in the merger, Pennichuck will, and will cause PWW, PEU and PAC to, take all action necessary or advisable to comply with the terms and conditions of (i) Order No. 25,292, (ii) the settlement agreement approved by the NHPUC, and (iii) all other applicable laws governing public utilities, including without limitation, those relating to the filing of petitions for rates with the NHPUC.

While the City believes that the revenues reasonably expected to be realized through its ownership of Pennichuck (including Pennichuck's payments under the Note and distributions with respect to the Pennichuck stock), together with operational savings reasonably projected to result from the acquisition and access to the PWW Rate Stabilization Fund, will be sufficient to conduct the businesses operated by Pennichuck and its subsidiaries, fund necessary capital improvements and/or fund debt service on bonds issued by Pennichuck to fund capital improvements, and provide cash flow to offset the City's payment of debt service on the Bonds, the Bonds are general obligations of the City payable as to principal and interest from ad valorem taxes, which will be levied without limitation as to rate or amount on all taxable property of the City. Therefore, payment of the Bonds is not dependent upon receipt of any amounts from Pennichuck. The Bonds will not be secured by any pledge of revenues, or any other assets of the City, Pennichuck, or its subsidiaries.

Debt Service on The Bonds

The following table shows debt service on the Bonds.

Year	Principal	Interest	Total
2013	\$ 3,390,000	\$ 5,376,487	\$ 8,766,487
2014	3,250,000	5,513,151	8,763,151
2015	3,280,000	5,483,121	8,763,121
2016	3,320,000	5,445,729	8,765,729
2017	3,370,000	5,395,863	8,765,863
2018	3,430,000	5,335,809	8,765,809
2019	3,505,000	5,261,756	8,766,756
2020	3,590,000	5,175,568	8,765,568
2021	3,690,000	5,076,592	8,766,592
2022	3,795,000	4,970,430	8,765,430
2023	3,910,000	4,854,797	8,764,797
2024	4,035,000	4,729,794	8,764,794
2025	4,170,000	4,594,742	8,764,742
2026	4,315,000	4,448,084	8,763,084
2027	4,475,000	4,289,852	8,764,852
2028	4,640,000	4,121,279	8,761,279
2029	4,840,000	3,925,193	8,765,193
2030	5,045,000	3,720,654	8,765,654
2031	5,255,000	3,507,453	8,762,453
2032	5,480,000	3,285,376	8,765,376
2033	5,710,000	3,053,792	8,763,792
2034	5,960,000	2,803,922	8,763,922
2035	6,220,000	2,543,112	8,763,112
2036	6,495,000	2,270,925	8,765,925
2037	6,780,000	1,986,704	8,766,704
2038	7,075,000	1,690,011	8,765,011
2039	7,385,000	1,380,409	8,765,409
2040	7,710,000	1,057,242	8,767,242
2041	8,050,000	719,852	8,769,852
2042	8,400,000	367,584	8,767,584
Total	\$ 150,570,000	\$ 112,385,284	\$ 262,955,284

Sources and Uses of Bond Proceeds

Proceeds of the Bonds will be applied as follows:

Sources:

Par Amount of the Bonds	\$ 150,570,000.00
Total Sources	\$ 150,570,000.00

Uses:

Underwriters' Discount	558,920.65
Costs of Issuance	450,262.35
Proceeds for Pennichuck Acquisition	144,560,817.00
Proceeds for Rate Stabilization Fund	5,000,000.00
Total Uses	\$ 150,570,000.00

Continuing Disclosure

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"), the City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 270 days after the end of each fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain significant events. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix D. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds.

The City has never failed to comply in all material respects with any previous undertaking to provide annual reports or notices of material events in accordance with the Rule.

Financial Advisory Services of First Southwest Company

First Southwest Company, Boston, Massachusetts, serves as financial advisor to the City of Nashua, New Hampshire with respect to the Bonds.

Ratings

Fitch Ratings and Moody's Investors Service have assigned ratings of AAA and Aa2, respectively on the Bonds. Said ratings reflect only the respective rating agency's views and are subject to revision or withdrawal, which could affect the market price of the Bonds.

Other Legal Matters and Services

All legal matters incidental to the authorization and issue of the Bonds are subject to approval of the firm Edwards Wildman Palmer LLP, Boston, Massachusetts. A proposed form of the legal opinion of Bond Counsel is included herein as Appendix C.

Other than as to matters expressly set forth herein as the opinion of Bond Counsel, Bond Counsel are not passing upon and do not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement and make no representation that they have independently verified the same.

Certain legal matters will be passed upon for the City by the City's Corporation Counsel and by Rath, Young and Pignatelli, P.C., Concord, New Hampshire and for the Underwriters by Nixon Peabody LLP, Boston, Massachusetts.

C.W. Downer & Co., Boston, Massachusetts has acted as Financial Advisor to the City with respect to the transaction with Pennichuck.

CITY OF NASHUA, NEW HAMPSHIRE

General

The City of Nashua is located in Hillsborough County along the Merrimack River in southern New Hampshire, approximately 34 miles northwest of Boston, Massachusetts and 18 miles south of Manchester, New Hampshire. The City encompasses an area of 32 square miles. Settled early in the seventeenth century by inhabitants of the Boston area, Nashua was first a part of Massachusetts and called Dunstable. Later, as a part of New Hampshire, it was incorporated as a City in 1853. The City is governed by its charter (adopted in 1913 and amended from time to time) and an elected Mayor and fifteen member Board of Aldermen. According to the 2010 census, the City has a population of 86,494.

History

Early settlers of land known today as the City of Nashua, (then known as Dunstable) in the 1600's originated from England and Massachusetts as pioneers and homesteaders to settle on grants of land. The economy of the community at that time could be characterized as farming and mercantile/commercial trade. The 1700's continued the settlement period as the sawmills and gristmills were established to harness the many streams and brooks throughout the town. The late 1700's was a significant period for the region due to construction of the 27.75 mile long Middlesex Canal System linking the Merrimack River to Charlestown-Boston. Direct water access to Boston markets immensely increased trade opportunities.

During the 1800's two giant mills were established by harnessing waterpower via the canal systems. Metal manufacturing, iron industries and other heavy industries were established often as ancillary and support businesses to the large mills. Railroads built throughout the region in the mid-1800's dramatically reduced the general expense of travel and transportation of goods. The year 1853 marked the official establishment of the City of Nashua.

Form of Government

The City is governed by its charter which was adopted in 1913 and which has been amended from time to time. The Mayor and the fifteen member Board of Aldermen are the chief executive and legislative officers of the City, and are generally responsible for the administration of the fiscal, prudential, municipal, and other affairs of the City.

The City also is responsible for providing education, under requirements established by the State of New Hampshire. An elected 9 member School Board manages academic and most business affairs with fiscal autonomy on certain matters such as personnel salaries. However, the School Board does not represent an autonomous governmental unit, independent from the City of Nashua. Financial management and reporting, as well as the issuance of debt obligations, are the City's responsibility.

Principal Executive Officers

<u>Name</u>	<u>Office</u>	<u>Length of Term</u>	<u>Term Expires</u>
Donnalee Lozeau	Mayor	Four-Year Elected Term	December, 2015
John Griffin	Chief Financial Officer	Appointed by Mayor	Indefinite
David G. Fredette	Treasurer/Tax Collector	Appointed by the Mayor/ Confirmed by the Board of Aldermen	Indefinite
Katherine Hersh	Director of Community Development	Appointed by the Mayor/ Confirmed by the Board of Aldermen	Indefinite
Paul Bergeron	City Clerk	Appointed by the Mayor/ Confirmed by the Board of Aldermen	Indefinite
James McNamee	Corporation Counsel	Appointed by the Mayor/ Confirmed by the Board of Aldermen	Indefinite

Municipal Services

The City provides general governmental services for the territory within its boundaries, including police and fire protection, refuse disposal, sewer services, highways, and street and sidewalk maintenance. Public education is provided for grades kindergarten through twelve, providing a comprehensive program of preparatory courses, general education and business courses. In addition, the City maintains 965 acres of park sites and includes the Holman Stadium, a 4,500 seat outdoor stadium. The stadium is used for sporting events including minor league professional baseball, football and city events. In addition, there are 49 athletic fields for baseball, football and soccer, 7 ice skating rinks, 3 outdoor swimming pool complexes, and 22 tennis courts. The Nashua Airport Authority provides air service out of the Boire Airport in Nashua.

Water service in the City is provided by Pennichuck through PWW. Water is obtained from the Pennichuck Brook Watershed and one gravel-packed well, the watershed having a drainage area of approximately 27 square miles. Pumping capacity is 32 million gallons per day with a maximum treatment capacity of 35 million gallons per day. The PWW bills customers and collects payments directly. Water rates are based on a flat monthly fee which is dependent on the size of the customer meter plus a consumption charge. The fee for an average single family home consuming 9 hcf per month is \$50.14 per month.

Wastewater services for the City of Nashua, the Town of Hudson and a portion of the Towns of Merrimack, New Hampshire and Tyngsboro, Massachusetts, are provided by the City of Nashua Wastewater System, which is a municipal enterprise. The wastewater collection system is comprised of 330 miles of lateral, trunk, and interceptor sewers. The Nashua Wastewater Treatment Facility ("NWTF") employs both primary and secondary treatment processes. The design flow of the NWTF is 16.0 million gallons per day (MGD). The average daily flow is 12.0 MGD. In fiscal 2010 the NWTF treated 4,057 billion gallons of wastewater. The total budget for the NWTF in fiscal 2010 was \$18.8 million which includes both operational expenditures of \$11.5 million consisting of operations, collection system maintenance, billing services, debt service, storm water control, equipment replacement fund and \$7.4 million of combined sewer overflow (CSO) abatement and other capital projects. Revenues for the system for fiscal 2011 are estimated at \$20.7 million which includes \$9.5 million of accumulated earnings. Unrestricted net assets of the wastewater system are estimated to be approximately \$8.6 million (as of June 30, 2010). The average cost to a residence is approximately \$230 per year. The City anticipates sufficient capacity for at least the next ten years.

The City's combined sewer overflow ("CSO") project, mandated by the EPA, is expected to cost approximately \$40 million dollars over the next 5 years. The City has entered into a Consent Decree with the EPA implementing a long term CSO plan. Certain aspects of the CSO project are eligible for a New Hampshire Department of Environmental Services (NHDES) 20% grant. The City expects to utilize both existing retained earnings and State Revolving Loans from the NHDES for CSO projects. The approximate cost of the balance of the Consent Decree project is \$40 million. The deadline for completion is 2015.

The City of Nashua provides solid waste and recyclables collection and disposal service for approximately 23,000 residential dwellings. Commercial haulers service in excess of 13,000 dwellings in condominium and large apartment complexes and mobile home parks. In fiscal year 2010, a total of approximately 26,239 tons of residential solid waste were disposed of at the Four Hills Landfill. In this same period commercial and private haulers disposed of approximately 27,530 tons of solid waste. Of this total, 9,676 tons were categorized as residential waste generated through the residential credit program. In addition, 8,186 tons of construction and demolition debris and 246 tons of biosolids generated at the City's Wastewater Treatment Facility and 11 tons of asbestos were disposed of during fiscal year 2010. Construction of the Phase II secure lined landfill expansion was completed in fiscal year 2009, and began operation in November of 2009. The total permitted capacity of Phase I, Phase II and Phase III stands at just less than four million cubic yards.

Economy

Known as the Gateway City for its optimal location just over the Massachusetts border, Nashua is the state's key center for business and government. With an abundance of opportunities for business and living alike, the City of Nashua is the second largest city in the State of New Hampshire. It has twice been named the "Best Place to Live in America" by Money magazine – the only city in the country to be honored twice.

The City continues to grow, reinvent and reinvigorate itself in response to ever changing economic trends and challenges, much as it has always done since its establishment some 350 years ago. Once a leader in textile manufacturing, the local economy has transformed into one that emphasized the development of electrical equipment, computer and machinery manufacturing. In more recent years, software development, defense-related research and development, telecommunications, robotics and medical devices have blossomed into key industries. The City also maintains its position as the dominant regional retail hub and is increasingly emerging as a regional center for healthcare services. With less than 300 acres of undeveloped commercial/industrial land available for development and vacant residentially zoned land becoming scarce, Nashua is largely built-out. As such, focus has shifted primarily toward redevelopment and rehabilitation to keep the City on the forefront of economic, technological and social change.

The City strives to build and maintain strong, dynamic relationships with its business community through opportunities for existing business development and expansion, continued tax base improvements, new business recruitment programs and efforts maintaining the integrity and desirability of all existing neighborhoods. The area is home to a broad base of leading international corporations including, Oracle, BAE Systems, Dell, Fidelity Investments and many others. Since 1960, Nashua's population has nearly doubled--a tribute to the area's high quality of life and industrial success.

Location of Industry

While industrial and commercial uses are found throughout Nashua, it is concentrated along its commercial corridors, and in particular in areas that have easy access to and from the FE Everett Turnpike. Notable concentrations exist in the southerly portion of Nashua along the Daniel Webster ("DW") Highway (accessed via Exits 36, Exit 1, Exit 2 and Exit 3 on the FE Everett Turnpike), in the north along Amherst Street (via Exits 7 and 8), and in the center of the City along West Hollis Street, Simon Street and Northeastern Boulevard (via Exit 5 and 4). More established commercial areas can be found in the core of Nashua and include Downtown Nashua, the Nashua Millyard and areas along Bridge Street and East Hollis Street. Many of these established areas have hosted industry for over 150 years.

The City's largest commercial center is the DW Highway commercial corridor in south Nashua at the New Hampshire/Massachusetts state line. Here, non-New Hampshire residents can take advantage of tax-free New Hampshire shopping at its best. Pheasant Lane Mall is a Simon Properties-owned super-regional mall with over 1 million square feet of retail space including major tenants such as Sears, J.C. Penney, Macy's, and Target. The Mall just welcomed a new Dick's Sporting Goods (the largest in New England) as well as two new restaurants. The Mall is currently undergoing a \$10 million facelift that will include redesigned entrances, a renovated food court and new surface treatments in all common areas. The DW Highway commercial corridor attracts over 10 million shoppers annually.

Nearly the entire two miles of commercially zoned land along the DW Highway has been developed for retail and commercial uses over the past decade, making it the largest retail concentration in New Hampshire and one of the largest in the Boston Metropolitan area. In addition to the Pheasant Lane Mall, furniture stores including Jordan's, Bernie & Phil's, and Bob's Discount Furniture, auto dealerships including Volvo, BMW, Jeep, Toyota, Buick and Chevrolet, along with other nationally recognized chains such as Barnes & Noble, Modell's, Home Depot, Best Buy, Old Navy, and others have all located along this corridor. The location is in such great demand that redevelopment of older commercial properties is a continual process, allowing the area to remain on top of current retail trends. The 45-acre former DOW Chemical site on East Spitbrook Road (about ½ mile north of Pheasant Lane Mall), for example, is envisioned as a 600,000 square foot "lifestyle" retail center. The total real estate valuation in the DW Highway area continues to be significant not only to the City of Nashua but to the entire State of New Hampshire.

Nearby, off of Exit 1 and Spit Brook Road, the Nashua Technology Park is taking root. The Park features the former Digital Equipment/Compaq/HP software development center which has been reconfigured into a state-of-the-art, multi-tenant technology center. Since its abandonment by HP in December 2007, the site has been sold, remarketed, renovated and repopulated by recognizable technology and software firms, including Intel, Skillsoft,

Amphenol, Benchmark Electronics and Dell Computer. Only 150,000 square feet remain available in this 750,000 square foot center. Future expansion is available on the adjacent 400 acre site and represents Nashua's most compelling commercial development opportunity.

The Amherst Street commercial area (Route 101A), in the northwest quadrant of the City is a diverse district, boasting a strong concentration of retail, along with significant office, research, industrial and educational uses. Beyond providing an excellent array of shops and services for the local consumer, it also attracts patrons from other New England states and Canada. On any given Saturday parking lots are filled with cars bearing out of state license plates from as far away as New York, Connecticut, Rhode Island, Maine, Vermont, and Canada, as well as a substantial number from Massachusetts. The three-mile corridor contains six different commercial "strip centers", each of which ranges from 50,000 to 100,000 square feet. Unlike the Daniel Webster Highway area, however, Amherst Street has a large office component. Within the immediate vicinity are buildings housing nearly one-half million square feet of prime, class-A office space. Nashua Community College, Hesser College, Southern New Hampshire University-Nashua, and the Crowne Plaza Hotel, numerous restaurants and banks are but a few of the larger tenants in this area. Growth and development continues with the recently opened Target, T J Maxx, Texas Road House Restaurant and Panera Bread Restaurant. Adjacent to the Target development, another new shopping center was completed in the summer of 2006 that includes a Walgreen's Pharmacy, Pet Co, and other tenants. A 4-story, 104-room Hampton Inn opened in 2009 on the former Ground Restaurant site at the corner of Somerset Parkway and Amherst Street.

Located steps from Amherst Street and accessed immediately from Exit 8 is the WE/SC LLC Corporate Park, comprised of 1.1 million square feet on a site of approximately 100 acres, which reflects the diverse way in which Nashua's economy is developing. Currently, this research and development park contains a 250-room Marriott Hotel, a regional cancer center, a US Postal Distribution Center, a public storage facility, an extended stay motel, and two office buildings totaling 110,000 square feet. Viega, a German based leader in the production of innovative plumbing and heating systems, opened its first North American training center in 2006 on one of the two remaining undeveloped lots in the park. The other remaining site is being developed by Dartmouth-Hitchcock Medical Center into a new 180,000 square foot in-patient facility.

Westwood Industrial Park, 105-acres in the northwest corner of the City off of Amherst Street, is the City's newest industrial park. Delta Education, a producer of educational products, was the first tenant in the park. The new distribution facility for Belleavance Beverage (78,920 square feet) and ITT Corporation (55,765 square feet of research and development and office space) are two of the businesses located in Westwood Park. Two C Pack Systems, a premium packaging company headquartered in Italy, purchased the Lowell Paper Box Company in 2007 and the former Corning building (330,000 square feet) in February 2008. They moved into the renovated space in December of 2008.

Though the City's newer office/industrial parks are prominent, much of the City's technological innovation and entrepreneurial activity is currently taking place in one of the City's oldest industrial areas: the historic Millyard District near Downtown Nashua. In these areas, numerous small businesses are taking advantage of the City's highly skilled and educated labor force to develop new cutting edge products and technologies. This entrepreneurial spirit is found in Downtown Nashua as well, which boasts unique retailers and award winning restaurants in a classic and historic New England main street shopping district.

Manufacturers are reporting a rebound from the effects of the recession. Electronics and systems manufacturers, including those involved in the manufacture of medical devices are expanding in Nashua. Resonetics, a 30 year old laser machining and laser systems manufacturer has opened a new facility at 44 Simon Street, expanding to 50,000 square feet with a clear plan to double its workforce of 125 within 2 years. FLIR Commercial Systems recently purchased a 90,000 square foot building at 8 Townsend West and is in the midst of a \$10 million building renovation, which will allow it to consolidate three business units from Massachusetts and Southern New Hampshire and expand its workforce in Nashua substantially.

Housing Development

New housing developments have been developed or are under construction for families and individuals of all types, sizes and income levels throughout the City. In 2008, as part of the City's Brownfields initiative, the City worked with a local developer to build a 41-unit townhome project called Prescott Square which provides workforce housing. Nearby on Temple Street, Neighborhood Housing Services of Greater Nashua recently completed Casimir Place, another workforce housing development. This innovative project provides 28 units of affordable rental housing for working families, including 6 townhouse units constructed within the former St. Casimir Church. Assistance was also provided by the City through its Urban Programs Department and through the New Hampshire Housing Finance Authority. Also on Temple Street, the City teamed with Southern NH Services and the Nashua Association for the Elderly to build a new 24,000 square foot senior center and 43 units of affordable elderly housing.

Located in a downtown neighborhood a few blocks from Main Street, Palm Square was completed in 2009. The project is major rehabilitation of the almost 200,000 square foot historic Batesville Casket Company manufacturing building into 140 senior apartments for active adults aged 55 and over, as well as retail space and the successful Estabrook Grill Restaurant. The complex is 100% occupied and boasts a growing waiting list. The groundbreaking of 23 senior cottages took place in 2008 in South Nashua to complement The Huntington, a full service life care retirement community which provides 125 one and two-bedroom apartments situated in a beautiful rural setting across from Sky Meadows. Traditional single-family homes continue to be developed in various areas of the City. Small in-fill developments have also occurred in many neighborhoods.

The City and the Nashua Business Industrial Development Authority have partnered with Renaissance Downtowns, Inc. to plan and execute a redevelopment plan for over 25 acres of formerly-contaminated land located at the confluence of the Nashua and Merrimack Rives near the Hudson, New Hampshire border. The plan, which outlines a development scenario that includes 500 units of housing and 100,000 square feet of retail and office space, envisions the creation of an urban village at the edge of Downtown Nashua. The first phase is set to break ground in the first quarter of 2012.

Infrastructure Investment

While the development of commercial and industrial areas has provided the requisite infrastructure improvements, extensions, and expansions necessary to support this growth, the City has played an active supporting role. The City in conjunction with the State of New Hampshire has invested in road improvements in support of new development and provided a coherent planning framework. The City is also leading the way (with assistance from the State) for the restoration of commuter rail service between Boston and New Hampshire through extension of the existing MBTA line from Lowell to south Nashua. In 2008, the City of Nashua authorized the construction of the Broad Street Parkway, a \$67 million roadway that will link Downtown Nashua, the Millyard, and other key redevelopment sites with Broad Street (near the Exit 6 Interchange) and the Everett Turnpike. This roadway will also provide a second bridge crossing the Nashua River. The project will break ground this fall and is expected to be completed in 2014. Commuter bus service between Nashua and Boston with stops at South Station and Logan Airport began in February of 2007 and has been an overwhelming success.

Downtown Nashua continues to serve as a vibrant center for Nashua and the surrounding region. New restaurants and retailers are locating alongside old favorites, adding to the ever-expanding diversity of the City's historic core. The Jackson Falls Condominiums, completed in 2006, are providing the first new market-rate housing in downtown in decades. Plans to convert thousands of square feet in former mill buildings into condominiums, retail shops and businesses are also underway. The City recently approved the renovation of Cotton Mill Square, which will include the historic rehabilitation of a centuries-old cotton storage building into 101 units of mixed income apartments. Adjacent to the site, the City recently completed the major restoration and rehabilitation of the Cotton Transfer Bridge, which provides a pedestrian link across the Nashua River. The Great American Downtown, Inc., Nashua's downtown organization modeled after the National Main Street Program, continues to work to bring merchants, business leaders and residents together with the resources and vision necessary to keep downtown ahead of the curve.

Economic Development Strategic Plan

Throughout fiscal 2005, the City worked with a private consulting firm, Mt. Auburn Associates, to prepare an Economic Development Strategic Plan for the City. This same firm completed a similar plan in 1992, the well-received *Nashua at the Crossroads*. The overall goals of the plan, officially adopted by the City in December of 2005, are to:

- improve the economic well-being of all residents of the City,
- improve the competitiveness of the City and address needs of the business community, and
- ensure a stable fiscal environment.

The planning process included three key phases: an Economic and Resource Base Analysis, Strategies to Build a Competitive City, and an Implementation Plan that included a separate Marketing Plan. Throughout the fall of 2004 and winter of 2005, Mt. Auburn Associates held multiple meetings with various City officials and the Board of Aldermen's Planning & Economic Development Committee which provided oversight for the project. In addition, interviews were held with over fifty individual business and community leaders. Along with interviews, site visits and public meetings, the study included a comprehensive review and analysis of data from a wide range of sources and an analysis of how Nashua compares to other cities of similar size, composition and location.

In April of 2005, an Economic Summit was held to present the principal findings and recommendations of the plan to the public. Among its major findings is that Nashua is a relatively prosperous city with increasingly strong links to Greater Boston. The City benefits from a young and highly skilled talent base with very high concentrations in disciplines such as engineering and software. Nashua also has a good entrepreneurial environment and benefits greatly from strategic investments that have been made in its schools, transportation system and downtown. The City, however, also faces challenges due to a lack of support for research and development in the State, limited links to university based research facilities, a lack of vacant developable land, and relatively high unemployment and high housing costs. To build upon the City's assets and address its challenges, the plan sets out five key strategy areas outlined below.

1. Investing in the Future - The Role of the City of Nashua in Sustaining its Quality of Life:
 - a. Continue to invest and support excellence in the public schools
 - b. Support commuter rail and transit-oriented development
 - c. Continue to invest and improve Downtown
 - d. Promote investments that secure the City's role as a retail *Mecca*
2. Managing for Success - Advancing a Collaborative Private-Public Sector Culture:
 - a. Create a more customer-oriented, integrated management team
 - b. Streamline the City's permitting processes
 - c. Build new opportunities for business-city dialogue
 - d. Develop a marketing effort to promote the Team Nashua approach
3. Accelerating Enterprise Development - Stimulating Innovation and Entrepreneurship:
 - a. Create a Center for Innovation Acceleration
 - b. Support immigrant entrepreneurs
 - c. Focus Nashua's RLF on innovation acceleration and immigrant enterprise development
4. Promoting the City - Marketing its Economic Development Product:
 - a. Inside marketing: keep the existing business base strong through retention and expansion efforts
 - b. Outside marketing: strategic business recruitment
 - c. Academic marketing: attract a satellite campus
5. Addressing Regional Housing and Workforce Challenges - Leading and Convening Regional Stakeholders:
 - a. Work with the Nashua Regional Planning Commission to make affordable housing a more regional issue
 - b. Help convene regional stakeholders to build career ladders for low and moderate-income residents

The City has recently partnered with the Chamber of Commerce to initiate a city-wide rebranding process. The partners are raising funds to fund the development of a marketing plan, which will also include the development of a new logo, tag line, and the development of a destination web site and sustained marketing strategy to raise the profile of Nashua within the region as a destination for new business growth.

The following pages provide a summary of the history of large scale residential, commercial and industrial development within the City.

LARGE-SCALE RESIDENTIAL DEVELOPMENTS
1990-2011

	<u># of Dwelling Units</u>		<u># of Dwelling Units</u>
<u>1990</u>		<u>1999-2003 continued</u>	
South Main Street	23	Walden Woods - Elderly Housing	118
Pine Brook	57	J M R Construction, INC	7
<u>1991</u>		Meridian Place Elderly Housing	47
Heidi Lane	12	Webster Lawn Elderly	76
Edmatteric	12	<u>2004-06/2005</u>	
Lansing Drive	18	Jackson Falls-Riverfront	
<u>1993</u>		Condominiums	22
Gilson Road Subdivision	18	Temple St. Realty	11
Skymeadows – Birches	15	Wild Rose Estates	26
Cobblehill Road	15	Salmon Brook Flats - Elderly	22
Ridge Road	24	Nashua Assoc. - Elderly	43
Longview Meadows	16	St. Casimir	26
<u>1994</u>		Mine Falls Estates	40
Hadley Woods	36	Greenleaf of Nashua	36
<u>1995</u>		Courtney Estates	13
Freshwater Court	11	Maplewood Phase 6	37
Granite Hill	34	Hollis East	80
<u>1996</u>		Mile High R.E.	10
Village at Bowers Pond	49	Groton Woods	122
<u>1997</u>		<u>7/05 – 12/2011</u>	
Brox Development	226	Northfield Estates	5
Gagnon	8	Lowther Place	6
Castleton Estates	13	Streeter Landing Elderly Housing	43
Howard	12	Harbor Homes Veterans' Housing	20
<u>1998</u>		Huntington CCRC assisted du's	12
Georgetowne	69	Dalton Village	7
Hadley Woods – II	7	Southline Woods	36
Sanderson Farms	39	Cotton Mill Square	109
Lojko Drive	13	AHEPA Retirement Home	38
Nine smaller subdivisions	72	Prescott Square	41
<u>1999-2003</u>		Colliston Yard Elderly Condos	75
Southern NH Services	82	Palm View Crossing senior apts	140
Maplewood - Elderly	14	Kempton Heights	20
Manchester Street	9	22 Marshall St Apartments	112
Tinker Estates	17	Kincaid Lane	7
Maplewood - Carriage House		7 Coliseum Av Senior Apts	
Common Phase 1-5	212	Addition	40
Tanglewood	50	Hayden Green	85
Longview Meadows	52	Stinson Park	17
The Huntington Retirement		Wellman Terrace	6
Community	266		
Sky Country	24		
Dunlogin Road	21		
Gagnon Farms (Rosewood)	82		
Majestic Heights	73		

LARGE-SCALE COMMERCIAL DEVELOPMENTS

2000-2011

<u>Year</u>	<u>Name of Development</u>	<u>Square Feet</u>	<u>Year</u>	<u>Name of Development</u>	<u>Square Feet</u>	
2000	Public Storage	98,952	2002	Windmill Development Corp	7,880	
	Worthen	9,600		Nashua Airport Authority	3,400	
	Delta Education Phase 2	87,664		Office Building –NE Blvd.	28,000	
	Tara Properties	70,000		Law Realty Warehouse	20,000	
	Gurney's Automotive	6,900		Amherst Pizza	17,000	
	Bishop Guertin	53,554				
	Second Generation Properties	50,000				
	Longhorn Steakhouse	5,072		2003	Citizens Bank	9,072
	Second Generation Properties	5,000			Crisco Inc. Addition	8,000
	Corning Lasertron	389,408			Bugaboo Creek Steak House	6,800
	Cumberland Farms	3,600			Applebee's Restaurant	6,550
	Wendy's Restaurant	3,200	Pizzeria Uno		6,000	
	Toyota of Nashua	3,200	Community Bank		5,500	
	Rivier College Dorm	29,650	Merrimack County Savings Bank		5,000	
	Saint Joseph Parish	27,500	Nashua Ice Arena (800 seats)	37,000		
	Peter's Honda	27,000	Small World addition	3,970		
	Old Navy	25,093	Burger King	3,582		
	BAE, Chemical Storage	2,800	Wendy's Restaurant	3,148		
Dunkin Donuts	2,250	Bank of New Hampshire Branch	2,750			
Shell Oil	2,010	BAE Systems addition	2,100			
Teradyne	187,000	Dunkin Donuts	2,020			
Delta Education	12,160	Nashua Mall retail addition	17,000			
Flagler Properties	10,920	Custom Manufacturing Services	14,432			
Bickford Restaurant	1,431					
2001	Whitney Screw Redevelopment	9,000	2004	Patriot Supply	8,400	
	Bernie and Phyl's	86,520		St. Joseph Hospital	68,000	
	Khol's Department Store	8,600		Town Fair Tire	6,950	
	Main Street Marketplace	64,500		Pilgrim Church	5,170	
	Extended Stay America	44,000		Conway Office Products	43,200	
	1400 Motors, Inc.	4,800		SNH Medical Center	39,440	
	Nashua Mall- Christmas Tree Shop	36,000		White Family Ven	3,600	
	Furniture World	34,800		Ligkos Rev. Trust	3,592	
	Value Homes Inc.	2,754		Rochette Funeral Home	2,166	
	Nashua Cancer Center	2,519		Viega	15,088	
	Charron Realty	17,700		Allen Mello Car Dealership	14,370	
	Target Shopping Center	168,800		DWH, LLC	10,800	
	MacThompson Realty	1,800		Skyventure	10,000	
	Custom Mfg	1,726				
DEA	1,350					
BAE Systems	1,000					

LARGE-SCALE COMMERCIAL DEVELOPMENTS

2000-2011(continued)

<u>Year</u>	<u>Name of Development</u>	<u>Square Feet</u>	<u>Year</u>	<u>Name of Development</u>	<u>Square Feet</u>
2005	267 Main Street	8,400	2009	Nature of Things School Barn	2,160
	Regency Center	48,300		Retail/Restaurant (5 Guys)	9,830
	Cumberland Farms	4,620		Amherst St	
	East Hollis St. Fire Station	20,124		Creative Years School addition	3,150
	Kentucky Fried Chicken	2,827		Retail to Medical Office exit 5	2,870
	Walgreens	14,425		Retail to Fitness Club	24,000
	Leda Lanes	12,250		(Coliseum)	
	Pennichuck Water	12,100		Nashua Baptist Church	3,137
			(addition)		
2006	Bellweather Credit Union	9,000	2010	Family Dollar and retail space	13,000
	Nashua Senior Center	23,750		MacMulkin Chevrolet addition	14,600
	Veterinary (Cat) Office	2,360		Camray Automotive	9,600
	City Transit Garage	18,000		NH Liquor Store new	19,810
	Panera Bread	1,000		NH Technical College addition	48,176
	Maccor Medical Office	12,600		Daniel Webster Col – Dormitory	18,132
	Lowe's	172,000		Rivier College Gym addition	7,796
				YMCA new facility	46,464
2007	Pleasant Lane Mall	99,752		Mary Hitchcock Hospital – new	149,000
	Nashua Landing Lifestyle Center	600,000		Pheasant Lane Mall – redevelop	120,285
	PK's Retail Building	6,000	former Macy's bldg. to Dicks		
	Land Air Design Airport Hangar	13,500	Sports, Burton Grill restaurant		
	Medical center office building	37,785	and 2 other restaurants		
	Generator building for Hospital	2,578			
	Rivier College Library addition	11,801	2011	Sky Venture	9,974
	Grace Fellowship Church	105,188		Toyota of Nashua	65,580
	R&D Office Building 85 NW BV	8,000		17 Riverside Realty	10,000
	Walgreen's Pharmacy & Store	15,617		Red Falls LLC	21,941
		John Flatley		29,880	
		Lodi Trust		558	
		Oanh & Long Nguyen		400	
2008	Burger King Amherst Street	2,580	Trinity Baptist Church	4,150	
	Carwash 607 Amherst Street	5,834	World Academy	25,798	
	Hampton Inn 103 rooms 4 story	15,689	Mason St. LLC	2,400	
	Two C Pack Systems	302,000	O'Donnell	660	
	Burger King (Amherst St)	2,580			
	Taco Bell Restaurant	2,800			
	Huntington CCRC addition	16,843			
	Retail Building 323 DW Hwy	6,000			
	Nashua Regional Cancer Ctr	3,303			
	Palm View Crossings	15,000			
	Cotton Mill Square office bldg	10,000			
	Axsys Tech. (44 Simon St)	80,000			

MAJOR INDUSTRIES LOCATED AT INDUSTRIAL PARK AREAS

SIMON STREET

Apex Telecommunications
Axsys Technologies
Bronze Craft
Macsteel
Ferotec
GEAC Computers
North End Technologies
Highland Tool Co.
Rapid Finishing
Mass Design
United Parcel Service

NORTHEASTERN BLVD.

Advanced Circuit Technology
Altaworks
Amphenol
Centorr Vacuum Industries
Fab-Braze Corp.
Federal Aviation
Administration
GN Netcom Unex Inc.
HelloDirect
Holiday Inn
Hope Industries
Motel 6
McLaughlin Transportation
The PLUS Co. Inc.
Skillsoft
Spray-Tek Corp.
Transparent Language
Unifirst Corp.
Winco Identification Corp.
X-L Corp.

MILLYARD

ActiveEdge
A-1 Phoenix Cleaning
Apex Business Forms
Crown Linen
Furnas, Huf & Gauthier, Inc.
Hollis Controls
Jumpstart Manufacturing, LLC
P.M. Mackay
Pharmcheck
Syam Software
Visible Edge
Ultima-Nimco
W.H. Bagshaw Co.

NORTHWEST BOULEVARD

Bellavance Beverage
Delta Education
ITT
SNHRMC West (Hospital)
Two C Pack Systems

AIRPORT

Affordable Solutions, Inc.
AD Automated Data
Advanced Computer
Resources
Capital Transportation
Logistics
Citris Hills
Conway Office Products
Gate City Air
GFW Aeroservices
OIA Aircorp
Quality Design Pools
Rapid Sheet Metal
Robinson Labs
S3 Development Corp.
Scientific Solutions, Inc.
Techparts, Inc.
TST Equipment

SOUTHWOOD PARK

Courtyard by Marriot
Crown Plaza Hotel
Sun Microsystems
Public Storage
Regional Cancer Center
Viega

CROWN/FRENCH HILL

Apex Plastics
Area Agency of Greater
Nashua
Armstrong Kitchen Cabinets
B A E Systems
Danfor
Datec Tool & Machine Co.
Duncan Phye Furniture
Gatecity Industrial Supply
Greenard Press & Machinery
Harry M. Wells Plumbing/Heating
Henry Hangar
Intracuity P.C.
Laconia Earth Anchors, Inc.
Machine Solutions
Nashua Circuits, Inc.
Nashua Foundries, Inc.
Norfold Factory Direct
Public Service Co. of NH
Reclaim Technology
Task Force
Total Air Supply, Inc
United Supply Company
Yourparty.com

BURKE STREET

First Student
Hershey Ice Cream
Lewis & Clarke, Inc.
Pretium Packaging

EXIT 1/SPITBROOK RD.

BAE Systems
Dell
Hewlett Packard
Intel
Mitre Corporation
Oracle
US Healthcare
Skillsoft Corp.

AMHERST STREET

Amcor
Amphenol Backplane Systems
Architectural Interior Products
Ascendantone, Inc.
Aspen Research Group
ATC Power
Bigraphics, Inc.
Circuit Connect
Dharma Systems
DTC Communications
Events Design Imagination
First Virtual Communications
Flextec
Harcros
Holden Health Career
IKE Inc.
Lawn Dawg
Lexington, Inc.
Modular Casework Systems
Nashua Motor Express
Owens Brockway
Pragmatech
Pfeifer Vacuum
PMPC/USPS
Randstad
Siemens
S.P. Richards CO.
Sienna Technologies
Stabile Companies
The Tamposi Company
Twin Mountain
Comcast

Industry and Commerce

Nashua has a diversified economic base with some 51,294 people employed in Nashua in 2007, with an estimated payroll of approximately \$2.63 billion. The following table lists the major categories of income and employment in Nashua for 2007 and 2002.

Employment and Payrolls

		2007			
NAICS Code	Industry	Units	Average Quarterly Employment	Average Weekly Wage	Estimated Total Payroll
	Total, Private plus Government	2,767	51,294	\$ 986.99	\$ 2,632,586,583
	Total Private	2,731	46,720	\$ 980.37	\$ 2,381,750,093
101	Goods-Producing Industries	296	9,596	1,681.45	839,030,098
11	Agriculture/Forestry/Fishing				
21	Mining				
23	Construction				
31	Manufacturing	147	8,330	1,798.98	779,246,177
102	Service-Providing Industries	2,435	37,124	\$ 799.16	\$ 1,542,736,824
22	Utilities				
42	Wholesale Trade	268	2,599	1,661.76	224,583,540
44	Retail Trade	450	9,775	496.62	252,431,946
48	Transportation and Warehousing	47	893	740.73	34,396,538
51	Information	59	1,180	1,632.82	100,189,835
52	Finance and Insurance	139	1,142	1,006.62	59,777,122
53	Real Estate and Rental and Leasing	128	636	762.20	25,207,478
54	Professional and Technical Service	396	2,823	1,493.32	219,213,403
55	Management of Companies/Enterprises	25	401	1,144.49	23,864,905
56	Administrative and Waste Services	154	2,210	795.45	91,413,114
61	Educational Services	31	925	585.30	28,152,930
62	Health Care and Social Assistance	295	7,943	840.73	347,251,756
71	Arts, Entertainment, and Recreation	29	609	352.58	11,165,503
72	Accommodation and Food Services	208	4,176	325.84	70,756,808
81	Other Services Except Public Admin	200	1,703	521.28	46,162,472
99	Unclassified Establishments				
	Total Government	36	4,573	\$ 1,054.58	\$ 250,774,906
	Federal Government	10	1,269	1,715.95	113,232,109
	State Government	20	456	609.96	14,463,372
	Local Government	6	2,848	831.19	123,095,914
		2002			
NAICS Code	Industry	Units	Average Quarterly Employment	Average Weekly Wage	Estimated Total Payroll
	Total, Private plus Government	2,634	50,241	\$ 796.66	\$ 2,081,299,743
	Total Private	2,601	45,641	\$ 788.11	\$ 1,870,446,683
101	Goods-Producing Industries	312	11,633	\$ 1,168.52	\$ 706,856,444
11	Agriculture/Forestry/Fishing				
21	Mining				
23	Construction	140	1,332	884.38	61,255,696
31	Manufacturing	172	10,302	1,205.25	645,657,246
102	Service-Providing Industries	2,289	34,008	\$ 657.98	\$ 1,163,582,360
22	Utilities	4	130	1,048.85	7,090,226
42	Wholesale Trade	254	1,684	1,292.03	113,140,483
44	Retail Trade	464	9,997	462.48	240,417,453
48	Transportation and Warehousing	51	974	637.73	32,299,749
51	Information	68	1,222	1,356.41	86,191,717
52	Finance and Insurance	120	1,258	794.72	51,987,404
53	Real Estate and Rental and Leasing	124	600	694.60	21,671,520
54	Professional and Technical Service	360	2,437	1,271.90	161,180,256
55	Management of Companies/Enterprises	18	367	1,259.33	24,033,054
56	Administrative and Waste Services	131	1,664	566.59	49,025,900
61	Educational Services	27	884	488.22	22,442,497
62	Health Care and Social Assistance	250	6,827	696.13	247,128,935
71	Arts, Entertainment, and Recreation	24	486	353.77	8,940,475
72	Accommodation and Food Services	181	3,807	291.94	57,793,610
81	Other Services Except Public Admin	207	1,626	463.10	39,156,031
99	Unclassified Establishments	8	44	439.19	1,004,867
	Total Government	34	4,600	\$ 881.45	\$ 210,842,840
	Federal Government	9	1,417	1,285.58	94,726,677
	State Government	20	378	519.73	10,215,813
	Local Government	5	2,805	726.03	105,898,736

Source: New Hampshire Employment Security, Economic and Labor Market Information Bureau: Quarterly Census of Employment and Wages
 Note: Estimated Total Payroll equals Average Quarterly Employment multiplied by Average Weekly Wage multiplied by 52 weeks.

The following table lists the largest employers of the City as of January 1, 2011, including the City which employs 2,903 persons as of that date. (Subsequent to January 1, 2011 there have been no material changes to the information below).

Largest Employers

<u>Firm</u>	<u>Product</u>	<u>Number of Employees</u>
City of Nashua (including schools)	City Government	2,856
BAE Systems	Aerospace/ Electronics	2,800
Southern New Hampshire Medical Center	Hospital	2,233
St. Joseph Hospital and Trauma Center	Hospital	1,990
Amphenol	Backplane Connection Systems	699
Market Basket	Supermarket Chain	650
Benchmark Electronics Inc.	Electronics/Mfg.	620
US Post Office	Postal Service	500
Home Depot	Retail – Home Improvements	500
Oracle Corporation	Software	463

Retail Sales

Retail trade has been an increasingly important industry in Nashua. Highway accessibility, its location on the Massachusetts border, and the differing sales tax rates between New Hampshire (0%) and Massachusetts (6.25%) has resulted in tremendous retail trade growth in Nashua. Nashua has the largest concentration of retail square footage in New Hampshire. The following table compares retail trade data for the City of Nashua, Hillsborough County and for the State as a whole. This information is provided by the United States Census of Retail Trade every five years.

Retail Sales 1992 – 2007

<u>Year</u>	<u>Nashua</u>	<u>Hillsborough County</u>	<u>New Hampshire</u>
# of Establishments (with payroll)			
2007 (NAICS)	492	1,657	6,603
2002 (NAICS)	501	1,703	6,702
1997 (NAICS)	492	1,682	6,645
1992 (SIC)	681	2,275	8,594
Sales (000)			
2007 (NAICS)	\$2,925,213	\$7,647,259	\$25,353,874
2002 (NAICS)	2,335,877	6,182,948	20,830,057
1997 (NAICS)	1,848,842	4,927,048	15,812,027
1992 (SIC)	1,346,613	3,394,922	11,099,193
Per Capita Sales			
2007 (NAICS)	\$33,832	\$19,067	\$19,268
2002 (NAICS)	-	15,761	16,330
1997 (NAICS)	22,633	13,410	13,477
1992 (SIC)	16,614	9,840	9,974

SOURCE: 1992-2007 U.S. Census of Retail Trade.

Note: U.S. Census of Retail Trade used the Standard Industrial Classification (SIC) code to determine "retail" activity until 1992. The 1997 date is based on the new North American Industrial Classification System (NAICS). Since the two systems are not readily comparable, time-based comparisons are not valid. Both SIC and NAICS statistics are available for the state level data, and are shown for comparison.

Unemployment

The following table sets forth the trend in the City's average labor force and unemployment rates and the unemployment rates for the State of New Hampshire, and the United States as a whole for the same period.

Unemployment Rates

Year	City of Nashua		Unemployment Rates	
	Labor Force	Unemployment Rate	New Hampshire	United States
2010	49,494	6.7 %	6.1 %	9.6 %
2009	49,722	7.2	6.5	9.7
2008	50,050	4.2	3.8	5.8
2007	50,340	3.3	3.3	4.8
2006	50,420	3.5	3.2	5.1

SOURCE: NH Division of Employment Security and US Bureau of Labor Statistics. Data based on place of residence, not place of employment.

Building Permits

The following table sets forth the trend in the number of building permits issued and the taxable dollar value of new construction and alterations for private as well as public construction projects.

Fiscal Year	New Construction				Additions and Alterations		Other		Total Permits Issued	Total Valuation (\$)
	Residential No.	Residential Value (\$)	Non-Residential No.	Non-Residential Value (\$)	No.	Value (\$)	No.	Value (\$)		
2011	56	11,858,590	91	6,696,561	526	77,106,431	1,431	5,669,415	2,104	101,330,997
2010	80	15,367,255	98	70,515,991	469	32,660,344	1,377	4,303,780	2,024	122,847,370
2009	64	15,872,818	93	3,802,757	405	27,385,890	1,318	7,632,938	1,880	54,694,403
2008	75	34,114,987	100	13,131,876	499	38,493,554	1,293	7,533,804	1,967	93,273,131
2007	93	17,243,397	105	38,441,197	577	67,387,903	1,466	10,024,036	2,241	133,096,533
2006	109	40,639,159	130	20,039,934	607	24,259,962	1,618	13,813,663	2,334	98,752,718
2005	132	30,367,950	120	11,833,980	456	44,116,068	1,187	1,282,600	1,929	87,600,659
2004	168	47,173,580	155	19,539,850	890	31,024,052	132	5,854,797	1,345	103,592,279
2003	133	23,499,670	139	18,007,910	549	19,046,606	409	7,992,156	1,230	68,546,342
2002	116	17,211,913	160	85,285,379	563	30,604,338	407	1,352,180	1,549	134,453,815

Source: City of Nashua, Department of Building Safety.

Education

The Nashua School system includes 12 elementary schools, 3 middle schools, and 2 senior high schools. The system provides a comprehensive program of advanced placement courses, general education courses, and career and technical education courses. October 2011 enrollment totaled 11,896. In the past decade, the City issued \$135 million school construction bonds for construction of a new high school, and renovation/expansion of the existing high school. Construction began in May 2000, with the new high school opening in September 2002 and the fully renovated high school opening in September 2004.

Public School Enrollment – October 1,

	Actual						Projected	
	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14
Elementary (K-5)	5,298	5,486	5,379	5,409	5,633	5,587	5,530	5,493
Middle School (6-8)	3,078	2,768	2,632	2,575	2,646	2,557	2,479	2,523
Senior High (9-12)	4,272	4,279	4,136	4,178	3,888	3,752	3,515	3,506
	<u>12,648</u>	<u>12,533</u>	<u>12,147</u>	<u>12,162</u>	<u>12,167</u>	<u>11,896</u>	<u>11,524</u>	<u>11,522</u>

Source: City of Nashua school department.

Transportation and Utilities

The City of Nashua is served by a network of interstate highways, including the F.E. Everett Turnpike and US Route 3. The City also has easy access to Interstates 93 and 95, which are both major north-south connectors. The F.E. Everett Turnpike widening/construction was completed by the State in July 2000 at a total cost of \$200 million. This road serves as one of the primary gateways to New Hampshire and Nashua from the south. The Commonwealth of Massachusetts recently completed the expansion of US Route 3 to the New Hampshire border, which has improved access to and from the Boston metropolitan area.

The cities of Nashua and Manchester, the two largest cities in New Hampshire, are actively pursuing the extension of commuter rail service to New Hampshire. Extension of service from Lowell, Massachusetts through Nashua to Manchester and Manchester Boston Regional Airport will provide direct commuter service to and from Boston. Both New Hampshire and Massachusetts officials are supporting the effort. Funding includes \$22 million committed to the Nashua rail project; \$7 million committed to the Manchester multimodal terminal; \$2 million committed by Manchester Airport to the airport station; and \$1 million committed to Nashua and Manchester's stations. In 2007 the State of New Hampshire formed the New Hampshire Rail Transit Authority for the express purpose of advancing commuter and passenger rail in the State of New Hampshire.

The City has access to three airports, the Nashua Municipal Airport, the Manchester Boston Regional Airport in Manchester, New Hampshire, and Logan International Airport, in Boston, Massachusetts. Nashua Airport provides air service for small planes and local flights. The Manchester Boston Regional Airport is the largest in the State and provides non-stop service to Chicago, New York City, Orlando, Washington DC, Minneapolis, Philadelphia, Pittsburgh, Cincinnati, Las Vegas, Los Angeles, Houston, and other major cities in the United States. The Manchester Boston Regional Airport is serviced by US Airways, Continental and Continental Express, Southwest, United and Northwest Airlines. Logan International Airport is 34 miles south of Nashua and provides services for all local, domestic and international flights.

Gas, electric, telephone, and cable services are provided by established private utilities. Water service is provided by a privately-owned water system, the Pennichuck Water Works, and sewer services are provided by the City. See "City Finances – Proposed Acquisition of Water Systems" below.

The Nashua Transit System, a City operation, provides bus service throughout the City as well as special pick-up service for the handicapped. The system continues to grow in ridership, frequency of service and geographic area.

Income Levels and Educational Attainment (1)

The following table compares 2005-2009 census figures to 2000 and 1990 figures for Nashua, the State and the country.

	<u>Year</u>	<u>Nashua</u>	<u>New Hampshire</u>	<u>United States</u>
Median Age	2005-2009	37.4	39.6	36.4
	2000	35.8	37.1	35.4
	1990	32.0	32.8	Not available
Median Family Income	2005-2009	\$79,398	\$75,552	\$62,363
	2000	61,102	49,509	41,343
	1990	46,614	41,628	Not available
Per Capita Income	2005-2009	\$32,019	\$30,640	\$27,041
	2000	25,209	24,273	21,684
	1990	18,101	15,959	Not available
Educational Attainment: % of Population 25 years old with High School Graduate or Higher	2005-2009	90.8%	90.5%	84.6%
	2000	86.6	87.4	81.6
	1990	82.7	82.2	Not available
Educational Attainment: % of Population 25 years old Bachelor's Degree or Higher	2005-2009	35.0%	32.4%	27.5%

(1) The 2005-2009 data is from the U. S Census American Factfinder, American Community Survey. The median age 2005-2009 data is from the U.S Census American Factfinder, American Community Survey (2005-2007 three year average), Summary Indicators Median Age (years).

Population Trends

Based on the 2010 federal census, the population density of the City of Nashua is 2,703 persons per square mile. The following table shows the City's population over the past several decades.

<u>Year</u>	<u>Population</u>
2010	86,494
2009	87,566
2000	86,605
1990	79,662
1980	67,865
1970	55,820

SOURCE: US Census; New Hampshire Office of Energy and Planning.

CITY FINANCES

Major Sources of Revenues

Local Property Taxes

The principal tax of the City is the tax on real and personal property. There is no limit as to rate or amount. The State of New Hampshire's "assessment year" for taxing purposes runs from April 1 to March 31 of the following year. The City operates on a June 30 fiscal year basis. Property taxes in Nashua are collected each year in two installments, on July 1 at the beginning of the fiscal year for the period July through December, and December 15, midway through the fiscal year for the period January through June. Interest accrues on delinquent taxes at the rate of 12% to the date of payment. On January 1, 1988 the City of Nashua opted to abandon the "tax sale" procedure and adopt the optional tax lien process pursuant to RSA 80:58-86 in accordance with RSA 80:87. The City places a lien on the delinquent property prior to September 1 of the following year. From the date of the tax lien, a two year period of redemption is allowed the owner, during which time, payment of taxes, interest and costs will be accepted and the lien released. 18% interest is charged during the two year redemption period. Beyond the two year period of redemption, properties may be deeded to the City by the tax collector. Except for any paramount federal lien and subject to bankruptcy and insolvency laws, tax liens take precedence over all other liens. The tax collector's deeds are free and clear of all encumbrances. All interest rates are on a per annum basis. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from available funds.

New Hampshire School Finance

On December 17, 1997, The New Hampshire Supreme Court ruled that the State's system of financing elementary and secondary public education primarily through local property taxes was unconstitutional. Since that decision, the state legislature has taken a number of actions to address the issues raised by the Court and to meet its constitutional obligation with respect to school funding. Many of such actions have been subject to subsequent review and decisions by the Court. For a detailed description of the history and status of the school funding litigation and the resulting legislation affecting the extent and manner in which the state participates in the financing of public education, see the State's Information Statement dated October 20, 2011, which has been filed with the Municipal Securities Rulemaking Board pursuant to Securities and Exchange Commission Rule 15c2-12.

Assessed Valuations

Fiscal Year	Real Property	Statutory Exemptions(2)	Net Assessed Valuations	Local Tax Rate (Per \$1,000)	Gross Tax Levy (2)
2012	\$ 8,636,646,561	\$ 138,958,000	\$ 8,497,688,561	\$ 20.97	\$ 175,904,288
2011	8,587,358,679	145,276,150	8,442,082,529	20.40	170,087,414
2010 (1)	8,537,024,221	147,658,598	8,389,365,623	19.82	165,758,134
2009	9,510,472,390	157,178,400	9,353,293,990	17.55	163,688,676
2008 (1)	9,451,891,184	170,666,650	9,281,224,534	17.40	161,078,196

(1) Property revaluation years.

(2) Gross Tax Levy source – Department of Revenue Administration. Tax Rate calculation sheet.

Tax Rates and Tax Levies

Fiscal Year	Local Tax Rate (Per \$1,000 Assessed Valuation) (1)	Gross Tax Levy	Tax Levy Per Capita
2012	\$ 20.97	\$ 175,904,288	\$ 2,034 (2)
2011	20.40	170,087,414	1,966 (2)
2010	19.82	165,758,134	1,916 (2)
2009	17.55	163,688,676	1,890 (3)
2008	17.40	161,078,196	1,860 (3)

(1) City-wide revaluations were completed in 2006, 2008 and 2010. The city decided no revaluation or update was needed in 2012 due to valuation percentage statistics as they relate to the average sale ratios are still close to 100% and there is no need for an update in fiscal 2012.

(2) Levy per capita is based on 2010 federal census data, City population of 86,494.

(3) Levy per capita is based on 2000 federal census data, City population of 86,605.

Tax Levy Calculations

	Fiscal Year				
	2008	2009	2010	2011	2012
Requirements:					
Appropriations (1)	\$ 210,538,589	\$ 215,750,984	\$ 221,871,434	\$ 227,324,343	\$ 230,756,222
County Tax	9,489,137	9,412,487	9,367,968	9,416,623	9,569,306
Statutory Credits	1,813,500	1,758,500	1,735,000	1,712,500	1,817,020
Overlay	1,918,094	2,025,675	1,978,467	1,806,609	1,703,000
Total Requirements	\$ 223,759,320	\$ 228,947,646	\$ 234,952,869	\$ 240,260,069	\$ 243,845,548
Less Receipts and Available Funds:					
Receipts (1)(2)	\$ 58,983,498	\$ 60,857,281	\$ 64,494,735	\$ 63,698,488	\$ (61,938,260)
Business Profits	3,697,626	1,498,357	-	-	-
Transfer from Surplus	-	2,903,333	4,700,000	4,900,000	(4,300,000)
Total Receipts and Available Funds:	\$ 62,681,124	\$ 65,258,971	\$ 69,194,735	\$ 68,598,488	\$ (66,238,260)
Gross Property Tax Levy	\$ 161,078,196	\$ 163,688,676	\$ 165,758,134	\$ 171,661,579	\$ 177,607,288
Less Statutory Credits	(1,813,500)	(1,758,500)	(1,735,000)	(1,172,500)	(1,703,000)
Net Property Tax Levy (3)	\$ 159,264,696	\$ 161,930,176	\$ 164,023,134	\$ 169,949,079	\$ 175,904,288

- (1) Amounts exclude enterprise funds.
 (2) Includes State Education Adequacy Grant.
 (3) Amounts do not include supplemental changes made during the year.

Tax Collections

Fiscal Year(1)	Property Tax Levied for Fiscal Year (2)	Collected within the Fiscal Year of the Levy		Lien Amount Balance at Fiscal Year End of Levy Year	Subsequent Tax Lien Collections	Balance at End of Current Fiscal Year	Total Collections Through 6/30/11		Number of Parcels		
		Dollar Amount	% of Levy				Amount	% of Levy	In Levy	Liened	% Liened
2011	\$ 170,706,403	\$ 168,303,403	98.6 %	\$ 2,403,272	\$ 539,882	\$ 1,863,350	\$ 168,843,413	98.9 %	27,992	671	2.4 %
2010	165,010,958	162,496,172	98.5	2,514,786	359,829	2,154,957	162,856,071	98.7	27,983	741	2.6
2009	162,492,774	160,152,238	98.6	2,340,536	337,289	2,003,247	160,207,640	98.8	28,004	738	2.6
2008	160,045,795	157,811,037	98.6	2,234,758	289,153	1,945,605	158,898,589	98.8	27,954	707	2.5
2007	156,687,784	154,976,500	98.9	1,711,284	236,234	1,475,050	156,129,578	99.1	27,746	539	2.0

- (1) Fiscal year relates to prior tax year.
 (2) Includes supplemental taxes.

The following is a list of the largest taxpayers in the City based upon assessed valuations for fiscal 2011.

Largest Taxpayers

Name	Nature of Business	Fiscal 2011 Assessed Valuations
Pheasant Lane Realty	Shopping Mall	\$ 143,796,408
Pennichuck Water Works (1)	Water Distribution	94,878,200
Aimco Royal Crest-Nashua LLC	Apartment Complex	88,392,200
Public Service Co. of New Hampshire	Utility	81,595,500
Southern NH Medical Center	Hospital	52,974,200
Energy North Natural Gas	Utility	50,407,700
BAE Systems	Electronics Manufacturer	43,073,700
Nashua Oxford-Bay Assoc. LIM PT	Real Estate	38,804,700
Flatley, John J	Offices/Land/Apts/Retail	37,794,600
OCW Retail	Real Estate/Investment Co.	34,976,700
		\$ 666,693,908

- (1) Currently Pennichuck Water Works pays a little over \$1.8 million in property taxes to the City of Nashua. When the City acquires Pennichuck, property taxes will continue to be assessed and billed to the acquired company. See "Acquisition of Pennichuck Water Utilities" herein.

Equalized Assessed Valuations and Estimated Full Value Tax Rates

The following table sets forth the trend in local assessed and state equalized valuations for the City of Nashua and the estimated full value tax rates for the City.

Fiscal Year	Net Assessed Valuation	State Equalized Assessed Valuation(1)	Ratio of Total Assessed Valuation to Equalized Valuation	Tax Rate (Per \$1,000 of Assessed Valuation)	Estimated Full value Tax Rate
2011	\$ 8,442,082,529	\$ 8,519,356,326	100.0 %	\$ 20.40	\$ 20.15
2010 (2)	8,389,365,623	8,575,136,081	98.6	19.82	19.33
2009	9,353,293,990	9,018,506,088	104.4	17.55	18.15
2008 (2)	9,281,224,534	9,358,505,782	100.0	17.40	17.21
2007	9,170,749,039	9,714,255,257	95.0	17.20	16.20

(1) Full value as determined annually by the State Department of Revenue Administration.

(2) Revaluation years.

Tax Increment Financing For Development Districts

Cities and towns in New Hampshire are authorized to establish development districts to encourage increased development. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance capital and administrative costs incurred by the city or town in developing the district in accordance with its development program and tax increment financing plan for the district. This may include pledging such "tax increments" for the payment of bonds issued by the city or town to finance development projects. As a result of any such pledge, property taxes raised on the increased assessed value in development districts are not available for other municipal purposes.

The City established its first development district in 2006, known as the Riverfront Promenade Tax Increment Financing District. Pursuant to the development program and tax increment financing plan for the district, bonds of the City dated December 15, 2006 included \$1,124,650 to finance construction of a public riverwalk and related improvements within the District to encourage private development. The "tax increment" resulting from the private development has been pledged to the payment of the portion of the bonds issued for this purpose.

On April 27, 2011 the City of Nashua accepted NH RSA 79E, known as the Community Revitalization Tax Relief Incentive. This program encourages investment in downtowns and village centers with a new local property tax incentive. Its goals are to encourage the rehabilitation and active use of under-utilized buildings in downtown Nashua and the surrounding neighborhoods.

Property owners who intend to substantially rehabilitate a building located downtown may apply to the City of Nashua for a period of temporary tax relief. The temporary tax relief, if granted, would consist of a finite period of time during which the property tax on the structure would not increase as a result of its substantial rehabilitation (between 5 and 13 years). In exchange for the relief, the property owner grants a covenant ensuring there is a public benefit to the rehabilitation. Following expiration of the finite tax relief period, the structure would be taxed at its full market value taking into account the rehabilitation.

The City is currently working with a local developer on plans for a downtown project.

Budget Process

On or about January 1, a directive is issued from the Mayor's Office requesting line item budget proposals from each department for submission by March 1. All increased appropriation requirements must be substantiated fully. The Mayor schedules individual departmental reviews with supervisors, commissioners, and/or Trustees. His recommendations are then presented to the Board of Aldermen. The Board also schedules individual departmental reviews to properly evaluate the Mayor's recommendations versus the departmental requests for appropriations. The Board may add to the Mayor's budget by a two-thirds vote or cut by a majority vote.

A public hearing is then set by the Board to review with the general public the budget requirements. After due consideration to the public, the Board makes a final decision. A resolution is required for acceptance of the final budget by a majority vote. The resolution lists each department's total appropriation needs, total revenues, and the amount to be raised by taxation. Should the Mayor decide to veto the Board's final budget, a two-thirds vote would be required to override.

The final budget resolution is then presented to the Department of Revenue Administration for its review and issuance of the tax rate. Certain limitations are set by state statute which must be subscribed to before the rate is established.

Budget Control Charter Amendment

On November 2, 1993, the voters adopted an amendment to the City Charter, proposed by an initiative petition, which limits annual budget increases. The amendment provides in part as follows in paragraph 56-c:

In establishing a combined annual municipal budget, the Mayor and the Board of Aldermen shall assume an increase in the current budget only in an amount equal to the current fiscal year budget, increased by a factor equal to the average of the changes in the Consumer Price Index-Urban (CPIU) of the three (3) calendar years immediately preceding budget adoption, as published by the U.S. Bureau of Labor Statistics.

The amendment further provides in paragraph 56-d in part as follows with respect to debt service:

The total or any part of principal and interest payments of any municipal bond, whether established for school or municipal purposes, may be exempted from the limitation defined in Paragraph 56-c upon an affirmative vote of two-thirds of the members of the Board of Aldermen. This decision shall be made annually.

In the opinion of Bond Counsel, these charter provisions do not affect the validity or enforceability of the Bonds, or the ability of the City to levy taxes without limit as to rate or amount to pay the Bonds and other general obligation indebtedness of the City. Paragraph 56-c expressly provides that it does not limit the Mayor and Board of Aldermen "from appropriately funding any programs or accounts mandated to be paid from municipal funds by State and Federal law". Moreover, Part 1, Article 39 of the state Constitution permits only charters and charter amendments "not in conflict with general law", and Section 2 of Chapter 33 of the New Hampshire Revised Statutes Annotated (RSA 33, known as the Municipal Finance Act) states, "The amount of each payment of principal and interest on all loans shall, without vote of the municipality, be annually assessed and collected" (emphasis added). Thus, even in the absence of an appropriation of debt service by the City, State law requires assessment and collection of taxes as necessary to pay debt service on the City's general obligation bonds and notes.

The provisions of paragraph 56-d do require a determination on an annual basis of whether the City will limit its other appropriations either to a larger amount that provides for debt service as an additional appropriation or to a smaller amount that results from subtracting debt service from the total allowable appropriation. In the opinion of Bond Counsel these provisions do not limit in any way the City's obligations to pay debt service in accordance with the Municipal Finance Act.

In June of 2008, the Board of Alderman voted to change the consumer price index used in the calculation of the spending cap to the Northeast Region CPI-U.

Budget Trends

The following table summarizes budget trends in recent years. The budget for fiscal 1995 was the first budget subject to the spending cap discussed above under "Budget Control Charter Amendment". As adopted, the fiscal 1995, through and including fiscal 1999 budgets were each below the amounts allowed pursuant to the Charter Amendment. However, the fiscal 1999 budget increase limit was overridden by a majority vote of the Board of Aldermen to accommodate an unusual increase in the cost of labor contract settlements and other fixed costs. In fiscal 2000, the Board of Aldermen once again voted to override the budget increase limit by \$12,858,000 to adjust for the additional revenue provided by the State of New Hampshire school adequacy payments. In the fiscal 2001 and 2002 budgets, the Board of Aldermen voted to exempt bonded debt payments and capital improvement costs as allowed under the "Budget Control Charter Amendment" to meet appropriation requirements (i.e. health

insurance, pensions, police, fire, bonded debt, etc) and to provide for the additional revenue provided by the State of New Hampshire school adequacy grant in the amounts of \$13,457,884 and \$21,004,646, respectively. Fiscal 2003 through 2006 had similar exemptions to meet the same appropriation requirements. The exemptions were \$19,067,038, \$20,001,873, \$28,974,597 and \$29,416,736 respectively.

The fiscal 2007, 2008 and 2009 budgets were approved for amounts that were under the spending caps of 2.65%, 3.1% and 3.3% respectively. The fiscal year 2009 budget included a supplemental appropriation of \$1.4 million for City Hall and Library renovations to begin an overall city buildings project that would also include two parking garages, and three other municipal buildings in the downtown area. Due to inaccurate budget projections, the School Department ended fiscal 2009 with \$3.2 million in expenditures in excess of their appropriation and legislation was approved to transfer the same amount from the school capital reserve fund to cover debt service payments, thus allowing for an operating budget transfer to cover the deficit.

The fiscal 2010 budget was within the spending cap of 3.4%, again requiring no exemptions to meet the appropriations proposed. Both fiscal year 2011 and 2012 budgets were well within the spending cap of 2.2% and 2.0% respectively, again requiring no exemptions to meet the appropriations proposed in both fiscal years. The fiscal 2011 budget was under the spending cap by \$1,284,455 and fiscal 2012 was under by \$978,669. The increases over each fiscal year for purposes of the spending cap calculation again excluded Wastewater Fund capital projects that will be funded by debt proceeds eventually and paid for with an increase in user fees in future years. A rate study with a recommendation for phased-in rate increases was approved by the Board of Aldermen in 2009 and the first increase went into effect for the first quarter readings for fiscal 2010 and the second rate increase went into effect for the first quarter readings for fiscal 2012. The rates are reviewed annually and future increases recommended to properly fund payment of debt associated with the EPA mandated capital projects continued from prior years.

Budget Summary for the Fiscal Year Ending June 30,

	2008	2009	2010	2011	2012
General Government	\$ 53,545,700	\$ 52,654,708	\$ 54,392,142	\$ 56,827,411	\$ 60,248,829
Protection of Persons and Property:					
Police	15,468,213	17,120,368	17,685,110	17,947,915	17,157,163
Fire	12,849,342	13,172,286	14,319,219	14,353,391	13,966,096
Other	2,736,093	3,336,822	3,392,374	3,428,872	3,793,945
Community Development	1,382,114	1,368,573	1,361,024	1,595,900	1,932,560
Community Services	2,631,945	2,567,656	2,544,604	2,538,305	2,461,014
Public Works (1)	9,461,391	9,715,045	9,816,120	9,834,568	9,467,857
Libraries	2,151,925	2,215,375	2,345,672	2,301,083	2,259,487
Public Services (2)	423,002	451,649	453,842	452,979	467,267
Education	80,968,170	86,025,543	87,630,820	93,425,591	93,386,383
Debt Service (3)	19,067,243	18,461,507	17,928,815	17,834,362	17,533,396
Contingency	4,650,193	3,480,380	2,756,950	855,776	1,513,974
Transfers to Capital Equipment Reserve	500,000	500,000	500,000	500,000	1,525,000
Capital Improvements	2,005,595	1,990,750	2,759,650	1,500,000	1,500,000
Total Appropriations	\$ 207,840,926	\$ 213,060,662	\$ 217,886,342	\$ 223,396,153	\$ 227,212,971

(1) Excludes wastewater treatment plant and solid waste disposal costs. These costs are accounted for in the enterprise fund and operations for these services are reported on an enterprise fund basis.

(2) Includes cemetery and aeronautical operations.

(3) Excludes debt service costs associated with sewer and solid waste disposal. These costs are accounted for in the enterprise funds.

Accounting Methods

See Appendix A.

Investment of City Funds

Under RSA 48:16, the treasurer of a New Hampshire city may deposit its funds in the New Hampshire Public Deposit Investment Pool (the "NHPDIP") or in solvent banks in the State, and also in banks outside the State if the deposits are fully secured by collateral in the form of obligations of the United States, U.S. agencies or the State. The treasurer may also invest any excess funds, not immediately needed for expenditure, in the NHPDIP, U.S.

obligations, savings bank deposits in New Hampshire savings banks, or certificates of deposit and repurchase agreements of New Hampshire banks or banks recognized by the State Treasurer.

Overnight deposits held at the City's major financial institutions are collateralized with securities held in a Federal Reserve Bank of Boston Joint Custody Account. A security transfer requires agreement by both parties. Current collateral is U.S. government securities.

According to the NHPDIP Program Administrator, MBIA Municipal Investors Service Corporation, NHPDIP invests only in high grade short term federal securities, variable rate obligations backed by federal agencies having monthly or quarterly resets based on indexes like the prime rate, LIBOR, or a combination of the two, the highest grade short term commercial paper instruments, and very short-term (usually overnight) repurchase agreements secured by high quality collateral which is valued daily and fully delivered to the program's custodial bank to be held for the benefit of the pools participants. In addition, MBIA Inc., corporate parent of the Program Administrator, has agreed that it will guarantee, so long as its subsidiary serves as Program Administrator, that no pool participant will be exposed to loss of funds upon account liquidation. See "Investment Policy" above.

The City of Nashua had \$155,778,358 in cash and investments as of June 30, 2010 in its General Fund and \$152,296,966 in cash and investments as of June 30, 2011 in its General Fund. The City's investments are divided in U.S. Government instruments and in overnight Repurchase Agreements and Certificates of Deposit. Said Repurchase Agreements are fully collateralized by U.S. Treasuries held in joint custody at the Federal Reserve Bank in Boston.

Financial Statements

Audit reports of the City's financial statements are conducted annually, the most recent of which was performed by Melanson, Heath and Company, Certified Public Accountants, for the 2011 fiscal year and which is attached hereto as Appendix A. Extracts from the City's annual audits are presented on the following pages, including Governmental Funds Balance Sheets for the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009, and Statements of Revenues, Expenditures and Changes in Fund Balance for the fiscal years ended June 30, 2011, June 30, 2010, June 30, 2009, June 30, 2008 and June 30, 2007.

CITY OF NASHUA, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011 (1)

ASSETS	General	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 129,251,847	\$ 2,840,652	\$ 132,092,499
Investments	23,045,119	18,463,212	41,508,331
Receivables, net of allowance for uncollectibles:			
Property taxes	15,947,454	-	15,947,454
Departmental and other	179,074	234,437	413,511
Intergovernmental	-	4,728,607	4,728,607
Loans	-	655,868	655,868
Due from other funds	12,042,236	10,082,858	22,125,094
Other assets	24,120	-	24,120
TOTAL ASSETS	\$ 180,489,850	\$ 37,005,634	\$ 217,495,484
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 4,756,310	\$ 2,206,090	\$ 6,962,400
Accrued liabilities	5,886,154	455,231	6,341,385
Taxes levied in advance	85,484,903	-	85,484,903
Deferred revenues	3,358,402	389,416	3,747,818
Due to other funds	35,375,251	4,102,671	39,477,922
Other liabilities	61,147	-	61,147
TOTAL LIABILITIES	\$ 134,922,167	\$ 7,153,408	\$ 142,075,575
Fund Balances:			
Nonspendable	\$ 225,671	\$ 17,497,014	\$ 17,722,685
Restricted	-	5,106,464	5,106,464
Committed	13,851,725	7,740,332	21,592,057
Assigned	5,950,000	-	5,950,000
Unassigned	25,540,287	(491,584)	25,048,703
TOTAL FUND BALANCES	45,567,683	29,852,226	75,419,909
TOTAL LIABILITIES AND FUND BALANCES	\$ 180,489,850	\$ 37,005,634	\$ 217,495,484

(1) Extracted from audited financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010 (1)

ASSETS	General (2)	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 131,323,061	\$ 3,252,116	\$ 134,575,177
Investments	24,455,297	14,918,160	39,373,457
Receivables, net of allowance for uncollectibles:			-
Property taxes	15,400,547	-	15,400,547
Departmental and other	252,575	322,742	575,317
Intergovernmental	-	5,335,235	5,335,235
Loans	-	620,581	620,581
Due from other funds	5,316,645	8,283,040	13,599,685
Other assets	42,081	18	42,099
TOTAL ASSETS	\$ 176,790,206	\$ 32,731,892	\$ 209,522,098
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,654,180	\$ 1,005,394	\$ 4,659,574
Accrued liabilities	5,935,480	584,904	6,520,384
Taxes levied in advance	82,620,098	-	82,620,098
Deferred revenues	3,129,479	508,473	3,637,952
Due to other funds	31,354,201	5,299,008	36,653,209
Other liabilities	116,825	-	116,825
TOTAL LIABILITIES	\$ 126,810,263	\$ 7,397,779	\$ 134,208,042
Fund Balances:			
Nonspendable	\$ 184,062	\$ 14,429,616	\$ 14,613,678
Restricted	-	3,899,609	3,899,609
Committed	16,685,057	8,733,406	25,418,463
Assigned	6,550,000	-	6,550,000
Unassigned	26,560,824	(1,728,518)	24,832,306
TOTAL FUND BALANCES	49,979,943	25,334,113	75,314,056
TOTAL LIABILITIES AND FUND BALANCES	\$ 176,790,206	\$ 32,731,892	\$ 209,522,098

(1) Extracted from audited financial statements.

(2) Includes School Capital Reserve Fund in accordance with new accounting standards.

CITY OF NASHUA, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009 (1)

ASSETS	General	School Capital Reserve Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 106,676,392	\$ 7,407,910	\$ 10,146,371	\$ 124,230,673
Investments	19,214,640	-	15,743,772	34,958,412
Receivables, net of allowance for uncollectibles:				
Property taxes	16,499,893	-	-	16,499,893
Departmental and other	279,746	-	253,482	533,228
Intergovernmental	6,509	-	5,625,728	5,632,237
Loans	-	-	507,859	507,859
Due from other funds	25,869,429	-	9,680,343	35,549,772
Other assets	17,831	-	-	17,831
TOTAL ASSETS	\$ 168,564,440	\$ 7,407,910	\$ 41,957,555	\$ 217,929,905
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 4,807,148	\$ -	\$ 1,351,452	\$ 6,158,600
Accrued liabilities	5,391,472	-	543,055	5,934,527
Taxes levied in advance	81,477,563	-	-	81,477,563
Deferred revenues	2,741,480	-	387,891	3,129,371
Due to other funds	35,705,289	2,844,754	5,085,375	43,635,418
Other liabilities	28,378	-	-	28,378
TOTAL LIABILITIES	\$ 130,151,330	\$ 2,844,754	\$ 7,367,773	\$ 140,363,857
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	\$ 4,978,454	\$ -	\$ 3,692,574	\$ 8,671,028
Reserved for perpetual permanent funds	-	-	11,946,927	11,946,927
Other specific purposes	184,680	-	-	184,680
Unreserved:				
Designated	1,650,000	-	-	1,650,000
Designated for future expenditures	4,700,000	-	-	4,700,000
Undesignated, reported in:				
General fund	26,899,976	-	-	26,899,976
Special revenue funds	-	4,563,156	15,431,228	19,994,384
Capital projects funds	-	-	2,558,311	2,558,311
Permanent funds	-	-	960,742	960,742
TOTAL FUND BALANCES	38,413,110	4,563,156	34,589,782	77,566,048
TOTAL LIABILITIES AND FUND BALANCES	\$ 168,564,440	\$ 7,407,910	\$ 41,957,555	\$ 217,929,905

(1) Extracted from audited financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2011(1)

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	\$ 168,867,223	\$ 238,701	\$ 169,105,924
Auto permits	10,411,574	-	10,411,574
Penalties, interest and other taxes	961,391	510,395	1,471,786
Charges for services	1,832,280	6,055,940	7,888,220
Intergovernmental	48,875,423	22,290,694	71,166,117
Licenses and permits	788,464	-	788,464
Interest earnings (loss)	446,572	3,721,608	4,168,180
Miscellaneous	1,040,677	558,692	1,599,369
Contributions	-	460,903	460,903
Total Revenues	<u>233,223,604</u>	<u>33,836,933</u>	<u>267,060,537</u>
Expenditures:			
Current			
General government	56,897,557	3,886,512	60,784,069
Police	19,165,600	1,610,358	20,775,958
Fire	16,203,772	113,681	16,317,453
Water fire protection services	2,471,096	-	2,471,096
Education	93,588,224	20,345,041	113,933,265
Public works	9,371,404	728,773	10,100,177
Health and human services	1,894,004	1,247,986	3,141,990
Culture and recreation	5,310,816	414,275	5,725,091
Community development	1,445,969	6,496,240	7,942,209
Communications	289,648	-	289,648
Debt service			
Principal	11,864,348	60,000	11,924,348
Interest and issuance cost	5,416,517	38,904	5,455,421
Intergovernmental	9,416,623	-	9,416,623
Total Expenditures	<u>233,335,578</u>	<u>34,941,770</u>	<u>268,277,348</u>
Excess (deficiency) of revenues over expenditures	(111,974)	(1,104,837)	(1,216,811)
Other Financing Sources (Uses):			
Issuance of Bonds	-	6,000,000	6,000,000
Transfers in	2,001,108	1,906,625	3,907,733
Transfers out	(6,301,394)	(2,283,675)	(8,585,069)
Total Other Financing Sources (Uses)	<u>(4,300,286)</u>	<u>5,622,950</u>	<u>1,322,664</u>
Change in fund balance	(4,412,260)	4,518,113	105,853
Fund Balance, July 1, 2010	<u>49,979,943</u>	<u>25,334,113</u>	<u>75,314,056</u>
Fund Balance, June 30, 2011	<u>\$ 45,567,683</u>	<u>\$ 29,852,226</u>	<u>\$ 75,419,909</u>

(1) Extracted from audited financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2010(1)

	<u>General (2)</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 162,778,365	\$ 186,358	\$ 162,964,723
Auto permits	10,493,294	-	10,493,294
Penalties, interest and other taxes	928,881	518,310	1,447,191
Charges for services	1,974,382	5,349,646	7,324,028
Intergovernmental	49,622,309	24,572,632	74,194,941
Licenses and permits	818,458	-	818,458
Interest earnings (loss)	852,591	1,980,907	2,833,498
Miscellaneous	1,137,548	363,232	1,500,780
Contributions	-	510,942	510,942
Total Revenues	<u>228,605,828</u>	<u>33,482,027</u>	<u>262,087,855</u>
Expenditures:			
Current			
General government	54,074,572	1,894,905	55,969,477
Police	18,343,212	1,516,061	19,859,273
Fire	15,211,313	73,906	15,285,219
Water fire protection services	2,152,983	-	2,152,983
Education	91,669,046	19,011,888	110,680,934
Public works	9,684,797	2,082,128	11,766,925
Health and human services	1,966,721	1,361,816	3,328,537
Culture and recreation	5,034,346	323,568	5,357,914
Community development	1,461,689	8,033,869	9,495,558
Communications	285,390	-	285,390
Debt service			
Principal	12,161,828	60,000	12,221,828
Interest and issuance cost	5,851,245	41,004	5,892,249
Intergovernmental	9,367,968	-	9,367,968
Total Expenditures	<u>227,265,110</u>	<u>34,399,145</u>	<u>261,664,255</u>
Excess (deficiency) of revenues over expenditures	1,340,718	(917,118)	423,600
Other Financing Sources (Uses):			
Transfers in	5,447,209	598,765	6,045,974
Transfers out	(6,866,468)	(1,855,098)	(8,721,566)
Total Other Financing Sources (Uses)	<u>(1,419,259)</u>	<u>(1,256,333)</u>	<u>(2,675,592)</u>
Change in fund balance	(78,541)	(2,173,451)	(2,251,992)
Fund Balance, July 1, 2009	<u>50,058,484</u>	<u>27,507,564</u>	<u>77,566,048</u>
Fund Balance, June 30, 2010	<u>\$ 49,979,943</u>	<u>\$ 25,334,113</u>	<u>\$ 75,314,056</u>

(1) Extracted from audited financial statements.

(2) Includes School Capital Reserve Fund in accordance with new accounting standards.

CITY OF NASHUA, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2009(1)

	General	School Capital Reserve Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 160,671,778	\$ -	\$ 209,632	\$ 160,881,410
Auto permits	10,836,895	-	-	10,836,895
Penalties, interest and other taxes	886,394	-	532,061	1,418,455
Charges for services	1,864,615	-	5,424,853	7,289,468
Intergovernmental	47,303,953	-	18,888,477	66,192,430
Licenses and permits	721,578	-	-	721,578
Interest earnings (loss)	2,341,182	41,181	(2,686,043)	(303,680)
Miscellaneous	1,413,924	-	468,985	1,882,909
Contributions	-	-	354,065	354,065
Total Revenues	<u>226,040,319</u>	<u>41,181</u>	<u>23,192,030</u>	<u>249,273,530</u>
Expenditures:				
Current:				
General government	52,804,941	-	1,054,777	53,859,718
Police	18,551,324	-	1,288,693	19,840,017
Fire	15,670,602	-	376,565	16,047,167
Water fire protection services	2,234,921	-	-	2,234,921
Education	93,517,678	-	16,581,906	110,099,584
Public works	9,147,131	-	1,305,310	10,452,441
Health and human services	2,437,681	-	1,255,347	3,693,028
Culture and recreation	5,384,097	-	539,451	5,923,548
Community development	1,416,773	-	4,587,508	6,004,281
Communications	280,361	-	-	280,361
Debt service				
Principal	12,240,467	-	60,000	12,300,467
Interest and issuance cost	6,200,867	-	43,104	6,243,971
Intergovernmental	9,546,322	-	-	9,546,322
Total Expenditures	<u>229,433,165</u>	<u>-</u>	<u>27,092,661</u>	<u>256,525,826</u>
Excess (deficiency) of revenues over expenditures	(3,392,846)	41,181	(3,900,631)	(7,252,296)
Other Financing Sources (Uses):				
Transfers in	8,260,443	-	2,324,341	10,584,784
Transfers out	(4,788,445)	(3,239,250)	(3,247,411)	(11,275,106)
Total Other Financing Sources (Uses)	<u>3,471,998</u>	<u>(3,239,250)</u>	<u>(923,070)</u>	<u>(690,322)</u>
Change in fund balance	79,152	(3,198,069)	(4,823,701)	(7,942,618)
Fund Balance, July 1, 2008	<u>38,333,958</u>	<u>7,761,225</u>	<u>39,413,483</u>	<u>85,508,666</u>
Fund Balance, June 30, 2009	<u>\$ 38,413,110</u>	<u>\$ 4,563,156</u>	<u>\$ 34,589,782</u>	<u>\$ 77,566,048</u>

(1) Extracted from audited financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2008(1)

	General	School Capital Reserve Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 157,459,172	\$ -	\$ 894,016	\$ 158,353,188
Auto permits	11,528,023	-	-	11,528,023
Penalties, interest and other taxes	1,006,907	-	588,028	1,594,935
Charges for services	1,719,625	-	5,304,703	7,024,328
Intergovernmental	45,429,047	-	18,656,051	64,085,098
Licenses and permits	783,927	-	-	783,927
Interest earnings	4,173,321	212,238	407,902	4,793,461
Miscellaneous	981,076	-	940,333	1,921,409
Contributions	-	-	96,002	96,002
Total Revenues	<u>223,081,098</u>	<u>212,238</u>	<u>26,887,035</u>	<u>250,180,371</u>
Expenditures:				
Current:				
General government	53,817,751	-	1,023,506	54,841,257
Police	16,918,427	-	1,827,237	18,745,664
Fire	13,122,412	-	323,525	13,445,937
Water fire protection services	2,205,303	-	-	2,205,303
Education	84,965,583	-	15,330,550	100,296,133
Public works	8,464,909	-	1,075,852	9,540,761
Health and human services	2,188,388	-	1,328,493	3,516,881
Culture and recreation	4,770,995	-	1,127,675	5,898,670
Community development	1,327,753	-	5,068,486	6,396,239
Communications	237,896	-	-	237,896
Debt service				
Principal	12,051,061	-	60,000.00	12,111,061
Interest and issuance cost	7,003,835	-	49,058.00	7,052,893
Intergovernmental	9,489,137	-	-	9,489,137
Total Expenditures	<u>216,563,450</u>	<u>-</u>	<u>27,214,382</u>	<u>243,777,832</u>
Excess (deficiency) of revenues over expenditures	6,517,648	212,238	(327,347)	6,402,539
Other Financing Sources (Uses):				
Capital leases	108,285	-	-	7,454,175
Transfers in	3,500,535	-	3,953,640	7,454,175
Transfers out	(6,638,358)	(227,000)	(3,286,480)	(10,151,838)
Total Other Financing Sources (Uses)	<u>(3,029,538)</u>	<u>(227,000)</u>	<u>667,160</u>	<u>(2,697,663)</u>
Change in fund balance	3,488,110	(14,762)	339,813	3,813,161
Fund Balance, July 1, 2007	<u>34,845,848</u>	<u>7,775,987</u>	<u>39,073,670</u>	<u>81,695,505</u>
Fund Balance, June 30, 2008	<u>\$ 38,333,958</u>	<u>\$ 7,761,225</u>	<u>39,413,483</u>	<u>\$ 85,508,666</u>

(1) Extracted from audited financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2007(1)

	General	School Capital Reserve Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 154,220,109	\$ -	\$ 268,045	\$ 154,488,154
Auto permits	11,642,585	-	-	11,642,585
Penalties, interest and other taxes	627,032	-	623,221	1,250,253
Charges for services	1,831,314	-	5,082,854	6,914,168
Intergovernmental	36,769,708	-	21,147,787	57,917,495
Licenses and permits	1,203,915	-	-	1,203,915
Interest earnings	4,151,623	354,434	3,239,606	7,745,663
Miscellaneous	1,005,745	-	168,226	1,173,971
Contributions	-	-	539,057	539,057
Total Revenues	<u>211,452,031</u>	<u>354,434</u>	<u>31,068,796</u>	<u>242,875,261</u>
Expenditures:				
Current:				
General government	51,093,267	-	109,320	51,202,587
Police	14,920,270	-	2,423,794	17,344,064
Fire	13,068,849	-	484,612	13,553,461
Water fire protection services	1,781,355	-	-	1,781,355
Education	81,504,499	-	14,728,520	96,233,019
Public works	8,126,930	-	562,723	8,689,653
Health and human services	2,149,131	-	1,224,329	3,373,460
Culture and recreation	4,580,604	-	540,862	5,121,466
Community development	1,322,027	-	7,846,020	9,168,047
Communications	228,044	-	-	228,044
Debt service				
Principal	12,118,441	-	-	12,118,441
Interest and issuance cost	6,222,224	-	-	6,222,224
Intergovernmental	9,241,763	-	-	9,241,763
Total Expenditures	<u>206,357,404</u>	<u>-</u>	<u>27,920,180</u>	<u>234,277,584</u>
Excess (deficiency) of revenues over expenditures	5,094,627	354,434	3,148,616	8,597,677
Other Financing Sources (Uses):				
Issuance of bonds	-	-	10,555,000	
Transfers in	2,320,287	-	2,162,534	4,482,821
Transfers out	(4,337,325)	(400,000)	(2,245,496)	(6,982,821)
Total Other Financing Sources (Uses)	<u>(2,017,038)</u>	<u>(400,000)</u>	<u>10,472,038</u>	<u>(2,500,000)</u>
Change in fund balance	3,077,589	(45,566)	13,620,654	16,652,677
Fund Balance, July 1, 2006	<u>31,768,259</u>	<u>7,821,553</u>	<u>25,453,018</u>	<u>65,042,830</u>
Fund Balance, June 30, 2007	<u>\$ 34,845,848</u>	<u>\$ 7,775,987</u>	<u>\$ 39,073,672</u>	<u>\$ 81,695,507</u>

(1) Extracted from audited financial statements.

INDEBTEDNESS

Authorization Procedure and Limitations

Bonds are generally authorized on behalf of the municipality by a two-thirds vote of the fifteen Aldermen who, with the Mayor, constitute the Board of Mayor and Aldermen. The Mayor has veto power over loan authorizations.

Under a special act applicable to the City, the general debt limit of the City is 2.00% of its base valuation as last determined by the State Board of Taxation. Debt for school purposes is excluded from the general debt limit. Under a special act applicable to the City, school debt is subject to a limit of not more than 6% of the above described base valuation. Debt for certain purposes, including overlapping debt, temporary loans, debt for urban redevelopment and housing purposes, certain sewer debt, and, subject to a special 10% limit, water debt are exempt from the general debt limit. Borrowings authorized by special legislative acts, rather than the general municipal finance statutes, are sometimes excluded from the City's debt limit (which is the case for the Bonds pursuant to Section 118 of Chapter 1 of the Special Session of the Acts of 2010). The debt limits generally apply both at the time of authorization and at the time of issuance of debt. State-prescribed statutory debt limits under RSA 33:4-a are higher than those allowed under the special act applicable to the City.

Trend in Tax Anticipation Note Borrowings

Since 1972 when the City introduced a July 1 - June 30 fiscal period and implemented a semiannual property tax collection system, the City has not borrowed seasonally to finance any of its outstanding taxes. Each year ample cash has been available on a daily basis to meet current obligations. Property tax bills are due and payable to the City on July 1 and on December 1. It is expected that future cash operations will continue to be favorable and that the City will not need to borrow on a short-term basis.

Debt Ratios

The following table sets forth the ratio of bonded debt to equalized assessed valuation and per capita net debt ratios for the end of the five most recent fiscal years. The table does not deduct anticipated state grant payments applicable to the principal amount of outstanding bonds or debt that may be supported in part (i.e., school and sewer) by non-tax revenues. The table reflects the net effect of bonds refunded. (See "Debt Summary.")

<u>Fiscal Year</u>	<u>Bonded Debt Outstanding</u>	<u>Population(1)</u>	<u>Equalized Assessed Valuation(2)</u>	<u>Bonded Debt Per Capita</u>	<u>Ratio Bonded Debt to Equalized Assessed Valuation</u>
2011	\$ 159,951,683	86,494	\$ 8,519,356,326	\$ 1,849	1.88 %
2010	168,429,222	86,494	8,575,136,081	1,947	1.96
2009	169,491,760	86,494	9,018,506,088	1,960	1.88
2008	166,849,627	86,494	9,358,505,782	1,929	1.78
2007	180,677,297	86,494	9,714,255,257	2,089	1.86

(1) Based on 2010 federal census.

(2) Full value as determined annually by the State Department of Revenue Administration.

Direct Debt Summary

The following table sets forth the debt of the City of Nashua incurred for capital purposes outstanding as of June 30, 2011, including subsequent issues, but excluding this issue of Bonds. The table reflects the net effect of refunding bonds issued in April 1993, October 1996, January 2002, July 2002, April 2004, March 2005 and December 2006.

Direct Debt Summary As of June 30, 2011 (including subsequent issues but excluding this issue of Bonds)

Long-Term Debt Outstanding (1)		
School (2)	\$	98,014,990
Sewer(3)		19,091,871
Landfill (4)		20,484,201
Stadium		3,097,500
Other (5)		32,723,121
Total Direct Debt		\$ 173,411,683

- (1) All outstanding debt, other than school and sewer debt, is subject to the City's general debt limit. School debt is subject to the City's special school debt limit as described above.
- (2) Subject to appropriation by the State legislature, the City expects to receive state school grant reimbursements equal to 30% of the principal of outstanding school bonds, payable in annual installments over the life of the bonds.
- (3) Self-supporting. Subject to appropriation by the State legislature, the City expects to receive \$1,497,032 in debt service reimbursements for outstanding sewer debt, payable in annual installments over the life of the issues outstanding.
- (4) Subject to appropriation by the State legislature, the City expects to receive \$2,560,869 in debt service reimbursements for outstanding landfill debt, payable in annual installments over the life of the issues outstanding.
- (5) Includes garage construction, city hall renovations and police station planning, land, arts & science center, library west wing addition, a communications system, athletic fields and fire station addition.

Principal Payments by Purpose

The following table sets forth the principal payments by purpose on outstanding bonds of the City of Nashua as of June 30, 2011, including subsequent issues, but excluding this issue of Bonds.

Fiscal Year	School (1)	Sewer	Landfill	Stadium	Other (2)	TOTAL
2012	\$ 9,313,522	\$ 1,565,770	\$ 1,781,935	\$ 215,000	\$ 2,731,311	\$ 15,607,539
2013	9,460,734	1,311,437	1,781,490	230,000	3,283,877	16,067,539
2014	9,113,706	1,211,104	1,781,046	240,000	3,131,683	15,477,539
2015	9,068,883	1,210,937	1,780,824	255,000	3,071,895	15,387,539
2016	8,768,880	1,196,270	1,761,268	270,000	2,916,120	14,912,539
2017	8,733,339	1,196,270	1,756,268	285,000	2,911,661	14,882,539
2018	8,065,400	1,196,270	1,756,268	295,000	2,479,600	13,792,539
2019	7,990,125	1,196,270	1,567,470	307,500	2,047,375	13,108,741
2020	7,925,400	1,196,270	1,492,470	320,000	1,739,600	12,673,741
2021	7,300,000	1,196,270	1,492,470	330,000	1,555,000	11,873,740
2022	4,625,000	735,000	1,048,017	350,000	905,000	7,663,017
2023	2,610,000	735,000	1,048,017	-	900,000	5,293,017
2024	2,600,000	735,000	930,828	-	900,000	5,165,828
2025	305,000	735,000	505,828	-	900,000	2,445,828
2026	305,000	735,000	-	-	895,000	1,935,000
2027	305,000	735,000	-	-	675,000	1,715,000
2028	305,000	735,000	-	-	370,000	1,410,000
2029	305,000	735,000	-	-	370,000	1,410,000
2030	305,000	735,000	-	-	370,000	1,410,000
2031	305,000	-	-	-	370,000	675,000
2032	305,000	-	-	-	200,000	505,000
Total	\$ 98,014,990	\$ 19,091,871	\$ 20,484,201	\$ 3,097,500	\$ 32,723,121	\$ 173,411,683

- (1) School debt is offset by state grant payments equal to 30% of annual principal payable over the life of school bonds.
- (2) Includes garage construction, city hall renovations and police station planning, land, arts & science center, library west wing addition, a communications system, athletic fields, fire station addition and highway and sidewalk construction.

Debt Service Requirements

The following table sets forth the required principal and interest payments on outstanding bonds of the City of Nashua as of June 30, 2011, including subsequent issues, but excluding this issue of Bonds.

Fiscal Year	Outstanding June 30, 2011 (1)		Estimated State School Grants	Net Debt Service
	Principal	Interest		
2012	\$ 15,607,539	\$ 6,470,777	\$ (2,731,656)	\$ 19,346,660
2013	16,067,539	6,071,443	(2,660,447)	19,478,535
2014	15,477,539	5,405,048	(2,558,663)	18,323,923
2015	15,387,539	4,783,379	(2,545,517)	17,625,401
2016	14,912,539	4,175,188	(2,457,526)	16,630,201
2017	14,882,539	3,546,511	(2,447,102)	15,981,948
2018	13,792,539	2,975,112	(2,251,195)	14,516,456
2019	13,108,741	2,455,817	(2,229,117)	13,335,440
2020	12,673,741	1,942,486	(2,210,133)	12,406,094
2021	11,873,740	1,441,525	(2,026,703)	11,288,562
2022	7,663,017	1,023,146	(1,242,126)	7,444,037
2023	5,293,017	766,162	(676,057)	5,383,122
2024	5,165,828	561,397	(673,124)	5,054,101
2025	2,445,828	360,807	-	2,806,635
2026	1,935,000	278,142	-	2,213,142
2027	1,715,000	217,598	-	1,932,598
2028	1,410,000	167,039	-	1,577,039
2029	1,410,000	122,032	-	1,532,032
2030	1,410,000	76,603	-	1,486,603
2031	675,000	30,647	-	705,647
2032	505,000	9,153	-	514,153
Total	\$ 173,411,683	\$ 42,880,013	\$ (26,709,366)	\$ 189,582,330

(1) Including subsequent issues, but excludes this issue of Bonds.

Authorized Unissued Debt and Prospective Financing

Following delivery of the Bonds, the City will have approximately \$140 million authorized unissued debt, excluding the unissued balance of refunding bonds authorized (\$14,295,000), and including \$68 million of bonds authorized for the purpose of acquiring Pennichuck, which are expected to be rescinded.

Capital Equipment Reserve Fund (CERF)

In 1973 the City created a capital equipment reserve fund for the purpose of funding depreciation. As of June 30, 2011 the unaudited balance was \$2,852,984. The City revised its CERF plan to include full funding of capital equipment from the CERF account directly instead of a combination of funding from both departmental operating budgets and CERF. Effective in Fiscal Year 2011, the City intends to fund all capital equipment through the CERF account only, including capital equipment needs for the Solid Waste Department. One element of the plan is to gradually increase the City's contribution to the CERF account annually.

Wastewater Enterprise Capital Reserve Fund

The City's Wastewater Enterprise Fund had a capital equipment reserve fund with a balance of \$8,416,375 at June 30, 2011.

Solid Waste Capital Reserve Fund

This is now being funded through the Capital Equipment Reserve Fund (see above).

RETIREMENT SYSTEMS

The City participates in the New Hampshire Retirement System, which is a multi-employer defined benefit pension plan. The system covers substantially all full-time permanent employees, except for the Board of Public Works employees. See Appendix A, Note 18, "Retirement System" for additional information regarding the City's annual contributions.

New Hampshire Retirement System

The City participates in the New Hampshire Retirement System (the "System"), which is a multi-employer defined benefit pension plan. The System covers substantially all full-time permanent employees, except for the Board of Public Works employees. See Appendix A, Note 18, "Retirement System" for additional information regarding the City's annual contributions.

Prior to 1967 four separate retirement systems were operated by the State involving State employees and State and local teachers, police officers and firefighters. Effective July 1, 1967, these four systems were combined under a common board of trustees in the System to include all employees hired subsequent to such time and to also include all members of the prior systems who elected to transfer to the new system. At June 30, 2010, there were approximately 57,659 active and inactive members and 24,845 retired members of the System. The System provides service, disability, death and vested retirement benefits to its members and their beneficiaries. It also provides a health insurance subsidy to qualified members and their beneficiaries, though that benefit has been discontinued for new members.

The financing of the System as well as its predecessor programs is provided through both employee contributions and political subdivision and State employer contributions.

The State has previously funded 100% of the employer cost for all State employees and 35% of the employer cost for teachers, firefighters and police officers employed by political subdivisions. Legislation was enacted in the 2009 legislative sessions that reduced the State's share of the employers' cost for teachers, firefighters and police officers to 30% for fiscal 2010, 25% for fiscal 2011, and 0% for fiscal 2012 and 2013.

For fiscal 2012, the State's share of the employer's cost for teachers, firefighters and police officers was reduced to 0%, thereby eliminating the State's sharing arrangement with political subdivisions. The City's contributions to the System for the years ended June 30, 2011, 2010, and 2009 were \$11,840,910, \$10,703,914, and \$9,137,592, respectively, which were equal to its annual required contributions for each of these years. The City has budgeted \$14,550,252 for this purpose in fiscal 2012.

As of June 30, 2010, the net assets available to pay pension benefits of the combined retirement and health insurance subsidy programs, at fair value, were reported by the System to be \$5.234 billion. The total pension liability at June 30, 2010 was \$8.954 billion, resulting in an unfunded pension liability at June 30, 2010 of \$3.720 billion, a funded ratio of 58.5%.

Information regarding the System, including financial statements and actuarial valuations may be obtained from the System by requesting them in writing at 54 Regional Drive, Concord, NH 03301-8507 or from the System's website, www.nhrs.org.

Additional information concerning the System is also available under the heading "STATE RETIREMENT SYSTEM" in the State Information Statement dated October 20, 2011 included as Part II of the State of New Hampshire Official Statement dated October 20, 2011 pertaining to its \$100,000,000 General Obligation Capital Improvement Bonds, 2011 Series B (the "October 20 Official Statement"). The October 20 Official Statement has been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system, which may be accessed at www.msrb.org. The information pertaining to the System is current only as of the date of the October 20 Official Statement and has not been updated since that date. Neither the City nor the State represent that there has been no change in such information since such date and both disclaim any liability for changes in such information since the date of the October 20 Official Statement.

SOURCE: Board of Trustees, New Hampshire Retirement System.

Board of Public Works Employee's Retirement System

The Board of Public Works Employees Retirement is a contributory plan with the City matching employee contributions to the plan. The City's share of the plan amounted to \$774,583 for the year ended June 30, 2010. A full actuarial valuation was recently completed as of June 30, 2010, the results of which show an increase in the actuarial value of plan assets by 2.9% since the last valuation (from \$31,131,385 to \$32,047,692). The unfunded accrued liability increased by \$1.836 million and the plan is currently 83.0% funded. The funding ratio decreased due to market conditions and internal changes. A preliminary review of the plan for year ending June 30, 2011 should reflect an increase in the funding level. The unfunded liability is currently \$6,545,810 based on entry-age normal method. Employee and employer contributions are currently 9.15%. Several steps were taken in fiscal year 2008 to help improve the funding ratio, including elimination of the medical stipend. The Board of Trustees is continuing to review ways to increase the funding level for the plan. The Board of Trustees made several changes to the plan that will benefit the overall finance beginning in fiscal 2011.

Other Post-Employment Benefits

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

The \$12,278,412 OPEB liability, as calculated below, represents the implementation of Governmental Accounting Standards Board (GASB) Statement No. 45. The purpose of the statement is to reflect the liability of healthcare or other post-employment benefits provided to separated or retired employees. With the exception of one group of retirees described below, the City of Nashua does not pay a direct subsidy towards its retiree's health insurance premiums. In accordance with RSA 100-A:50, retired employees shall be deemed to be part of the same group as active employees for health insurance premium purposes, thereby resulting in a so called "blended rate". The blended rate decreases the cost of insurance premiums for retirees and increases the cost for active employees, thereby resulting in the City paying an Implicit Subsidy.

The City's Explicit Subsidy pertains to only one group of retirees. Teachers who have retired after June 30, 1991 who have at least 20 years of service with the Nashua School district and who are actually receiving retirement benefits under the New Hampshire Retirement System, will have a portion of their health insurance premiums paid according to a set schedule based on the years of service at retirement. The subsidy ranges from 20% for a teacher retiree with 20 years of service at retirement to 50% for a teacher with 30 years of service at retirement. The City's Explicit Subsidy associated with each eligible teacher retiree ends when the retiree is eligible for Medicare.

The City's most recent GASB Valuation was for the fiscal year ending June 30, 2010. The valuation calculated the City's OPEB liability of approximately \$42.0 million. The liability was further broken down for current and future retirees.

The table below shows the Explicit and Implicit liability amounts:

	<u>Explicit</u>	<u>Implicit</u>	<u>Totals</u>
Current Retirees	\$ 0.9 million	13.7	\$ 14.6 million
Future Retirees	\$ 2.4 million	25.0	\$ 27.4 million
Totals	\$ 3.3 million	38.7	\$ 42.0 million

The Explicit Subsidy of \$3.3 million shown above represents only 7.9% of the total OPEB liability of \$42.0 million.

Plan Description

In addition to providing the pension benefits described, the City provides post-employment health care and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contribution and employer contributions are governed by RSA 100-A:50. As of July 1, 2009, the actuarial valuation date, approximately 914 retirees and 1,939 active employees met the eligibility requirements. The Single Employer plan does not issue a separate financial report.

Benefits Provided

The City provides medical insurance to retirees and their dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

Funding Policy

In general, retirees and their spouses pay 100% of coverage.

Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2011 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2011, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2009.

Annual Required Contribution (ARC)	\$ 5,721,612
Interest on net OPEB obligation	299,100
NOO amortization adjustment to the ARC	(389,137)
Annual OPEB Cost	<u>5,631,575</u>
Contributions made	(2,290,985)
Increase in net OPEB obligation	3,340,590
Net OPEB obligation - beginning of year	<u>8,937,822</u>
Net OPEB obligation - end of year	<u>\$ 12,278,412</u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 5,631,575	40.7 %	\$ 12,278,412
2010	\$ 5,038,535	41.3 %	\$ 8,937,822
2009	\$ 4,597,000	37.6 %	\$ 5,982,000
2008	\$ 4,597,000	32.2 %	\$ 3,115,000

The City's net OPEB obligation as of June 30, 2011 is recorded as net OPEB obligations line on the Statement of Net Assets.

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2009, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$	42,017,700
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	\$	42,017,700
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	118,962,778
UAAL as a percentage of covered payroll		35.3%

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

Actuarial Methods and Assumptions

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

In the July 1, 2009 actuarial valuation the Entry Age Normal method was used. The actuarial value of assets was not determined as the City has not advanced funded its obligation. The actuarial assumptions included a 5.00% investment rate of return and an initial annual healthcare cost trend rate of 10.00% which decreases to a 5.00% long-term rate for all healthcare benefits in 2021. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.50%.

EMPLOYEE RELATIONS

The City of Nashua currently employs 2,856 regular full time and part time employees of which 2,068 are Nashua School District, Board of Education employees. A breakdown of the number of employees in the other City divisions is as follows: General Government Division, which includes the Office of the Mayor, the Legal Department, Legislative Assistants, CitiStat, Office of the City Clerk, Human Resources Department, Emergency Management Director and the Office of Economic Development, 30. The Financial Services Division, which includes Financial Services (CFO, Treasurer/Tax Collections/Motor Vehicle Registration, Accounting/Compliance, Compensation), the Risk Management Department, which includes Building Maintenance, the Purchasing Department, the Assessing Department, which includes GIS, and the Hunt Building, 58; the Information Technology Division, 13; the Police Department, 235; the Fire Department, 163; the Division of Public Health and Community Services, which includes the Community Health Department, the Environmental Health Department, and the Welfare Department, 30; Division of Public Works, Board of Public Works, which includes Engineering and Administration, the Parks/Recreation Department, the Street Department, the Wastewater Department, the Traffic Department, and the Solid Waste Department, 164; City Cemeteries which includes Edgewood, Woodlawn, and the Suburban Cemeteries, 8; the Community Development Division, which includes the Planning Department, the Urban Programs Department, the Department of Building Safety, the Code Enforcement Department, and the Transportation Department, which includes Parking Lots, 38; and the Nashua Public Library, 49.

Pursuant to N.H.R.S.A. 273-A, all municipal employees of the City of Nashua, with the exception of the appointed and confidentiality employees may collectively bargain through Public Employees Labor Relations Board (PELRB) certified collective bargaining units (unions) on issues regarding wages, hours, and other terms/conditions of employment. Currently, all but approximately 132 City of Nashua non school related employees are represented by

one of 10 collective bargaining units. Of the 15 total collective bargaining units, 5 units represent Nashua School Department employees. Nine of the 15 contracts expired on June 30, 2011; 1 contract will expire on June 30, 2012, 3 contracts will expire on June 30, 2013 and 2 contracts will expire on August 31, 2013. All expired contracts are currently in negotiations.

Labor/Management collective bargaining agreements must be ratified by the City of Nashua and authorized representatives of the respective collective bargaining unit and the cost items of a ratified collective bargaining agreement must be approved by the Mayor and the Board of Aldermen.

UNDERWRITING

J.P. Morgan Securities LLC (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from the City at a purchase price of \$150,011,079.35 and to reoffer the Bonds at no greater than the initial public offering price set forth on the cover page hereof, reflecting an Underwriters' discount of \$558,920.65. The Bonds may be offered and sold to certain dealers (including dealers depositing the Bonds into investment trusts) and other investors at prices lower than such public offering prices, and such prices may be changed from time to time, by the Underwriter. The Underwriter will be obligated to purchase all Bonds if any such Bonds are purchased.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase the Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, one of the Underwriters of the Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As a part of the joint venture, Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a separate broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

LITIGATION

In the opinion of the City's Corporation Counsel, there is no pending or threatened litigation likely to result, either individually or in the aggregate, in final judgment against the City that would materially affect its financial position or contesting the City's ability to issue and deliver the Bonds.

January 10, 2012

City of Nashua, New Hampshire
/s/ David G. Fredette, City Treasurer

APPENDIX A

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended
June 30, 2011



**CITY OF NASHUA,
NEW HAMPSHIRE**

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CITY OF NASHUA NEW HAMPSHIRE

Comprehensive Annual Financial Report

**For The Fiscal Year Ended
June 30, 2011**



**Prepared by:
The Financial Services Division**

**John Griffin
CFO/ Comptroller**

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City of Nashua, New Hampshire
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION:</u>	
Transmittal Letter	A-1
Organizational Chart	A-10
Principal Officials	A-11
Division and Department Heads	A-12
Geographic Location	A-14
Certificate of Achievement	A-15
<u>FINANCIAL SECTION:</u>	
Independent Auditors' Report	A-17
Management's Discussion And Analysis	A-19
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	A-33
Statement of Activities	A-34
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	A-36
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	A-37
Statement of Revenues, Expenditures, and Changes in Fund Balances	A-38
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	A-39

	<u>Page</u>
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	A-40
Proprietary Funds:	
Statement of Net Assets	A-41
Statement of Revenues, Expenses, and Changes in Fund Net Assets	A-42
Statement of Cash Flows	A-43
Fiduciary Funds:	
Statement of Fiduciary Net Assets	A-44
Statement of Changes in Fiduciary Net Assets	A-45
Notes to Financial Statements	A-47
Nashua Airport Authority Footnotes	A-78
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress	A-85
SUPPLEMENTARY STATEMENTS AND SCHEDULES:	
Governmental Funds:	
Combining Financial Statements:	
Combining Balance Sheet - Nonmajor Governmental Funds	A-90
Combining Statement of Revenues, Expenditures, and Changes in Fund Equity - Nonmajor Governmental Funds	A-96
Detail and Combining Budget and Actual Statements:	
Detail Schedule of Revenues and Other Financing Sources - Budget and Actual - General Fund	A-104
Detail Schedule of Expenditures and Other Financing Uses - Budget and Actual - General Fund	A-105

	<u>Page</u>
Proprietary Funds:	
Schedule of Revenues and Expenses - Budget and Actual - Enterprise Funds	A-108
Internal Service Funds:	
Statement of Net Assets	A-111
Statement of Revenues, Expenses and Changes in fund Net Assets	A-112
Statement of Cash Flows	A-113
Fiduciary Funds:	
Combining Statement of Changes in Assets and Liabilities - Agency Fund	A-115
<u>STATISTICAL SECTION:</u>	
<i>Financial Trends</i>	
Net Assets by Component - Last Ten Fiscal Years	A-118
Changes in Net Assets - Last Ten Fiscal Years	A-119
Fund Balances, Governmental Funds - Last Ten Fiscal Years	A-120
Changes in Fund Balances, Governmental Funds - Last Ten Fiscal Years	A-121
Expenditures and Other Financing Uses by Department and Budget Category, General Fund - Last Ten Fiscal Years	A-122
Combined Enterprise Funds Revenue, Expenditures, Other Financing Sources and Uses and Change in Total Net Assets - Last Ten Fiscal Years	A-123
<i>Revenue Capacity</i>	
General Government Tax Revenues by Source - Last Ten Fiscal Years	A-124
Property Tax Levies and Collections - Last Ten Fiscal Years	A-125

	<u>Page</u>
Assessed and Estimated Full Value of Real Property - Last Ten Fiscal Years	A-126
Principal Taxpayers - Current Year and Nine Years Ago	A-127
Property Tax Rates per \$1,000 of Assessed Value - Direct and Overlapping Governments - Last Ten Fiscal Years	A-128
Utility Fund Net Budget, Billable Volumes and Rates, Last Ten Fiscal Years	A-129
Nashua's Share of the Hillsborough County Tax Apportionment - Last Ten Fiscal Years	A-130
 <i>Debt Capacity</i>	
Ratios of Long Term Debt Outstanding and Legal Debt Limits - Last Ten Fiscal Years	A-131
Ratios of Outstanding Debt by Debt Type - Last Ten Fiscal Years	A-132
Computation of Overlapping Debt - Hillsborough County Long Term Debt - Last Ten Fiscal Years	A-133
 <i>Demographic and Economic Information</i>	
Demographic Statistics - Last Ten Fiscal Years	A-134
Principal Employers - Current Year and Nine Years Ago	A-135
 <i>Operating Information</i>	
Operating Indicators by Function - Last Ten Fiscal Years	A-136
Capital Asset Statistics by Function - Last Ten Fiscal Years	A-137
City Government Employees by Division - Full Time Equivalent - Last Ten Fiscal Years	A-138
Student/Teacher Statistical Information - Last Ten Fiscal Years	A-139
School Department Operating Statistics - Last Ten Fiscal Years	A-140



City of Nashua

Office of the Chief Financial Officer
229 Main Street - Nashua, NH 03060

(603) 589-3171
Fax (603) 589-3168

December 20, 2011

To the Citizens of the City of Nashua and the Board of Aldermen:

This CAFR presents the City's financial statements as required by the *Governmental Accounting Standards Board (GASB) Statement No. 34*, which established a new financial reporting model for state and local governments. It also complies with *GASB Statement No. 44*, which "identified the specific information required by the statistical section standards and set forth the overarching objectives of statistical section information. The statistical section provides crucial data to many different kinds of consumers of governmental financial information, ranging from municipal credit analysts to state legislators, municipal governing bodies, oversight bodies, and citizen and taxpayer organizations." (www.gasb.org/news) The CAFR covers all funds that, by law or other fiduciary obligation, the City administers. These include, but are not limited to, funds for the City of Nashua, the Nashua School District, and the component unit, Nashua Airport Authority.

It is our pleasure to present the Comprehensive Annual Financial Report (CAFR) for the City of Nashua, New Hampshire, for the fiscal year ended June 30, 2011. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the report accurately presents the City's financial position and the results of operations in all material respects in accordance with the most current generally accepted accounting principles (GAAP). All disclosures necessary to enable the reader to gain an accurate understanding of the City's financial activities have been included. This letter of transmittal is intended to complement and should be read in conjunction with Management's Discussion and Analysis (MD&A).

History and Government

The City of Nashua encompasses an area of thirty-two square miles in Hillsborough County along the Merrimack River in Southern New Hampshire. It is approximately thirty-four miles northwest of Boston, Massachusetts, and eighteen miles south of Manchester, New Hampshire. Nashua was part of the settlement of Dunstable, Massachusetts, until the division line between Massachusetts and New Hampshire was settled in 1741. It was then known as Dunstable, New Hampshire, until its name was changed to Nashua in 1836.

Originating from England, the pioneers of Dunstable arrived in the 1600s to settle on grants of land. The livelihood of the community at that time was fanning and mercantile/commercial trade.

The settlement period continued into the 1700s as sawmills and gristmills were established to harness the many streams and brooks throughout the Town. The late-1700s were a significant period for the region due to construction of the 27.75 mile-long Middlesex Canal System linking the Merrimack River to Charlestown-Boston. Direct water access to Boston markets immensely increased trade opportunities.

During the 1800s, two massive cotton textile mills were established by harnessing waterpower with canal systems. Metal manufacturing, iron industries and other heavy industries were established as ancillary and support businesses to the mills. Railroads built throughout the region in the mid-1800s dramatically reduced the general expense of travel and transportation of goods, allowing Nashua's manufacturing and retail sectors, along with its population, to grow and diversify.

The *City Charter* was issued by the State of New Hampshire and signed by Governor Noah Martin on June 28, 1853. It was not until a new charter was written in 1913 that the current form of government was adopted. (The Nashua History Committee 1978: *The Nashua Experience*. Canaan, New Hampshire: Phoenix Publishing.) The Mayor and fifteen-member Board of Aldermen, as the chief executive and legislative officers of the City, are responsible for the prudent administration of the City's affairs in accordance with laws set forth in the *City Charter*.

Municipal Services

The City provides services such as police and fire protection; refuse disposal; sewer services and highway, street, and sidewalk maintenance. It maintains forty-nine athletic fields, four ice skating rinks, three outdoor swimming pool complexes, and twenty-two tennis courts. The City also preserves 965 acres of park sites including Holman Stadium, a 4,500-seat open-air stadium. The stadium is used for sports, concerts, recreational activities and other City sponsored events.

Nashua is fortunate to have a municipal airport, Boire Field. It is located in the northwest corner of the City on 396 acres of land that the Nashua Airport Authority leases from the City. The Authority was created by State Statute in 1961 and is "tasked with setting policy and procedures to operate the airport for the City of Nashua in conjunction with the rules and regulations of the Federal Aviation Administration (FAA) and New Hampshire Department of Transportation, Division of Aeronautics." (www.nashuaairport.com)

The City is responsible for providing education to its citizens in compliance with requirements established by the State of New Hampshire. Public education is offered for grades kindergarten through twelve, providing a comprehensive program of general education, business, and college preparatory courses. An elected nine-member School Board manages the school district's affairs with fiscal autonomy on certain matters; however, the School Board does not represent

an autonomous governmental unit independent from the City of Nashua. Financial management and reporting, as well as the issuance of debt obligations, are the City's responsibility.

Financial Structure and Management

In accordance with the *City Charter and Code of Ordinances*, the Financial Services Division is responsible for establishing an accounting and internal control structure designed to ensure that the City's assets are protected from loss, theft, and misuse, and to ensure that adequate accounting information is maintained and reported in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurances that these objectives are attained. In providing these reasonable assurances, it is recognized that the expenses related to the cost of control should not exceed the benefits and the valuation of costs and benefits requires management's judgment.

Budget Control Charter Amendment

The City's budget must adhere to the Budget Control Charter Amendment passed by voters in 1993 that limits the budget to an increase of no more than the average annual consumer price index (CPI-U) over the past three years. It allows exemptions voted upon annually by the Board of Aldermen. In fiscal year 2008, the Board of Aldermen approved changing the CPI measurement from the national average to the Northeast region average. The fiscal year 2011 budget was within the spending cap of 2.2% by approximately \$1,300,000. The fiscal year 2012 budget adopted in May 2011 also came in under the spending cap of 2.0% by approximately \$979,000. The Board of Aldermen is the Appropriating Authority for the City of Nashua. From a budgetary control perspective, management cannot overspend its approved and authorized budget without gaining approval from the Board of Aldermen. In addition, the Board of Aldermen must approve all interdepartmental transfers as well as the transfer of appropriated funds within departments from non-salary accounts to salary accounts. The City also maintains a system of encumbrance accounting to further control budgetary expenses.

Minimum Unassigned Fund Balance

The City has an ordinance stating that it is the Board of Aldermen's policy to maintain a minimum unassigned general fund balance of 10% of the fiscal year appropriations. If a portion of unassigned general fund balance is used to offset property taxes in any given fiscal year, it is the policy of the Board to replenish it to the 10% level within a three-year period.

Single Audit

As a recipient of federal and state funds, the City is required to undergo a yearly single audit in conformance with the provisions of the *Single Audit Act Amendments of 1996* and U.S. Government Office of Management and Budget's Circular A-133, *Audits of States and Local Governments and Non-Profit Organizations*. The City is also responsible for implementing an adequate internal control structure to ensure compliance with the rules and regulations of these funds. This internal control structure is subject to ongoing and/or periodic evaluation by management and the external audit firm retained by the City for this purpose. Information related to this single audit including a Schedule of Expenditures of Federal Awards; findings and recommendations; and auditor's reports on the internal control structure and compliance with applicable laws and regulations is available in a separately issued single audit report. The single audit for the fiscal year ended June 30, 2011 is in progress and management does not

anticipate that there will be any instances of material weakness in the City's internal control structure.

Enterprise Operations

The City's enterprise operations are comprised of both a Wastewater Fund and a Solid Waste Fund. Wastewater is fully self-supported by user fees. Combined Sewer Overflow (CSO) Consent Decree projects and mandated operational costs are expected to be approximately \$73 million with approximately \$48.7 million of that the total spent by the end of fiscal year 2011.

Certain components of the CSO projects have been eligible for a New Hampshire Department of Environmental Services (NHDES) 20% grant, however, due to state budget reductions in fiscal year 2009, grant payments for certain projects included in the Wastewater budget have been deferred until further notice. The City updates the wastewater rate study on an annual basis. The most recent rate study was presented to the Board of Aldermen in April 2011 and a 15% increase in the wastewater user fee rates effective July 1, 2011 was approved.

During fiscal year 2011, the Solid Waste Fund received a transfer of approximately \$3.9 million from the general fund to cover a portion of the cost of residential solid waste collection and disposal. This transfer is funded by property taxes and supplements the cost of collection and disposal of residential solid waste.

Long Term Financial Planning

Given the current state of the national and local economy and the uncertainty related to the timing of the anticipated recovery, the City uses a multi-year revenue and expenditure model to effectively plan for future budget periods. This exercise is designed to provide the City's financial planners the ability to project the magnitude and timing of certain fiscal decisions as they relate to programs and services. The City also manages its capital budget process looking out over a six year time horizon. The capital budget submittals are updated annually. As part of this planning process, the participating departments project their respective capital expenditure needs over the next six-year period and submit the necessary documentation for review by the members of the Capital Improvements Committee (CIC). The CIC reviews the requests and ranks them based on several factors including the scope of the proposed project, service, facility or equipment; the needs criteria such as a legal mandate, scheduled replacement, improved working environment, increased public health and safety improved coordination and/or more cost effective; conformance with the City's Master Plan; and other factors such as anticipated future revenues and expenses. The City has also developed and implemented a capital equipment replacement program, which has been designed to replace equipment on an established schedule. This ten-year plan allows for the timely replacement of the equipment at a time when the useful life of the equipment has expired and the associated cost of maintenance and repair is not exorbitant relative to the remaining value. The capital equipment replacement program has been designed to be financed with a combination of internal cash and the issuance of debt.

Debt Administration

The City has \$324.7 million of authorized unissued debt, excluding unissued balances of refunding bonds authorized. There is approximately \$91.0 million of general obligation debt for the school district and \$29.3 million for the City. The school bonds are eligible for grant

reimbursement payments equal to 30% of project costs, payable annually over the life of bonds issued for this purpose. In addition, there is \$39.6 million in debt outstanding for the City's enterprise funds.

\$6.0 million in new debt was issued in fiscal year 2011 for the Enterprise System Resource (ERP) Project, Broad Street Parkway Project and City owned parking garage improvements. Debt limitations are discussed in MD&A and in the statistical section.

Credit Rating

The City's credit rating was upgraded to AAA by Fitch Ratings in 2010 in connection with the \$6.0 million issuance of general obligation bonds described above. Fitch Ratings noted that the rating reflects the City's:

- Diverse and expanding economic base
- Strong financial management
- Strong reserve fund levels
- Above average wealth indicators
- Overall low debt burden.

In October 2011, Fitch Ratings (AAA) and Moody's Investors Service (Aa1) reaffirmed their respective ratings in connection with the issuance of \$13.46 million in General Obligation Improvement Bonds.

Cash Management

General fund and enterprise fund cash is invested at several New Hampshire banking institutions and the New Hampshire Deposit Investment Pool in accordance with the directives set forth in the City's adopted investment policy. This policy is reviewed and approved by a finance committee, comprised of the Mayor and six appointed members of the Board of Aldermen. The policy has several objectives which include, but are not limited to, risk, liquidity, income, maturity and diversification. The City requires collateral on all investments in the form of U.S. government obligations at no less than 102% in excess of the face value of the investment unless funds are marked to market. Commercial insurance coverage for amounts in excess of FDIC limits in the form of surety bonds issued by approved insurance corporations may be considered. The average yield for general fund investments during fiscal year 2011 was 0.50%, compared to the 1.25% earned in the prior fiscal year.

The City's trust funds must be invested pursuant to the provisions in the *State of New Hampshire's Revised Statutes Annotated Section 31:25*. The objective of the investment policy is to receive a return that is sufficient to meet the obligations of the fund while remaining within those guidelines.

Summary of Financial Position and Operations-General Fund

The City's most significant sources of revenue continue to be property taxes, followed by the State Adequate Education Grant and motor vehicle revenues. Property tax collections remain strong overall; however, investment income continues to experience declines due to the historically low interest rates. Tax collections stated as a percent of the current levy were

98.6%, compared to 98.5% last year. The City continues to negotiate payment plans for taxpayers unable to meet their property tax obligations, believing that, particularly in more challenging economic times, this strategy will benefit both the City and taxpayers. A ten-year comparison of property tax collection rates is available in the statistical section.

During FY2011, the City received level funding of \$35.9 million in State Adequate Education Grant Funds. This funding source remains the City's most challenging revenue concern due to its significant impact on the City budget and the considerable tax rate relief it provides.

Motor vehicle revenue received during fiscal year 2011 remained essentially unchanged from the prior year. This particular revenue source has stabilized from the downward trend that began in early 2008. Revenue from registrations is dependent on auto sales, both in terms of quantity and price. Increases in overall sales or higher priced cars sold in any given year will generate an increase in registrations for the City. On the other hand, economic conditions that adversely affect the auto industry will have a downward impact on motor vehicle revenue.

In 2005 the City of Nashua challenged the state formula for distributing education funding to schools from the statewide education tax (NH Laws 2005, Chapter 257). The Superior Court found in favor of Nashua in March 2006 and the State of New Hampshire appealed to the New Hampshire Supreme Court, which consolidated the case with similar claims filed by a coalition of 21 school districts. The Supreme Court stayed all cases pending legislative action and also remanded the Nashua case to the Superior Court for factual findings regarding damages. In 2007 and 2008 the legislature adopted a number of laws addressing the concerns raised before the Supreme Court. (See, NH Laws 2007, Chapter 262; NH Laws 2007, Chapter 263:35; NH Laws 2008, Chapter 173; and NH Laws 2008, Chapter 173.) The remanded Nashua case was settled by agreement of the parties on August 14, 2008 for a payment of \$125,000.

The City's unassigned general fund balance position at the end of fiscal year 2011 was \$25.5 million, a decrease of \$1.0 million from the prior year. As planned, the \$1.0 million was assigned to reduce the FY2012 Tax Rate.

Major Initiatives

Nashua Government Innovation (NGIN) Project

In 2010, the City launched a multi-year modernization project to update many of the internal systems and provide a unified set of technologies, business processes and management. This project was identified as the Nashua Government Innovation (NGIN) project. There are three major phases to the NGIN project.

1. Phase one is the Enterprise Resource Planning (ERP) project. The scope of this project will replace the core financial applications, the purchasing module, payroll processing and the Human Resource system.
2. Phase two is to purchase a Licensing, Permitting and Code Enforcement system.
3. The third phase of NGIN is to purchase an electronic content management (ECM) system.

In September 2010, the City purchased ERP software from Lawson Software, a Saint Paul, Minnesota based software vendor. Following the purchase of the Lawson, the City contracted with Velocity Technology Solutions to work with City staff to implement the Lawson ERP software. Implementation activities have begun with go-live scheduled for fiscal year 2012.

The NGIN project will incorporate business process improvement and best practices through every phase of the project. These systems will promote and support electronic sharing of information and government transparency. These initiatives will offer innovative new tools for staff and citizens to provide faster service and greater efficiencies.

Broad Street Parkway Project

In 2009, the City authorized \$37.6 million of debt issuance towards its portion of the construction of the Broad Street Parkway, with the balance of \$29.4 million funded by the Federal Department of Transportation. The parkway will provide a second bridge crossing over the Nashua River. The parkway will connect downtown Nashua, the Millyard, and other key redevelopment sites with Broad Street (near the exit 6 interchange) with the Everett Turnpike. Preliminary engineering design is currently underway with construction scheduled to begin during fiscal year 2012.

Acquisition of Water System

On November 11, 2010, the City signed a definitive merger agreement (DMA) to acquire all the outstanding shares of Pennichuck Corporation (Pennichuck) for a price of \$29.00 per share or approximately \$138 million in cash. Under the proposed acquisition, the City will acquire control of all of the Pennichuck's assets, liabilities and businesses, including land comprising the watershed of the Pennichuck Brook and the three regulated water utilities owned by the company. Taking into account all of the assumed liabilities of the company and its businesses, the proposed acquisition is valued at approximately \$200 million.

The acquisition is subject to a number of conditions precedent and contingencies, including the approval of financing by at least two-thirds of the City of Nashua Board of Aldermen, approval by the New Hampshire Public Utilities Commission (NHPUC), approval of at least two-thirds of the shareholders of Pennichuck, and the completion of the City's financing of the transaction. All of the necessary approvals have been received with the NHPUC approving the City's acquisition of Pennichuck in November 2011. The City plans to issue general obligation bonds to acquire all of the shares of Pennichuck with the closing anticipated in early 2012. Once the acquisition occurs, the City will continue to operate all of the Pennichuck subsidiaries with Pennichuck's current operating employees and will appoint an independent board of directors to oversee these continuing operations.

This acquisition of the local water system had its beginnings in fiscal year 2002. At a special election held on January 14, 2003, the voters authorized the City to acquire the privately owned water system serving the City and other municipalities. During the next several fiscal years, negotiations between the parties, eminent domain and regulatory proceedings before the NHPUC and legal proceedings before the Hillsborough County Superior Court and the New Hampshire Supreme Court took place.

The DMA ends the ongoing legal case between the parties and sets the stage for the full and final resolution of the eminent domain dispute. In that dispute, the NHPUC approved the City's taking of the assets of Pennichuck Water Works, Inc. (PWW) for a value of \$203 million, plus a mitigation fund of \$40 million which was to be established to benefit the customers of Pennichuck's two other regulated water utilities - Pennichuck East Utilities, Inc. and Pittsfield Aqueduct Company from any adverse financial impacts from the eminent domain taking. PWW is a wholly owned subsidiary of Pennichuck and is the water system that serves customers in Nashua and other surrounding municipalities. In contrast to the eminent domain taking, the proposed transaction will maintain the integrated operations of all of the businesses operated by Pennichuck and avoid the need for any mitigation fund.

Local Economy

The City of Nashua, ranked among the top twenty best affordable suburbs in the Northeast by Business Week magazine, continues to grow, reinvent and reinvigorate itself in response to changing economic trends and challenges. It remains a regional retail hub as well as an emerging force in the area for healthcare services. Software development, electronics, telecommunications, robotics and medical devices have become key industries in recent years.

The City adopted its most recent City-wide Master Plan in 2001 and has a Downtown Master Plan, East Hollis Street Master Plan, Economic Development Strategic Plan and a Consolidated Plan. These and other plans form the basis for public and private development decisions, budgetary decisions and future investment.

There is little land available in the City for new development; therefore, redevelopment and rehabilitation of existing sites has become more prevalent and kept the City on the forefront of economic, technological and social change. The City is undertaking ambitious redevelopment strategies for long-dormant Brownfield's sites near the center of the city. Redevelopment of the Millyard, the Front and Franklin Street Mill District and the Bridge Street Waterfront Redevelopment Project all represent significant opportunities to reinvigorate downtown Nashua with people-intensive uses. A key redevelopment site includes the Nashua Technology Park, a 400-acre development that will provide critical expansion capacity for Nashua's high tech cluster. Other projects include housing developments for families and individuals of all types, sizes and income levels throughout the City. Some of these sites target home-ownership opportunities for working families, affordable rental housing for working families, housing and condominiums for active adults aged fifty-five and over and affordable elderly housing. The first new market-rate housing in downtown in decades was completed in fiscal year 2007.

The City actively pursues all available funding opportunities and has been quite successful with receiving federal funding from EPA Brownfield's Assessment Funds, Federal Transportation and Administration Grants, and Community Development Block Grants. Transportation is essential to the viability of a community and the quality of life of its citizens. The City makes significant investments and plays an active supporting role in infrastructure improvements, extensions, expansions and transit. The City continues to diligently work toward the successful construction of the Broad Street Parkway, a 1.8-mile road that will help to improve access from the highway to Downtown Nashua and the Millyard.

The transit system has been a proven success for over 25 years and continues to expand its service routes. An extension of the MBTA commuter line from the Lowell Boston area to Nashua, possibly further north, remains under consideration at Federal, State, and local levels. Commuter bus service between Nashua and Boston began in February 2007 and has developed a steady local ridership base, exceeding projections.

All of the aforementioned factors have contributed to a solid, strong, and diverse fiscal and economic atmosphere for the City and its citizens.

Awards

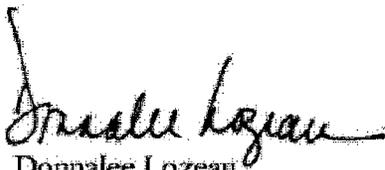
The City of Nashua has received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA) for its CAFR for the last six fiscal years. In order to receive this prestigious award the report must be easily readable and efficiently organized, the contents must conform to program standards, and it must satisfy both generally accepted accounting principles and applicable legal requirements. The award is presented to government units and public employee retirement systems whose CAFRs achieve the highest standards in government accounting and financial reporting.

The Certificate of Achievement is valid for a period of one year only. We believe that this CAFR conforms to the standards required for the certificate and will be submitting it to the GFOA for review.

Acknowledgements

The preparation and publication of this CAFR would not have been possible without the dedication and hard work of members of the Financial Services Division team. We are truly appreciative of their efforts. It also required contributions and cooperation from many departments throughout the City and we appreciate their efforts as well. We would also like to thank the Board of Aldermen for their continued support of the highest standards of professionalism in the management of the City's finances.

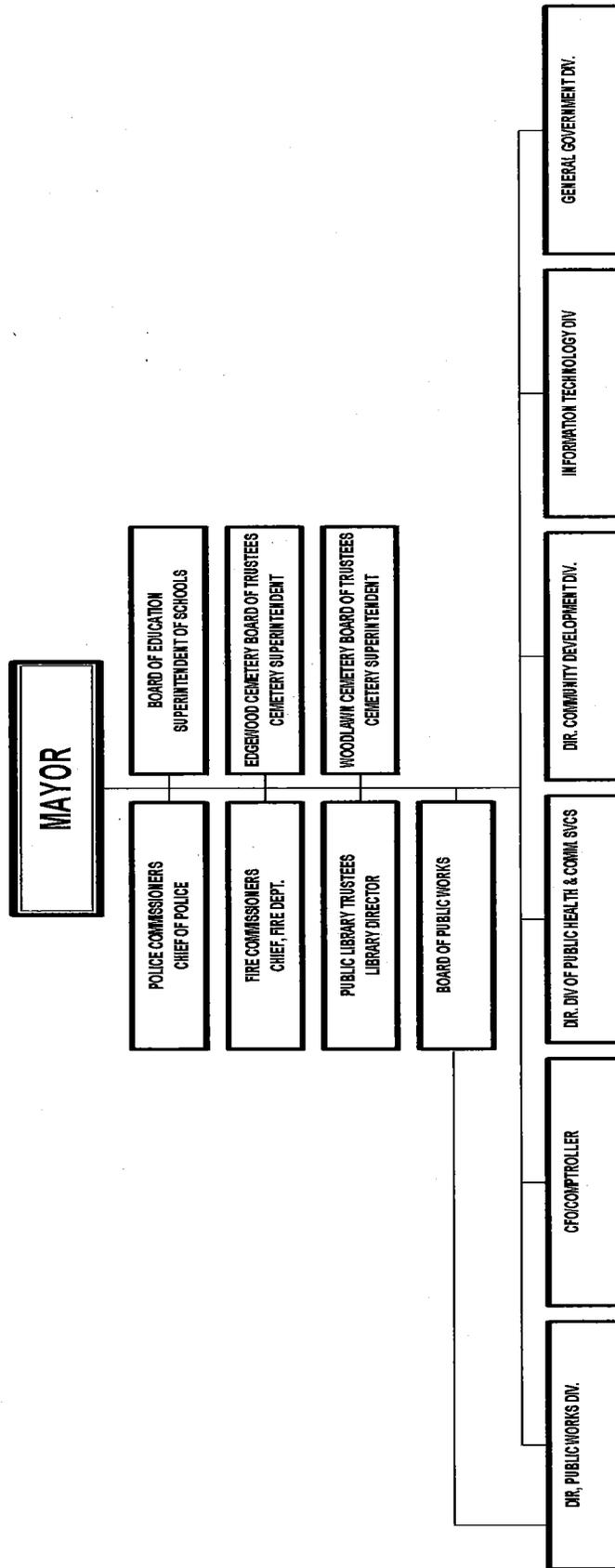
Respectfully submitted,


Donnalee Lozeau
Mayor


John L. Griffin
Chief Financial Officer

CITY OF NASHUA

ADMINISTRATIVE/EXECUTIVE STRUCTURE



**CITY OF NASHUA, NEW HAMPSHIRE
LIST OF PRINCIPAL OFFICIALS
FISCAL YEAR 2011**

MAYOR

Donnalee Lozeau

ALDERMEN AT LARGE

Brian S. McCarthy, President
Benjamin M. Clemons, Vice President
Mark S. Cookson
David W. Deane
Barbara Pressly
Lori Wilshire

WARD ALDERMEN

Kathryn D. Vitale	Ward 1
Richard LaRose	Ward 2
Diane Sheehan.....	Ward 3
Arthur T. Craffey, Jr	Ward 4
Michael J. Tabacsko	Ward 5
Paul M. Chasse, Jr.	Ward 6
Richard P. Flynn	Ward 7
Mary Ann Melizzi-Golja.....	Ward 8
Jeffrey T. Cox	Ward 9

**CITY OF NASHUA, NEW HAMPSHIRE
DIVISION AND DEPARTMENT HEADS
FISCAL YEAR 2011**

LEGAL

Corporation Counsel	James McNamee, Esquire
Deputy Corporation Counsel	Stephen Bennett, Esquire
Deputy Corporation Counsel	Dorothy Clarke, Esquire

BOARD OF ALDERMEN

Aldermanic Legislative Manager	Susan Lovering
--------------------------------	----------------

CITISTAT

CitiStat Director	Susan Valaitis
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OFFICE OF THE CITY CLERK

City Clerk	Paul R. Bergeron
------------	------------------

HUMAN RESOURCES

Human Resources Director	Vacant
--------------------------	--------

OFFICE OF ECONOMIC DEVELOPMENT

Economic Development Director	Thomas Galligani, Jr.
-------------------------------	-----------------------

INFORMATION TECHNOLOGY

Information Technology Director	John Barker
---------------------------------	-------------

FINANCIAL SERVICES DIVISION

Chief Financial Officer/Comptroller	John L. Griffin
Treasurer/Tax Collector	David G. Fredette
Deputy Treasurer/Deputy Tax Collector	Ruth Raswyck
Accounting/ Compliance Manager	Rosemarie Evans
Compensation Manager	Doreen Beaulieu
Purchasing Manager	Robert Gabriel
Risk Manager	Jennifer Deshaies
Chief Assessor/GIS Manager	Angelo Marino

POLICE DEPARTMENT

Chief	Donald Conley
Deputy Chief	John Seusing
Deputy Chief	Peter Theriault

FIRE DEPARTMENT

Chief
Assistant Fire Chief

Brian Morrissey
Keith Anderson

**DIVISION OF PUBLIC HEALTH
AND COMMUNITY SERVICES**

Director
Manager, Community Health
Manager, Environmental Health
Welfare Officer

Kerran Vigroux
Bobbie Bagley
Heidi Peek
Robert Mack

PUBLIC WORKS DIVISION

Director
City Engineer
Superintendent, Parks/Recreation
Superintendent, Streets
Superintendent, Traffic
Superintendent, Solid Waste
Superintendent, Wastewater Treatment

Lisa Fauteux
Stephen Dookran
Nicholas Caggiano
Roy Sorenson
Wayne R. Husband
Marc Morgan
Mario Leclerc

COMMUNITY DEVELOPMENT DIVISION

Director
Manager, Planning Department
Manager, Urban Programs
Building Department Manager
Code Enforcement Department Manager

Katherine Hersh
Roger Houston
Carrie Johnson Schena
Michael Findley
Nelson Ortega

PUBLIC LIBRARIES

Director
Assistant Director, Library

Jennifer Hinderer
Susan Deschenes

SCHOOL DEPARTMENT

Superintendent
Chief Operating Officer

Mark Conrad
Daniel Donovan

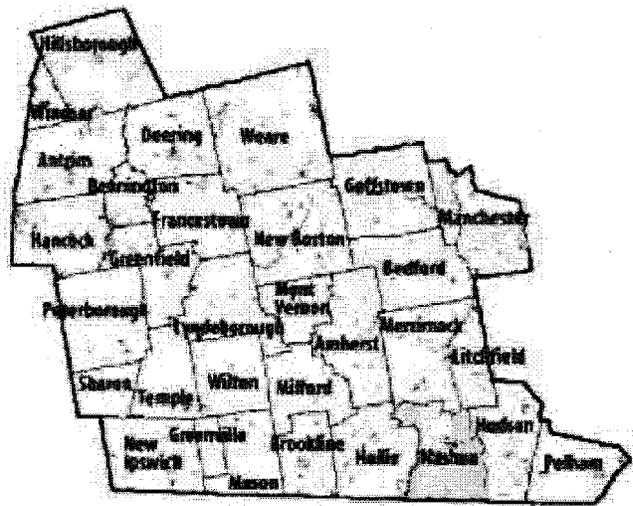
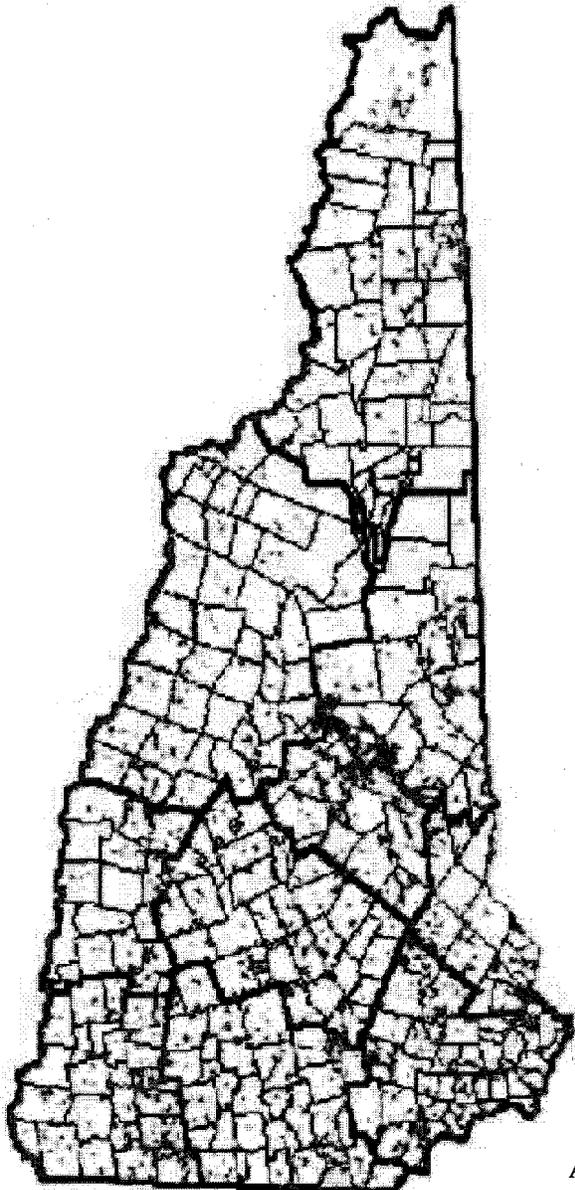
CEMETERIES

Superintendent – Edgewood and Suburban
Superintendent – Woodlawn

Jeffrey Snow
David Campbell

CITY OF NASHUA, NH

Geographic Location



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Nashua
New Hampshire

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danton

President

Jeffrey R. Egan

Executive Director

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

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

INDEPENDENT AUDITORS' REPORT

To the Mayor and Board of Aldermen
City of Nashua, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nashua, New Hampshire, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Nashua's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the Nashua Airport Authority Component Unit as of June 30, 2011 and for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, is based solely on the report of the other auditors.

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 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nashua, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on the following pages and the Schedule of Funding Progress on page 85 is not a required part of the basic financial statements but is 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 them.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Nashua, New Hampshire's basic financial statements. The introductory section, supplementary statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2011 on our consideration of the City'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 with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
December 14, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Nashua, we offer readers of the city of Nashua's financial statements this narrative overview and analysis of the financial activities of the City of Nashua for the fiscal year ended June 30, 2011. **All amounts, unless otherwise indicated, are expressed in thousands of dollars.**

A. FINANCIAL HIGHLIGHTS

- The assets of the City of Nashua exceeded its liabilities at the close of the most recent fiscal year by \$270,708 (net assets). Of this amount, \$28,812 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. (See Section C - Government-wide Financial Analysis for further explanation).
- The government's total net assets increased by \$ 3,689. This change is comprised of increases of \$2,446 and \$1,243 in Governmental and Business-Type Activities, respectively.
- Unrestricted net assets of the Wastewater Fund decreased by \$ (4,022). (See Business Activities in Section C - Government-wide Analysis for further explanation).
- As of the close of the current fiscal year, the City of Nashua's governmental funds reported combined ending fund balances of \$75,420, an increase of \$106 over the prior year. Approximately 33% or \$25,000 constitutes unassigned fund balance which is available for spending at the City's discretion. (This decrease is discussed in Section D - Financial Analysis of the Government's Funds).
- The City issued \$6 million of new general obligation debt.

B. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The statement of net assets presents information on all the City of Nashua'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 City is improving or deteriorating.

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

Both government-wide financial statements distinguish functions of the City of Nashua that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Nashua include general government, public safety, public works, education, health and human services, culture and recreation, and community development. The business-type activities of the City of Nashua include Wastewater and Solid Waste activities.

The government-wide financial statements include not only the City of Nashua itself (known as the primary government), but also legally separate entities for which the primary government is financially accountable (known as component units). The Nashua Airport Authority is reported as a discretely presented governmental component unit. Financial information for the Nashua Airport Authority is reported separately from the financial information presented for the primary government.

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 City of Nashua, 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 City of Nashua can be divided into three categories: governmental funds, proprietary 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 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 City of Nashua maintains 24 individual governmental fund types. 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. Data from all the other 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.

The City of Nashua adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds

The City of Nashua maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Nashua uses enterprise funds to account for its Wastewater and

Solid Waste operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Nashua's various functions. The City of Nashua uses an internal service fund to account for its self-insured programs. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Wastewater and Solid Waste operations, both of which are considered to be major funds of the City of Nashua.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government (i.e. Public Works Pension Funds, Scholarship Funds, etc.). Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Nashua's progress in funding its obligation to provide pension benefits to its employees.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

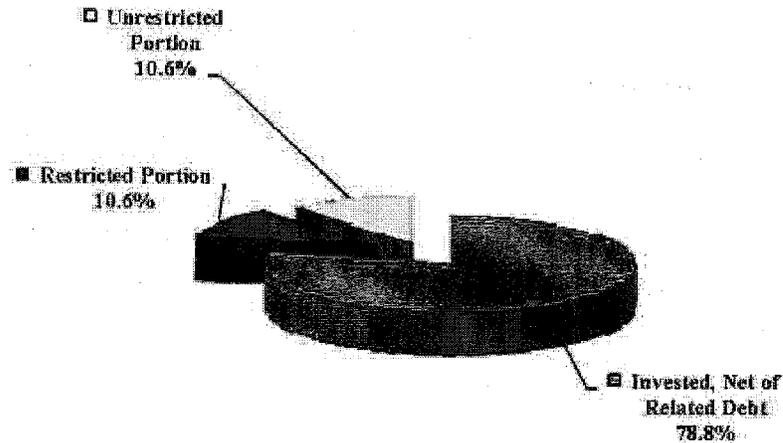
The following is a summary of condensed government-wide financial data for the current and prior fiscal year. All amounts are presented in thousands.

NET ASSETS AT JUNE 30, 2011 AND 2010

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 203,979	\$ 199,826	\$ 13,809	\$ 15,320	217,788	\$ 215,146
Noncurrent assets	229,411	228,205	133,808	134,788	363,219	362,993
Total assets	<u>433,390</u>	<u>428,031</u>	<u>147,617</u>	<u>150,108</u>	<u>\$ 581,007</u>	<u>578,139</u>
Current liabilities	125,547	119,730	6,101	6,148	131,648	125,878
Long term liabilities	136,710	139,614	41,941	45,628	178,651	185,242
Total liabilities	<u>262,257</u>	<u>259,344</u>	<u>48,042</u>	<u>51,776</u>	<u>310,299</u>	<u>311,120</u>
Net assets:						
Invested in capital assets, net	111,077	103,436	102,158	99,865	213,235	203,301
Restricted	24,688	21,611	3,973	3,773	28,661	25,384
Unrestricted	35,368	43,640	(6,556)	(5,306)	28,812	38,334
Total net assets	<u>\$ 171,133</u>	<u>\$ 168,687</u>	<u>\$ 99,575</u>	<u>\$ 98,332</u>	<u>\$ 270,708</u>	<u>\$ 267,019</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Nashua, assets exceeded liabilities by \$270,708 at the close of the most recent fiscal year.

TOTAL NET ASSETS
Fiscal Year Ended June 30, 2011



As depicted in the chart above, the largest portion of the City of Nashua's net assets (\$213,235, or 78.8%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related outstanding debt used to acquire those assets. The City of Nashua uses its capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Nashua's net assets (\$28,661, or 10.6%) represents resources that are subject to external restrictions on how they may be used (i.e. grants, contributions, etc.). The remaining balance of unrestricted net assets (\$28,812 or 10.6%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Nashua is able to report a positive balance for the government as a whole, as well as for its separate governmental and Wastewater activities. The same situation held true for the prior fiscal year.

The restricted net assets of \$3,973 reported within the City of Nashua's business-type activities primarily represent the regulatory funds set-aside for the closure of the Phase I Lined Landfill.

The following table indicates the changes in net assets for governmental and business-type activities:

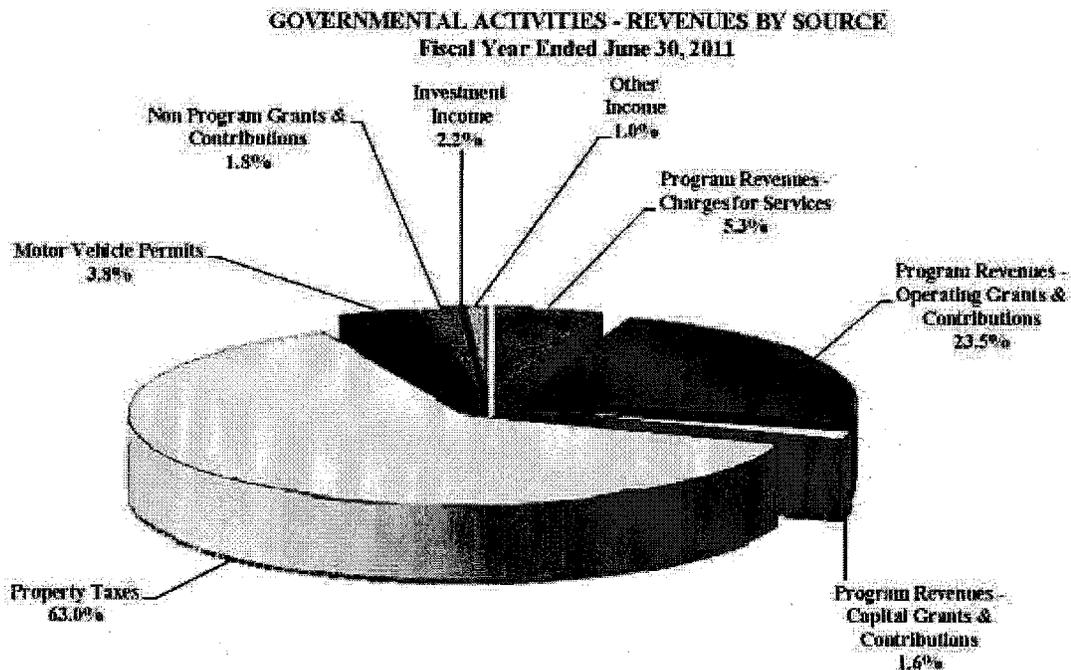
CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$ 14,303	\$ 10,985	\$ 11,402	\$ 11,558	\$ 25,705	\$ 22,543
Operating grants and contributions	63,122	65,039	-	-	63,122	65,039
Capital grants and contributions	4,278	5,824	776	1,458	5,054	7,282
General revenues:						
Property taxes	169,333	163,353	-	-	169,333	163,353
Motor vehicle	10,348	10,428	-	-	10,348	10,428
Investment income	422	1,262	33	48	455	1,310
Grants and contributions not restricted to specific programs	4,721	3,971	215	230	4,936	4,201
Other	2,560	2,581	-	-	2,560	2,581
Total revenues	269,087	263,443	12,426	13,294	281,513	276,737
Expenses:						
General government	22,129	20,090	-	-	22,129	20,090
Police	28,224	27,427	-	-	28,224	27,427
Fire	22,111	21,026	-	-	22,111	21,026
Water fire protection services	2,471	2,153	-	-	2,471	2,153
Education	150,018	143,688	-	-	150,018	143,688
Public works	10,793	10,031	-	-	10,793	10,031
Health and human services	3,965	4,065	-	-	3,965	4,065
Culture and recreation	8,157	7,930	-	-	8,157	7,930
Community development	7,375	9,156	-	-	7,375	9,156
Communications	1,153	1,114	-	-	1,153	1,114
Interest and costs	5,220	5,612	-	-	5,220	5,612
Wastewater services	-	-	11,083	10,770	11,083	10,770
Solid waste services	-	-	5,277	6,178	5,277	6,178
Total expenses	261,616	252,292	16,360	16,948	277,976	269,240
Increase in net assets before transfers and permanent fund contributions	7,471	11,151	(3,934)	(3,654)	3,537	7,497
Transfers	(5,177)	(3,976)	5,177	3,976	-	-
Permanent fund contributions	152	109	-	-	152	109
Increase in net assets	2,446	7,284	1,243	322	3,689	7,606
Net assets - beginning of year	168,687	161,403	98,332	98,010	267,019	259,413
Net assets - end of year	\$ 171,133	\$ 168,687	\$ 99,575	\$ 98,332	\$ 270,708	\$ 267,019

Governmental activities. Governmental activities for the year resulted in an increase in net assets of \$2,446. Key elements of this change are as follows:

Use of General Fund net assets for fiscal year 2011	\$ (4,900)
Cemetery permanent funds revenue in excess of expenditures	2,978
Internal service funds expenditures in excess of revenues	(1,420)
Increase in Net OPEB liability	(3,288)
Capital asset additions from current year revenues	9,073
Other	3
Total	\$ 2,446

Revenues for the City's governmental activities increased by 2.1% or \$5,644 over last year, primarily due to increases in the fair market value of investments in the cemetery permanent funds. The chart below identifies revenues by source for governmental activities.



As reflected in the above chart, the City's largest sources of revenue are from property taxes (63%) and operating grants and contributions (23.5%).

The cost of all governmental activities this year was \$261,616. This reflects a \$9.3 million, or 3.7% increase over the fiscal year 2010 total of \$252,292. However, as shown in the Statement of Activities on page 34, the amount that our taxpayers ultimately financed for these activities through City taxes was \$169,333 because some of the cost was paid by those who directly benefited from the programs through charges for services (\$14,303) or by other governments and organizations that subsidized certain programs with capital and operating grants and contributions (\$67,400). The City supports the remaining portion of the governmental activities with other

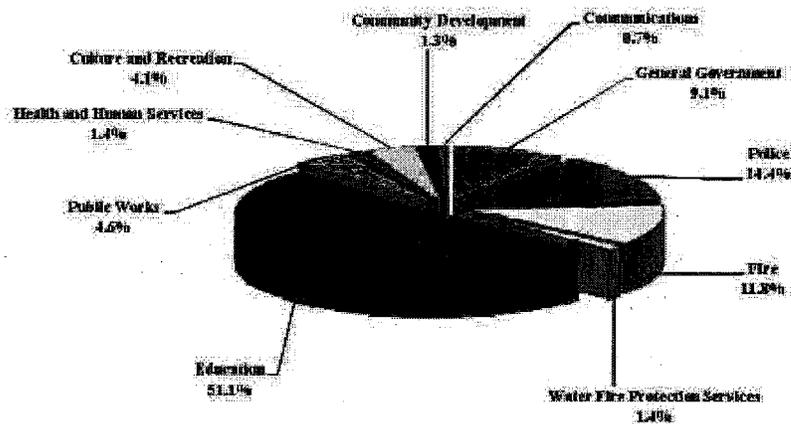
general revenues such as motor vehicle registrations, investment income, unrestricted grants and contributions, and miscellaneous other revenues.

The table below presents the cost of each of the City's programs as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

**Governmental Activities
(In Millions)**

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
General Government	\$ 22,177	\$ 20,292	\$ 16,428	\$ 16,861
Police	28,417	27,640	25,818	24,790
Fire	22,312	21,241	21,306	20,193
Water Fire Protection Services	2,471	2,153	2,471	2,153
Education	154,076	147,965	91,965	86,247
Public Works	10,923	10,138	8,343	7,745
Health and Human Services	3,965	4,065	2,603	2,520
Culture and Recreation	8,322	8,110	7,350	7,283
Community Development	7,631	9,384	2,306	1,348
Communications	1,322	1,304	1,322	1,304
	<u>\$ 261,616</u>	<u>\$ 252,292</u>	<u>\$ 179,912</u>	<u>\$ 170,444</u>

GOVERNMENTAL ACTIVITIES - NET COST OF SERVICES BY FUNCTION
Fiscal Year Ended June 30, 2011

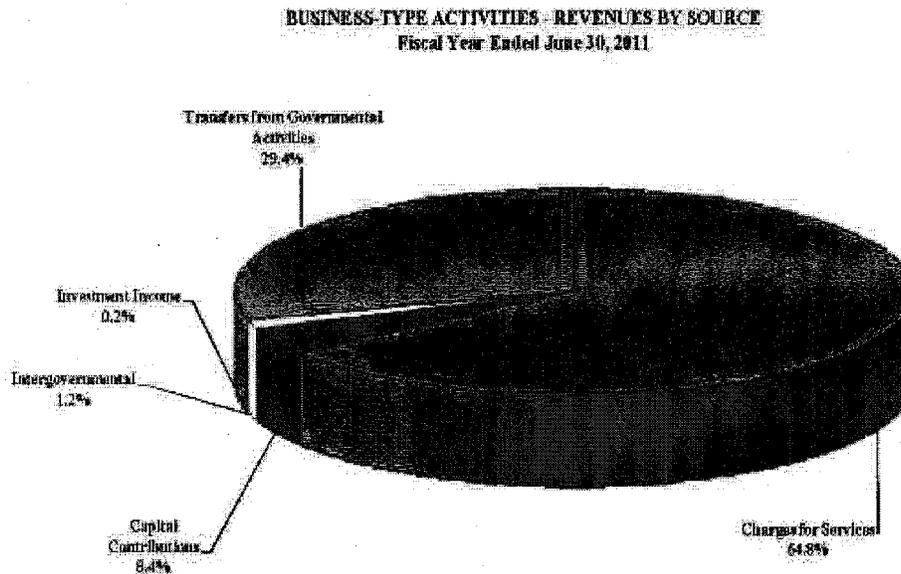


Business-type activities. Overall, business-type activities increased City's net assets by \$1,243 or 1.2%. Key elements of this change are as follows:

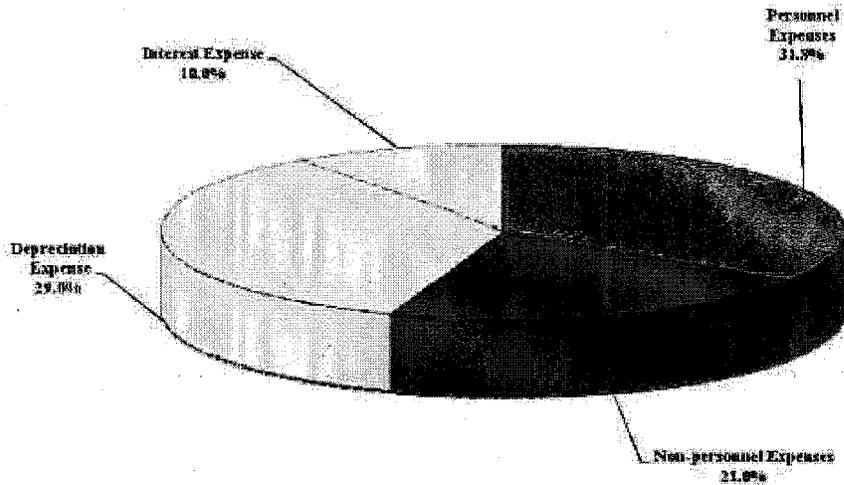
The Wastewater Fund decreased total net assets by \$1,522 compared to a \$333 decrease in the previous year. The City continues to annually update our wastewater rate study model in order to ensure that rates are sufficient to cover the operating and capital costs of the wastewater system. A rate increase of 15% was put into effect on July 1, 2011. Additionally, the Wastewater Fund unrestricted net assets decreased from the previous fiscal year by \$4,022. The decrease is mainly the result of utilizing net assets to finance wastewater capital projects in advance of borrowing. The City currently has authorization to issue approximately \$37 million of debt in order to fund the balance of the capital projects and ensure that unrestricted net assets remain in a positive position.

- The Solid Waste Disposal Fund increased total net assets by \$2,765. Solid waste activities continue to operate at a deficit with the City continuing to supplement the Solid Waste operations through property taxation for the residential costs of collection and disposal. There is currently no separate fee charged to the City's residential population.
- The Solid Waste Disposal Fund negative net assets of \$4,929 is primarily due to the fund's high percentage of non-capital (landfill closure costs) related debt, as well as the GAAP (generally accepted accounting principles) requirement to record closure and post closure care liability (the amount the City would be required to spend should the landfill cease operations).

The following charts depict revenues and expenses for business type activities:



BUSINESS-TYPE ACTIVITIES - EXPENSES BY CATEGORY
Fiscal Year Ended June 30, 2011



D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Nashua uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

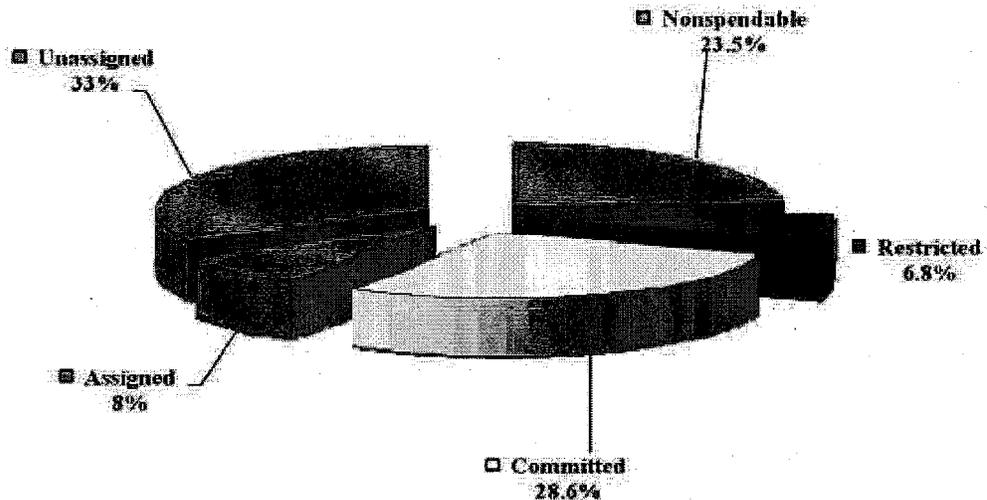
As of the end of the current fiscal year, the City of Nashua's governmental funds reported combined ending fund balances of \$75,420, an increase of \$106 over the prior year and can be summarized as follows:

General Fund deficiency of revenues over expenses and transfers out	\$ (4,412)
Special Revenue Funds deficiency of revenues over expenses and transfers out	(1,013)
Capital Project Funds excess bond proceeds and transfers in over expenses and transfers out	2,464
Permanent Funds excess revenues over expenses and transfers out	3,067
	<u>\$ 106</u>

Approximately 33% (\$25,049) of the total combined ending fund balances constitutes unassigned fund balance. The remaining components of fund balance (\$50,371) are not available for new spending and are classified into the following categories:

Nonspendable	\$ 17,723
Restricted	5,106
Committed	21,592
Assigned	5,950
Total:	<u>\$ 50,371</u>

**GOVERNMENTAL FUNDS
FUND BALANCES
Fiscal Year Ended June 30, 2011**



The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$25,540 compared to \$26,561 last year, while total general fund balance was \$45,568 compared to \$49,980 last year. As a measure of the general fund's change in financial position, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures over time. Unassigned fund balance, represents 10.9% of total general fund expenditures compared to 11.7% last year, while total fund balance represents 19.5% compared to 22% last year.

Proprietary funds. The City of Nashua's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unlike governmental funds, proprietary funds utilize the accrual basis of accounting. Therefore, no reconciliation is needed between the government-wide financial statements and the proprietary fund financial statements.

Factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

The following reconciles the City's adopted budget with the "original budget" columns of the Budget and Actual Financial Statements on page 40 and the Budget and Actual Detail Schedule on pages 104-105

Total Adopted Budget	\$ 223,396
Plus: Hillsborough County appropriation	9,417
Plus: Appropriation to Solid Waste Fund	<u>3,928</u>
Total Original Budget, per Financial Statements/Schedules	<u>\$ 236,741</u>

The difference between the original and final amended budget resulted in an overall increase in appropriations of \$2,111 and can be summarized as follows:

Total Original Budget, per Financial Statements/Schedules	\$ 236,741
Plus: Transfers in from Trust and Reserve Funds	<u>2,111</u>
Total Final Budget, per Financial Statements/Schedules	<u>\$ 238,852</u>

The difference between the final amended budget and actual results reflects a surplus of \$2,564.

Significant revenue variances are summarized as follows:

- \$ 1,095 shortfall in interest earnings due to declining investment rates.
- \$ 460 shortfall in motor vehicle registrations.

Significant expenditure variances are summarized as follows:

- \$ 763 in education as special education costs was lower as fewer students were sent out of district. Also, heating costs were lower due to a combination of a milder winter than expected and price negotiations.
- \$ 915 in pension costs as "downshifting" of additional pension costs from the State did not materialize.
- \$ 666 in debt service due to the timing and repayment structure of a bond issuance.
- \$ 579 in Welfare costs as applicants are often referred to other mainstream community resources for supplemental or primary assistance, which resulted in a decreased need or eligibility from the City.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounted to \$363,219, net of accumulated depreciation, an increase of \$228 over the prior fiscal year. This investment in capital assets includes land, buildings, vehicles, equipment, and infrastructure.

CAPITAL ASSETS AS OF JUNE 30, 2011 AND 2010

(net of accumulated depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Land and improvements	\$ 27,033	\$ 25,166	\$ 12,864	\$ 13,681	\$ 39,897	\$ 38,847
Buildings and systems	155,873	160,644	47,073	48,919	202,946	209,563
Machinery and equipment	15,227	15,501	10,986	11,900	26,213	27,401
Infrastructure	21,926	22,720	56,531	56,585	78,457	79,305
Construction in progress	9,352	4,175	6,354	3,700	15,706	7,875
Total	<u>\$ 229,411</u>	<u>\$ 228,206</u>	<u>\$ 133,808</u>	<u>\$ 134,785</u>	<u>\$ 363,219</u>	<u>\$ 362,991</u>

Major capital asset additions during the current fiscal year included the following:

Governmental Activities

Citywide Street and Sidewalk Improvements	\$ 1,851
Enterprise Resource Planning (ERP) System	1,362
School Department – HVAC Systems	812
Elm and High Street Garage Improvements	714
Broad Street Parkway Construction	600
Fire Department – Pierce Arrow XT Pumper	432
School Technology Additions	429
Hunt Building Renovations	296

Business-type Activities

Sewer Infrastructure Improvements	\$ 1,121
Sewer Drop Over Structures	1,058
Sluice Gate CSO Control	801
Haines Street Sewer Separation Project	339
Net Metering Project	300
Harbor Avenue Sewer Separation Project	212
Storage Tanks	168

Additional information concerning the City of Nashua's capital assets can be found in Note 7 on pages 59-60 of this report.

Long-term debt. At the end of the current fiscal year, the City of Nashua had total debt outstanding of \$160,019 compared to \$169,279 in the prior year, a decrease of \$9,260. Of this amount, \$159,952 represents general obligation debt, which is backed by the full faith and credit of the government. The remainder of the City's debt is comprised of capital leases totaling \$67.

OUTSTANDING DEBT AS OF JUNE 30, 2011 AND 2010

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Bonds and notes	\$ 120,376	\$ 126,240	\$ 39,576	\$ 42,924	\$ 159,952	\$ 169,164
Capital leases	67	115	-	-	67	115
Total	\$ 120,443	\$ 126,355	\$ 39,576	\$ 42,924	\$ 160,019	\$ 169,279

During the fiscal year, the City issued \$6 million of general obligation improvement bonds and retired \$15,212 of outstanding debt through scheduled principal payments.

State statutes limit the amount of general obligation debt a governmental entity may issue to 3% of its total assessed valuation for the City or 7% of its total assessed valuation for the School. The City of Nashua has imposed more restrictive limits for City and School respectively of 2% for and 6% of total assessed valuation. The current debt limitation for the City and school combined is \$681,520, which is significantly in excess of the current outstanding general obligation debt of \$120,376. Additionally, principal outstanding on qualified school debt receives a 30% state building aid reimbursement. Wastewater and Solid Waste debt of \$39,576 is not subject to these limitations.

The City of Nashua maintains a "AA+" credit rating with Standard & Poor's, and in July of 2010, Fitch Ratings assigned the City AAA rating in connection with the issuance of \$6 million in General Obligation Improvement Bonds.

Additional information on the City of Nashua's long-term debt can be found in Note 12 on pages 62 - 67 of this report.

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

The effects of the recession continue to impact both state and local revenues. The City continues to experience a decline in local revenues, primarily in investment income and motor vehicle registrations. With the State government budget challenges, revenue sharing to the City continues to be suspended and the full cost of the State's contribution to the New Hampshire Retirement System was downshifted to the City. The City is also facing significant cost pressures in healthcare and retirement costs. Several strategies were instituted in order to mitigate these cost increases and plan to be implemented over the next fiscal year.

The City adopted a fiscal year 2012 General Fund operating budget of \$240,326 (inclusive of the transfer to solid waste and county appropriation), compared to an adopted budget of \$236,741 for fiscal year 2011. The budget reflects an overall increase of 1.5% over the prior year and in spite of revenue shortfalls and the downshifting of costs, the fiscal year 2012 budget did not require any service level reductions. \$4.3 million of assigned fund balance will be used as a funding source towards the fiscal year 2012 tax rate and the City anticipates a tax rate increase of not to exceed 2.8%.

The City will continue to budget conservatively and strive to maintain strong reserve levels in order to provide some financial flexibility.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Nashua's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Financial Reporting
City of Nashua
229 Main Street
Nashua, New Hampshire 03061

CITY OF NASHUA, NEW HAMPSHIRE

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Primary Government			Component Units
	Governmental Activities	Business- Type Activities	Government Wide Total	
ASSETS				
Current:				
Cash and short-term investments	\$ 132,092,499	\$ 18,499,212	\$ 150,591,711	\$ 327,877
Investments	41,508,331	-	41,508,331	434,268
Receivables, net of allowance for uncollectibles:				
Property taxes	15,947,454	-	15,947,454	-
User fees	-	2,751,890	2,751,890	15,615
Departmental and other	418,555	-	418,555	-
Intergovernmental	4,739,025	512,144	5,251,169	428,149
Loans	655,868	-	655,868	-
Internal balances	7,954,138	(7,954,138)	-	-
Other assets	662,732	-	662,732	-
Total current assets	<u>203,978,602</u>	<u>13,809,108</u>	<u>217,787,710</u>	<u>1,205,909</u>
Noncurrent:				
Capital assets being depreciated, net of accumulated depreciation	193,026,204	127,221,440	320,247,644	7,046,163
Capital assets not being depreciated	36,385,161	6,586,420	42,971,581	2,914,971
Total non-current assets	<u>229,411,365</u>	<u>133,807,860</u>	<u>363,219,225</u>	<u>9,961,134</u>
TOTAL ASSETS	<u>433,389,967</u>	<u>147,616,968</u>	<u>581,006,935</u>	<u>11,167,043</u>
LIABILITIES				
Current:				
Accounts payable	8,182,411	581,363	8,763,774	430,505
Retainage payable	57,265	162,762	220,027	-
Accrued liabilities	18,067,709	999,081	19,066,790	381
Unearned revenues	85,484,903	-	85,484,903	4,400
Notes payable	-	952,827	952,827	-
Due to external parties - fiduciary funds	19,966	-	19,966	-
Other	54,360	-	54,360	-
Current portion of long-term liabilities:				
Bonds and notes payable	12,341,980	3,357,345	15,699,325	-
Compensated absences	1,316,875	48,089	1,364,964	3,666
Capital leases	21,458	-	21,458	-
Total current liabilities	<u>125,546,927</u>	<u>6,101,467</u>	<u>131,648,394</u>	<u>438,952</u>
Noncurrent:				
Bonds and notes payable	109,527,324	36,334,977	145,862,301	-
Compensated absences	15,144,065	486,236	15,630,301	82,048
Net OPEB obligations	11,993,306	285,106	12,278,412	-
Capital leases	45,338	-	45,338	-
Other	-	4,834,260	4,834,260	-
Total non-current liabilities	<u>136,710,033</u>	<u>41,940,579</u>	<u>178,650,612</u>	<u>82,048</u>
TOTAL LIABILITIES	<u>262,256,960</u>	<u>48,042,046</u>	<u>310,299,006</u>	<u>521,000</u>
NET ASSETS				
Invested in capital assets, net of related debt	111,077,357	102,157,830	213,235,187	9,961,134
Restricted for:				
Grants and other statutory restrictions	5,182,206	-	5,182,206	-
Capital projects	2,008,159	3,972,974	5,981,133	-
Permanent funds:				
Expendable	1,116,900	-	1,116,900	-
Nonexpendable	16,380,114	-	16,380,114	-
Unrestricted	35,368,271	(6,555,882)	28,812,389	684,909
TOTAL NET ASSETS	<u>\$ 171,133,007</u>	<u>\$ 99,574,922</u>	<u>\$ 270,707,929</u>	<u>\$ 10,646,043</u>

See notes to financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR FISCAL YEAR ENDED JUNE 30, 2011

	Expenses	Indirect Cost Allocation	Program Revenues		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government					
Governmental Activities:					
General government	\$ 22,129,077	\$ 48,458	\$ 5,585,985	\$ 163,362	\$ -
Police	28,223,669	192,847	1,399,425	1,199,429	-
Fire	22,111,191	200,670	98,393	907,951	-
Water fire protection services	2,471,096	-	-	-	-
Education	150,017,895	4,057,594	4,277,635	55,152,960	2,680,079
Public works	10,792,781	130,238	732,071	1,602,922	245,082
Health and human services	3,964,857	-	186,295	1,175,508	-
Culture and recreation	8,156,558	165,272	904,781	66,845	-
Community development	7,375,291	255,940	1,118,703	2,852,890	1,353,051
Communications	1,152,961	169,507	-	-	-
Interest and costs	5,220,526	(5,220,526)	-	-	-
Total Governmental Activities	261,615,902	-	14,303,288	63,121,867	4,278,212
Business-Type Activities:					
Wastewater services	11,082,780	-	8,762,187	-	776,358
Solid waste services	5,277,700	-	2,640,001	-	-
Total Business-Type Activities	16,360,480	-	11,402,188	-	776,358
Total primary government	\$ 277,976,382	\$ -	\$ 25,705,476	\$ 63,121,867	\$ 5,054,570
Component unit					
Nashua Airport Authority	\$ 899,580	\$ -	\$ 547,181	\$ -	\$ 1,776,285

General Revenues, permanent fund contributions and transfers:

Property taxes
 Auto permits
 Penalties, interest and other taxes
 Grants and contributions not restricted
 to specific programs
 Investment income
 Miscellaneous
 Permanent fund contributions
 Transfers in (out)

Total general revenues, contributions and transfers

Change in Net Assets

Net Assets:

Beginning of year

End of year

See notes to financial statements.

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business- Type Activities	Total	Component Units
\$ (16,428,188)	\$ -	\$ (16,428,188)	\$ -
(25,817,662)	-	(25,817,662)	-
(21,305,517)	-	(21,305,517)	-
(2,471,096)	-	(2,471,096)	-
(91,964,815)	-	(91,964,815)	-
(8,342,944)	-	(8,342,944)	-
(2,603,054)	-	(2,603,054)	-
(7,350,204)	-	(7,350,204)	-
(2,306,587)	-	(2,306,587)	-
(1,322,468)	-	(1,322,468)	-
-	-	-	-
(179,912,535)	-	(179,912,535)	-
-	(1,544,235)	(1,544,235)	-
-	(2,637,699)	(2,637,699)	-
-	(4,181,934)	(4,181,934)	-
(179,912,535)	(4,181,934)	(184,094,469)	-
-	-	-	1,423,886
169,333,116	-	169,333,116	-
10,347,555	-	10,347,555	-
1,535,805	-	1,535,805	-
4,720,761	214,895	4,935,656	-
422,349	32,774	455,123	8,685
1,023,290	-	1,023,290	-
152,443	-	152,443	-
(5,177,336)	5,177,336	-	-
182,357,983	5,425,005	187,782,988	8,685
2,445,448	1,243,071	3,688,519	1,432,571
168,687,559	98,331,851	267,019,410	9,213,472
\$ 171,133,007	\$ 99,574,922	\$ 270,707,929	\$ 10,646,043

CITY OF NASHUA, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

ASSETS	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash and short-term investments	\$ 129,251,847	\$ 2,840,652	\$ 132,092,499
Investments	23,045,119	18,463,212	41,508,331
Receivables, net of allowance for uncollectibles:			
Property taxes	15,947,454	-	15,947,454
Departmental and other	179,074	234,437	413,511
Intergovernmental	-	4,728,607	4,728,607
Loans	-	655,868	655,868
Due from other funds	12,042,236	10,082,858	22,125,094
Other assets	<u>24,120</u>	<u>-</u>	<u>24,120</u>
TOTAL ASSETS	\$ <u>180,489,850</u>	\$ <u>37,005,634</u>	\$ <u>217,495,484</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 4,756,310	\$ 2,206,090	\$ 6,962,400
Accrued liabilities	5,886,154	455,231	6,341,385
Taxes levied in advance	85,484,903	-	85,484,903
Deferred revenues	3,358,402	389,416	3,747,818
Due to other funds	35,375,251	4,102,671	39,477,922
Other liabilities	<u>61,147</u>	<u>-</u>	<u>61,147</u>
TOTAL LIABILITIES	134,922,167	7,153,408	142,075,575
Fund Balances:			
Nonspendable	225,671	17,497,014	17,722,685
Restricted	-	5,106,464	5,106,464
Committed	13,851,725	7,740,332	21,592,057
Assigned	5,950,000	-	5,950,000
Unassigned	<u>25,540,287</u>	<u>(491,584)</u>	<u>25,048,703</u>
TOTAL FUND BALANCES	<u>45,567,683</u>	<u>29,852,226</u>	<u>75,419,909</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>180,489,850</u>	\$ <u>37,005,634</u>	\$ <u>217,495,484</u>

See notes to financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

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

JUNE 30, 2011

Total governmental fund balances	\$ 75,419,909
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	229,411,365
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	3,747,820
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	14,946,630
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(2,002,371)
• Long-term liabilities, including bonds payable and net OPEB obligation, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(150,390,346)</u>
Net assets of governmental activities	<u>\$ 171,133,007</u>

See notes to financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 168,867,223	\$ 238,701	\$ 169,105,924
Auto permits	10,411,574	-	10,411,574
Penalties, interest and other taxes	961,391	510,395	1,471,786
Charges for services	1,832,280	6,055,940	7,888,220
Intergovernmental	48,875,423	22,290,694	71,166,117
Licenses and permits	788,464	-	788,464
Interest earnings	446,572	3,721,608	4,168,180
Miscellaneous	1,040,677	558,692	1,599,369
Contributions	-	460,903	460,903
Total Revenues	<u>233,223,604</u>	<u>33,836,933</u>	<u>267,060,537</u>
Expenditures:			
Current:			
General government	56,897,557	3,886,512	60,784,069
Police	19,165,600	1,610,358	20,775,958
Fire	16,203,772	113,681	16,317,453
Water fire protection services	2,471,096	-	2,471,096
Education	93,588,224	20,345,041	113,933,265
Public works	9,371,404	728,773	10,100,177
Health and human services	1,894,004	1,247,986	3,141,990
Culture and recreation	5,310,816	414,275	5,725,091
Community development	1,445,969	6,496,240	7,942,209
Communications	289,648	-	289,648
Debt service			
Principal	11,864,348	60,000	11,924,348
Interest and issuance cost	5,416,517	38,904	5,455,421
Intergovernmental	9,416,623	-	9,416,623
Total Expenditures	<u>233,335,578</u>	<u>34,941,770</u>	<u>268,277,348</u>
Excess (deficiency) of revenues over expenditures	(111,974)	(1,104,837)	(1,216,811)
Other Financing Sources (Uses):			
Issuance of bonds	-	6,000,000	6,000,000
Transfers in	2,001,108	1,906,625	3,907,733
Transfers out	<u>(6,301,394)</u>	<u>(2,283,675)</u>	<u>(8,585,069)</u>
Total Other Financing Sources (Uses)	<u>(4,300,286)</u>	<u>5,622,950</u>	<u>1,322,664</u>
Change in fund balance	(4,412,260)	4,518,113	105,853
Fund Balance, July 1, 2010	<u>49,979,943</u>	<u>25,334,113</u>	<u>75,314,056</u>
Fund Balance, June 30, 2011	<u>\$ 45,567,683</u>	<u>\$ 29,852,226</u>	<u>\$ 75,419,909</u>

CITY OF NASHUA, 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, 2011

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 105,853																						
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net of disposals</td> <td style="text-align: right;">12,685,401</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(11,480,025)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">109,867</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of new debt</td> <td style="text-align: right;">(6,000,000)</td> </tr> <tr> <td>Repayment of capital leases</td> <td style="text-align: right;">48,333</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">11,864,348</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">126,326</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table border="0" style="margin-left: 40px;"> <tr> <td>Decrease in compensated absences liability</td> <td style="text-align: right;">67,845</td> </tr> <tr> <td>Increase in net OPEB obligation</td> <td style="text-align: right;">(3,287,768)</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">(374,988)</td> </tr> </table> • Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(1,419,744)</u></td> </tr> </table> 		Capital outlay purchases, net of disposals	12,685,401	Depreciation	(11,480,025)		109,867	Issuance of new debt	(6,000,000)	Repayment of capital leases	48,333	Repayments of debt	11,864,348		126,326	Decrease in compensated absences liability	67,845	Increase in net OPEB obligation	(3,287,768)	Other	(374,988)		<u>(1,419,744)</u>
Capital outlay purchases, net of disposals	12,685,401																						
Depreciation	(11,480,025)																						
	109,867																						
Issuance of new debt	(6,000,000)																						
Repayment of capital leases	48,333																						
Repayments of debt	11,864,348																						
	126,326																						
Decrease in compensated absences liability	67,845																						
Increase in net OPEB obligation	(3,287,768)																						
Other	(374,988)																						
	<u>(1,419,744)</u>																						
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>2,445,448</u>																						

CITY OF NASHUA, NEW HAMPSHIRE

GENERAL FUND

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues and Other Sources:				
Taxes	\$ 168,142,478	\$ 168,142,478	\$ 168,142,478	\$ -
Auto permits	10,872,000	10,872,000	10,411,574	(460,426)
Penalties, interest and other taxes	811,620	811,620	921,401	109,781
Charges for services	1,453,170	1,453,170	1,397,814	(55,356)
Intergovernmental	45,948,055	45,948,055	45,734,982	(213,073)
Licenses and permits	1,016,250	1,016,250	1,094,112	77,862
Interest earnings	1,500,000	1,500,000	404,617	(1,095,383)
Miscellaneous	1,572,293	1,572,293	1,436,520	(135,773)
Transfers in	525,100	2,636,353	2,985,188	348,835
Other sources	4,900,000	4,900,000	4,900,000	-
Total Revenues and Other Sources	236,740,966	238,852,219	237,428,686	(1,423,533)
Expenditures and Other Uses:				
General government	59,509,732	61,003,508	59,437,642	1,565,866
Police	17,947,915	18,261,211	18,195,954	65,257
Fire	14,442,091	14,880,969	14,796,667	84,302
Water fire protection services	2,337,189	2,473,189	2,471,096	2,093
Education	93,425,591	93,425,591	92,661,977	763,614
Public works	11,904,755	12,058,728	12,021,650	37,078
Health and human services	2,538,305	2,569,098	1,907,002	662,096
Culture and recreation	5,099,650	5,144,187	5,049,583	94,604
Community development	1,485,056	1,485,056	1,448,130	36,926
Communications	299,697	299,697	290,648	9,049
Debt service	17,834,362	17,834,362	17,168,136	666,226
Intergovernmental	9,416,623	9,416,623	9,416,623	-
Transfers out	500,000	-	-	-
Total Expenditures and Other Uses	236,740,966	238,852,219	234,865,108	3,987,111
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,563,578	\$ 2,563,578

See notes to financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-Type Activities			Governmental
	Enterprise Funds			Activities
	Waste Water Fund	Solid Waste Fund	Total	Internal Service Funds
ASSETS				
Current:				
Cash and short-term investments	\$ 14,461,810	\$ 4,037,402	\$ 18,499,212	\$ -
User fees, net of allowance for uncollectibles	2,488,330	263,560	2,751,890	-
Intergovernmental receivable	512,144	-	512,144	-
Due from other funds	-	2,262,124	2,262,124	25,302,460
Other assets	-	-	-	638,612
Total current assets	17,462,284	6,563,086	24,025,370	25,941,072
Noncurrent:				
Capital assets being depreciated, net	112,633,568	14,587,872	127,221,440	-
Capital assets not being depreciated	6,354,715	231,705	6,586,420	-
Total noncurrent assets	118,988,283	14,819,577	133,807,860	-
TOTAL ASSETS	136,450,567	21,382,663	157,833,230	25,941,072
LIABILITIES				
Current:				
Accounts payable	513,642	67,721	581,363	1,220,011
Retainage payable	162,762	-	162,762	-
Due to other funds	10,216,262	-	10,216,262	-
Accrued liabilities	582,330	416,751	999,081	9,765,073
Notes payable	952,827	-	952,827	-
Other liabilities	-	-	-	9,358
Current portion of long-term liabilities:				
Bonds and notes payable	1,565,771	1,791,574	3,357,345	-
Compensated absences	25,714	22,375	48,089	-
Total current liabilities	14,019,308	2,298,421	16,317,729	10,994,442
Noncurrent:				
Bonds and notes payable	17,526,099	18,808,878	36,334,977	-
Compensated absences	260,001	226,235	486,236	-
Net OPEB obligations	140,731	144,375	285,106	-
Landfill closure and post closure	-	4,834,260	4,834,260	-
Total noncurrent liabilities	17,926,831	24,013,748	41,940,579	-
TOTAL LIABILITIES	31,946,139	26,312,169	58,258,308	10,994,442
NET ASSETS				
Invested in capital assets, net of related debt	99,896,412	2,261,418	102,157,830	-
Restricted for capital projects	-	3,972,974	3,972,974	-
Unrestricted	4,608,016	(11,163,898)	(6,555,882)	14,946,630
TOTAL NET ASSETS	\$ 104,504,428	\$ (4,929,506)	\$ 99,574,922	\$ 14,946,630

See notes to financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR FISCAL YEAR ENDED JUNE 30, 2011

	Business-Type Activities Enterprise Funds			Governmental Activities
	Waste Water Fund	Solid Waste Fund	Total	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 8,762,187	\$ 2,269,491	\$ 11,031,678	\$ -
Contributions	-	-	-	30,534,389
Other	-	370,510	370,510	806,594
Total Operating Revenues	8,762,187	2,640,001	11,402,188	31,340,983
Operating Expenses:				
Personnel expenses	3,089,075	2,522,369	5,611,444	-
Non-personnel expenses	2,792,629	639,317	3,431,946	32,341,838
Depreciation	4,319,104	1,358,388	5,677,492	-
Total Operating Expenses	10,200,808	4,520,074	14,720,882	32,341,838
Operating Income (Loss)	(1,438,621)	(1,880,073)	(3,318,694)	(1,000,855)
Nonoperating Revenues (Expenses):				
Intergovernmental	549,539	214,895	764,434	-
Investment income	12,170	20,604	32,774	81,111
Interest expense	(881,972)	(757,626)	(1,639,598)	-
Total Nonoperating Revenues (Expenses), Net	(320,263)	(522,127)	(842,390)	81,111
Income (Loss) Before Transfers	(1,758,884)	(2,402,200)	(4,161,084)	(919,744)
Capital contributions	226,819	-	226,819	-
Transfers in	10,550	5,166,786	5,177,336	-
Transfers out	-	-	-	(500,000)
Change in Net Assets	(1,521,515)	2,764,586	1,243,071	(1,419,744)
Net Assets at Beginning of Year	106,025,943	(7,694,092)	98,331,851	16,366,374
Net Assets at End of Year	\$ 104,504,428	\$ (4,929,506)	\$ 99,574,922	\$ 14,946,630

See notes to financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR FISCAL YEAR ENDED JUNE 30, 2011

	Business-Type Activities			Governmental
	Enterprise Funds			Activities
	Waste Water Fund	Solid Waste Fund	Total	Internal Service Fund
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 9,048,558	\$ 2,556,459	\$ 11,605,017	\$ 31,717,843
Payments to vendors	(3,069,993)	(1,315,858)	(4,385,851)	(31,298,954)
Payments to employees	(3,089,075)	(2,522,369)	(5,611,444)	-
Net Cash Provided By (Used for) Operating Activities	2,889,490	(1,281,768)	1,607,722	418,889
Cash Flows From Noncapital Financing Activities:				
Payments from interfund loan agreements	7,305,418	-	7,305,418	-
Payments under interfund loan agreements	-	(1,720,475)	(1,720,475)	-
Transfers	10,550	5,166,786	5,177,336	(500,000)
Intergovernmental subsidy	401,348	214,895	616,243	-
Net Cash Provided By (Used for) Noncapital Financing Activities	7,717,316	3,661,206	11,378,522	(500,000)
Cash Flows From Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(4,621,050)	(132,177)	(4,753,227)	-
Proceeds from sale of capital assets	-	52,471	52,471	-
Contributions	226,815	-	226,815	-
Proceeds from bonds and notes	320,148	-	320,148	-
Principal payments on bonds and leases	(1,565,814)	(1,666,137)	(3,231,951)	-
Interest expense	(881,972)	(757,626)	(1,639,598)	-
Net Cash (Used For) Capital and Related Financing Activities	(6,521,873)	(2,503,469)	(9,025,342)	-
Cash Flows From Investing Activities:				
Investment income	12,170	20,604	32,774	81,111
Net Change in Cash and Short-Term Investments	4,097,103	(103,427)	3,993,676	-
Cash and Short-Term Investments, Beginning of Year	10,364,707	4,140,829	14,505,536	-
Cash and Short-Term Investments, End of Year	\$ 14,461,810	\$ 4,037,402	\$ 18,499,212	\$ -
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:				
Operating income (loss)	\$ (1,438,621)	\$ (1,880,073)	\$ (3,318,694)	\$ (1,000,855)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	4,319,104	1,358,388	5,677,492	-
Changes in assets and liabilities:				
User fees	142,564	(83,542)	59,022	-
Other assets	5,023	7,407	12,430	1,016,051
Accounts payable	(409,251)	49,186	(360,065)	112,916
Retainage payable	17,739	-	17,739	-
Accrued liabilities	143,807	(174,409)	(30,602)	281,419
Other liabilities	109,125	(558,725)	(449,600)	9,358
Net Cash Provided By (Used for) Operating Activities	\$ 2,889,490	\$ (1,281,768)	\$ 1,607,722	\$ 418,889

See notes to financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Pension Trust	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>			
Cash and short-term investments	\$ 952,942	\$ 230,556	\$ 726,332
Investments			
Fixed income securities	12,365,721	1,959,202	-
Equities	16,929,613	1,343,854	-
Mutual funds	1,930,536	1,157,773	-
Total Investments	<u>31,225,870</u>	<u>4,460,829</u>	<u>-</u>
Due from other funds	<u>-</u>	<u>7,042</u>	<u>18,675</u>
Total Assets	<u>\$ 32,178,812</u>	<u>\$ 4,698,427</u>	<u>\$ 745,007</u>
<u>LIABILITIES AND NET ASSETS</u>			
Other liabilities	\$ -	\$ -	\$ 729,547
Due to other funds	<u>5,751</u>	<u>-</u>	<u>15,460</u>
Total Liabilities	5,751	-	745,007
<u>NET ASSETS</u>			
Total net assets held in trust for pension benefits and other purposes	<u>32,173,061</u>	<u>4,698,427</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 32,178,812</u>	<u>\$ 4,698,427</u>	<u>\$ 745,007</u>

See notes to financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR FISCAL YEAR ENDED JUNE 30, 2011

	<u>Pension Trust Fund</u>	<u>Private Purpose Trust Funds</u>
Additions:		
Contributions:		
Employers	\$ 755,377	\$ -
Plan members	755,377	-
Other	637	86,958
Total contributions	<u>1,511,391</u>	<u>86,958</u>
Investment Income:		
Dividend, interest and investment income	<u>4,035,257</u>	<u>651,178</u>
Total Investment income	<u>4,035,257</u>	<u>651,178</u>
Total additions	5,546,648	738,136
Deductions:		
Benefit payments to plan members and beneficiaries	1,763,086	118,864
Administrative expenses	<u>224,616</u>	<u>42,360</u>
Total deductions	<u>1,987,702</u>	<u>161,224</u>
Net increase	3,558,946	576,912
Net assets held in trust:		
Beginning of year	<u>28,614,115</u>	<u>4,121,515</u>
End of year	<u>\$ 32,173,061</u>	<u>\$ 4,698,427</u>

See notes to financial statements.

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CITY OF NASHUA NEW HAMPSHIRE

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Mayor and Board of Aldermen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2011, it was determined that the Nashua Airport Authority met the required GASB-14 criteria of a discretely presented component unit.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major

individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund (other than Agency funds which have no measurement focus) financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary funds (which include both enterprise and internal service funds) distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The government reports the following major proprietary funds:

- *Wastewater* enterprise fund that accounts for the resources and cost associated with the City's wastewater treatment.
- *Solid Waste* enterprise fund that accounts for the resources and costs associated with the City's landfills.

The City's self-insured programs are reported as an internal service fund in the accompanying financial statements.

The *Pension Trust fund* accounts for the activities of the Board of Public Works Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees. No separate issue financial statement is available.

The *Private-Purpose Trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *Agency funds* include escrow deposits and performance bonds. These funds are custodial in nature and do not involve measurement of results of operations.

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

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

F. Interfund Receivables and Payables

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

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate the portion not available for appropriation and not available as expendable financial resources.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between these two columns appear in this statement.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

H. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$15,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20 - 40
Infrastructure	7 - 60
Vehicles	3 - 8
Machinery and equipment	5 - 20
Computer equipment	3 - 5

I. Compensated Absences

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

J. Long-Term Obligations

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

K. Fund Equity

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

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

The City’s fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Board of Aldermen).
- 4) Assigned funds are used for specific purposes as established by management. These funds have been assigned for specific goods and services ordered but not yet paid for. The City’s policy on Assigned fund balance permits the Chief Financial Officer and Controller to make assignments.
- 5) Unassigned funds are available to be spent in future periods.

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

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

restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

L. Use of Estimates

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

2. **Stewardship, Compliance, and Accountability**

A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the Board of Aldermen, establishes the legal level of control and projects the particular revenues that will fund certain appropriations. The original budget may be amended, by supplemental appropriations or transfers, during the fiscal year at Board of Aldermen meetings as required by changing conditions. The Financial Services Department may transfer appropriations between operating categories within departmental budgets at the request of department heads, but expenditures may not legally exceed budgeted appropriations in total.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the New Hampshire statutes.

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

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of

operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 233,223,604	\$ 233,335,578
Other financing sources/uses (GAAP Basis)	<u>2,001,108</u>	<u>6,301,394</u>
Subtotal (GAAP Basis)	235,224,712	239,636,972
Adjust tax revenue to accrual basis	(1,284,709)	-
Reverse effect of activity appropriated in prior years	-	(4,978,454)
Add end of year appropriation carryforwards to expenditures	-	3,229,737
Add use of free cash fund balance	4,900,000	-
Reverse the effect of on-behalf State contributions to Employee's Retirement	(3,147,614)	(3,147,614)
Reverse non-budgeted revenues and expenditures	<u>1,736,297</u>	<u>124,467</u>
Budgetary Basis	<u>\$ 237,428,686</u>	<u>\$ 234,865,108</u>

In addition, adjustments were made to the enterprise funds to conform to the budgetary basis, primarily for the omission of depreciation expense which is not budgeted, and the inclusion of principal debt service and capital expenses which are budgeted expenses.

D. Deficit Fund Equity

The following funds had a total fund balance/net asset deficit at June 30, 2011:

Nonmajor Governmental Funds:

City Building Projects	\$ (90,675)
Other Capital Projects	\$ (400,909)

Proprietary Funds:

Solid Waste	\$ (4,929,506)
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The City will be funding the deficits in the Nonmajor governmental funds with future bond proceeds.

The Proprietary Fund deficit is primarily due to the Solid Waste fund's high percentage of non-capital related debt for landfill closure costs.

3. Cash and Investments

A. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. RSA 48:16 states that "deposits in any one bank shall not at any time exceed the sum of its paid-up capital and surplus, except that a City with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank." The City's deposit policy for custodial credit risk is to be fully insured.

As of June 30, 2011, the City's entire bank balance was fully insured and collateralized.

Custodial Credit Risk - Investments. Custodial credit risk for investments is the risk that in the event of a failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of another party. The City limits its exposure to custodial credit risk by requiring that all security transactions

entered into by the City be conducted on a delivery-versus-payment basis. Securities are held by a third-party custodian.

The City's investments are exposed to custodial risk. The City manages this risk with the Securities Investor Protection Corporation, Excess Securities Investor Protection Corporation and by holding the assets in separately identifiable trust accounts.

Investments at June 30, 2011 included the following (in thousands):

U.S. Treasury Obligations	\$ 13,273
U.S. Government Agencies	5,789
Corporate Bonds	8,159
Common Equities	32,570
Other	<u>17,404</u>
Total	<u>\$ 77,195</u>

B. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The City's Investment Policy is to minimize credit risk by limiting investments to the safest types of securities, pre-qualifying institutions and diversifying the portfolio.

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City does not have an investment in one issuer, other than U.S. Treasury bonds and notes, greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's current investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information regarding the quality and maturity dates of fixed income securities is as follows (in thousands):

	<u>Total</u>	<u>Average Duration</u>	<u>Average Rating</u>
U.S. Treasury Obligations	\$ 13,273	3.88	AAA
U.S. Government Agencies	5,789	4.16	AAA
Corporate Bonds	<u>8,159</u>	4.44	A1
Total	<u>\$ 27,221</u>		

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City's current investment policy does not address foreign currency risk.

4. Taxes Receivable

The City bills property taxes semi-annually, in May and November. Property tax revenues are recognized in the fiscal year for which taxes have been levied to the extent that they become available, i.e., due or receivable within the current fiscal year and collected within the current period or within 60 days of year-end.

Property taxes billed and collected in advance of the year for which they are levied, and are recorded as a prepaid tax liability.

Property taxes are due in July and December. Taxes paid after the due, date accrue interest at 12% per annum. In April of the following calendar year, the Tax Collector executes tax liens on properties that have unpaid taxes. The lien is recorded on the delinquent taxpayer's property at the Registry of Deeds. The tax liens accrue interest at 18% per annum. If the lien is not redeemed within a two-year redemption period, the property may be conveyed to the City by deed.

Taxes receivable at June 30, 2011 consist of the following (in thousands):

Unredeemed Taxes:	
Levy of 2011	\$ 12,235
Levy of 2010	<u>3,712</u>
Total	<u>\$ 15,947</u>

5. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2011.

6. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The City's routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general Fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

The following is an analysis of the June 30, 2011 balances in interfund receivable and payable accounts:

	<u>Due From</u> <u>Other Funds</u>	<u>Due To</u> <u>Other Funds</u>
Funds:		
General fund	\$ 12,042,236	\$ 35,375,251
Nonmajor Governmental Funds:		
Police grants	27,941	-
Fire grants	10,729	39,026
Community health and services grants	-	167,754
Parks and recreation grants	1,377	-
Transit grants	-	8,997
Community Development Block grants/Home grants	-	56,669
Community Development division grants	357,487	-
Homeland security grants	23,715	-
Other city grants	7,628	-
Food services	202,099	-
School grants	-	2,937,671
City revolving funds	2,772,209	-
School revolving funds	1,632,046	-
Other trust funds	-	393,387
Public works projects	1,450,679	-
Community development projects	30,426	-
School department projects	2,816,673	-
Technology projects	385,211	-
City building projects	364,638	-
Other projects	-	357,771
Cemetery permanent funds	-	139,906
Library permanent funds	-	1,490

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	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Enterprise funds:		
Waste water	-	10,216,262
Solid waste	2,262,124	-
Internal service fund:		
Employee benefits fund	19,806,016	-
Property and casualty fund	5,496,444	-
Fiduciary fund types:		
Pension trust	-	5,751
Private purpose	7,042	-
Agency	18,675	15,460
Total	<u>\$ 49,715,395</u>	<u>\$ 49,715,395</u>

7. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Net Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 235,130	\$ 1,218	\$ -	\$ 236,348
Infrastructure	48,118	1,852	-	49,970
Machinery and equipment	36,346	2,711	(2,117)	36,940
Total capital assets, being depreciated	319,594	5,781	(2,117)	323,258
Less accumulated depreciation:				
Buildings and improvements	(74,486)	(5,989)	-	(80,475)
Infrastructure	(25,398)	(2,646)	-	(28,044)
Machinery and equipment	(20,845)	(2,845)	1,977	(21,713)
Total accumulated depreciation	(120,729)	(11,480)	1,977	(130,232)
Total capital assets, being depreciated, net	198,865	(5,699)	(140)	193,026
Capital assets, not being depreciated:				
Land	25,166	1,867	-	27,033
Construction in progress	4,175	6,371	(1,194)	9,352
Total capital assets, not being depreciated	29,341	8,238	(1,194)	36,385
Governmental activities capital assets, net	<u>\$ 228,206</u>	<u>\$ 2,539</u>	<u>\$ (1,334)</u>	<u>\$ 229,411</u>

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	<u>Beginning Balance</u>	<u>Net Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings	\$ 79,693	\$ 42	\$ (53)	\$ 79,682
Land improvements	17,472	62	-	17,534
Infrastructure	88,413	1,733	-	90,146
Machinery and equipment	<u>30,134</u>	<u>262</u>	<u>-</u>	<u>30,396</u>
Total capital assets, being depreciated	215,712	2,099	(53)	217,758
Less accumulated depreciation for:				
Buildings	(30,774)	(1,835)	-	(32,609)
Land improvements	(4,023)	(879)	-	(4,902)
Infrastructure	(31,828)	(1,787)	-	(33,615)
Machinery and equipment	<u>(18,234)</u>	<u>(1,176)</u>	<u>-</u>	<u>(19,410)</u>
Total accumulated depreciation	<u>(84,859)</u>	<u>(5,677)</u>	<u>-</u>	<u>(90,536)</u>
Total capital assets, being depreciated, net	130,853	(3,578)	(53)	127,222
Capital assets, not being depreciated:				
Land	232	-	-	232
Construction in progress	<u>3,700</u>	<u>3,866</u>	<u>(1,212)</u>	<u>6,354</u>
Total capital assets, not being depreciated	<u>3,932</u>	<u>3,866</u>	<u>(1,212)</u>	<u>6,586</u>
Business-type activities capital assets, net	<u>\$ 134,785</u>	<u>\$ 288</u>	<u>\$ (1,265)</u>	<u>\$ 133,808</u>

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

Governmental Activities:

General government	\$ 387
Police	737
Fire	760
Education	5,377
Public works	2,215
Culture and recreation	582
Health and human services	6
Community development	607
Communications	<u>809</u>
Total depreciation expense - governmental activities	<u>\$ 11,480</u>

Business-Type Activities:

Waste water	\$ 4,319
Solid waste	<u>1,358</u>
Total depreciation expense - business-type activities	<u>\$ 5,677</u>

8. Accounts Payable

Accounts payable represent additional 2011 expenditures paid after June 30, 2011.

9. Deferred Revenue

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2011 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

10. Capital Lease Obligations

The City is the lessee of a dump truck under a capital lease expiring in 2014. The gross cost of the equipment was \$114,925 when the lease was executed. The Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2011 (in thousands):

	<u>Governmental Fund Types</u>
2013	24
2014	24
2014	24
Total minimum lease payments	<u>72</u>
Less amount representing interest	<u>(5)</u>
Present Value of Minimum Lease Payments	<u>\$ 67</u>

11. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2011:

	<u>Rate</u>	<u>Issue</u>	<u>Maturity</u>	<u>6/30/11</u>
			upon completed construction	
Waste Water SRF loan	1.0%	06/30/10		\$ 952,827

The following summarizes activity in notes payable during fiscal year 2011:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Waste Water SRF Loan	\$ 632,679	\$ 320,148	\$ -	\$ 952,827

12. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/11</u>
Public improvements-City	11/11	5.24%	\$ 47,500
Public improvements-School (1997)	11/12	5.24%	192,000
Refunding elem. school/admin bldg. renovation	7/12	5.48%	656,500
Refunding bond for school component	7/14	3.66%	1,083,000
Refunding bond for Arts and Science	7/14	3.66%	255,584
Refunding bond for Shady Lane	7/14	3.66%	326,027
Lake St. fire station/comm. system	1/14	4.33%	915,000
School construction	7/12	4.73%	3,870,000
Holman stadium Series C	7/13	6.10%	620,000
Refunding for Dr. Crisp/Bicentennial	11/16	2.0 - 4.0%	1,981,933
Refunding for Fairgrounds	11/16	2.0 - 4.0%	30,969
Refunding for New Searles	11/16	2.0 - 4.0%	30,969
Refunding for Fairgrounds/jr. high	11/16	2.0 - 4.0%	1,935,164
Refunding for Ridge Road	11/16	2.0 - 4.0%	30,969
Departmental equipment - buses	3/14	2.5 - 5.0%	52,500
Land acquisition	3/14	2.5 - 5.0%	72,500
Parking facility	3/13	2.0 - 5.0%	255,000
School	3/24	2.0 - 5.0%	30,005,000
Refunding Amherst St School	11/16	2.0 - 4.0%	2,230,470
Refunding school land acq.	11/16	2.0 - 4.0%	3,321,650
Refunding athletic field.-City	11/16	2.0 - 4.0%	474,380
Refunding SW land acq.	11/16	2.0 - 4.0%	1,233,500
Refunding Lake St Fire Station	7/18	3.72%	762,900
Refunding comm system	7/18	3.72%	738,300

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	Serial	Interest	Amount
	Maturities	Rate(s) %	Outstanding
	Through		as of
			6/30/11
<u>Governmental Activities:</u>			
Refunding citywide comm towers	7/20	3.78%	2,555,000
Refunding library automation	7/20	3.78%	256,000
Refunding NPD hqtr add'l and renv	7/20	3.78%	2,044,000
Refunding CAD system	7/20	3.78%	1,280,000
Refunding hwy and sidewalk constr	7/20	3.78%	573,962
Refunding Holman Stadium Series A	7/21	3.97%	2,477,500
Refunding athletic field-school	7/20	3.78%	2,030,000
Refunding high school constr	7/20	3.78%	24,648,838
Refunding high school planning	7/20	3.78%	866,000
Refunding school constr series A	7/21	3.86%	18,182,500
Senior Center	7/26	3.95%	1,863,775
Police HVAC system (1)	7/26	3.93%	242,125
Police HVAC system (2)	7/26	3.96%	449,950
Fire - land acquisition	7/26	3.95%	346,000
Fire station	7/26	3.98%	2,968,700
Nashua riverwalk	7/26	3.95%	884,650
Bus garage	7/26	3.98%	1,584,800
Citywide ERP system	7/17	2.0 - 3.0%	2,500,000
Broadstreet parkway	7/31	2.0 - 4.0%	2,205,000
Elm St. garage	7/31	2.0 - 4.0%	559,000
High St. garage	7/31	2.0 - 4.0%	736,000
Total Governmental Activities			<u>\$ 120,375,615</u>

	Serial	Interest	Amount
	Maturities	Rate(s) %	Outstanding
	Through		as of
			6/30/11
<u>Business-Type Activities:</u>			
Solid Waste Disposal Fund:			
Refunding bonds	7/15	3.66%	\$ 80,222
Landfill expansion and closure	2/18	4.22%	1,286,588
Landfill expansion and closure	4/21	4.46%	4,394,532
Multisite landfill - old Nashua	1/23	3.98%	283,795
Multisite landfill - Atherton Park	1/23	3.73%	54,000
Multisite landfill - Roussel/Gardner	5/23	3.73%	927,697
Multisite landfill - Shady Lane	5/23	3.73%	140,778
Multisite - Lincoln Park	7/24	3.69%	1,104,936
Multisite - Engineering	7/24	3.72%	735,787
MSW Landfill Closure	7/24	3.69%	5,240,876
Landfill Expansion	4/24	2.89%	5,573,000
Landfill Compactor	4/19	2.20%	662,000
Total Solid Waste Disposal Fund			<u>20,484,211</u>

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	Serial Maturities Through	Interest Rate(s) %	Outstanding as of 6/30/11
<u>Business-Type Activities:</u>			
Waste Water Treatment Fund:			
Refunding bonds	11/11	5.24%	250,000
Refunding bonds	11/11	5.24%	10,500
Refunding bonds	7/15	3.66%	193,500
Refunding sewer component	7/15	3.66%	60,167
Sludge digester	8/20	4.16%	4,612,707
Clean water srf loan	11/29	2.95%	13,965,000
Total Waste Water Treatment Fund			<u>19,091,874</u>
Total Enterprise Fund Bonds and Notes Payable			<u>\$ 39,576,085</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2011 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 12,259,833	\$ 4,925,342	\$ 17,185,175
2013	11,959,612	4,437,587	16,397,199
2014	11,470,389	3,906,102	15,376,491
2015	11,390,780	3,416,959	14,807,739
2016	10,950,000	2,946,766	13,896,766
2017 - 2021	48,505,001	8,137,829	56,642,830
2022 - 2026	12,685,000	1,219,186	13,904,186
2027 - 2031	1,155,000	83,216	1,238,216
Total	<u>\$ 120,375,615</u>	<u>\$ 29,072,987</u>	<u>\$ 149,448,602</u>
 <u>Business-Type Activities</u>			
2012	\$ 3,347,705	\$ 1,355,438	\$ 4,703,143
2013	3,092,927	1,241,932	4,334,859
2014	2,992,149	1,137,470	4,129,619
2015	2,991,761	1,035,245	4,027,006
2016	2,957,538	932,424	3,889,962
2017 - 2021	14,046,296	3,110,615	17,156,911
2022 - 2026	7,207,709	1,049,882	8,257,591
2027 - 2030	2,940,000	585,824	3,525,824
Total	<u>\$ 39,576,085</u>	<u>\$ 10,448,830</u>	<u>\$ 50,024,915</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2011 are as follows:

<u>Purpose</u>	<u>Amount</u>
Broadway Street Parkway Project	\$ 35,395,000
Wastewater Wet Weather Facility and Disinfection Facility	36,625,000
Net Metering Project	500,000
Haines Street Area Sewer Separation Project	1,550,000
Refunding 4/04	14,295,000
City Building Improvements	3,205,000
Enterprise Resource Planning	5,000,000
School Improvements	6,950,000
Pennichuck Acquisition	220,000,000
Wastewater Projects	<u>15,492,453</u>
Total	<u>\$ 339,012,453</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2011, the following changes occurred in long-term liabilities (in thousands):

	<u>Total Balance 7/1/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/11</u>	<u>Less Current Portion</u>	<u>Long-Term Portion 6/30/11</u>
<u>Governmental Activities</u>						
Bonds and notes payable	\$ 126,240	\$ 6,000	\$ (11,864)	\$ 120,376	\$ 12,260	\$ 108,116
Deferred adjustments:						
Unamortized bond premium	3,232	107	-	3,339	307	3,032
Unamortized bond discounts	<u>(2,113)</u>	<u>-</u>	<u>267</u>	<u>(1,846)</u>	<u>(225)</u>	<u>(1,621)</u>
Total bonds and notes payable	127,359	6,107	(11,597)	121,869	12,342	109,527
Compensated absences	16,529	1,322	(1,390)	16,461	1,317	15,144
Net OPEB obligation	8,706	5,615	(2,328)	11,993	-	11,993
Capital leases	<u>115</u>	<u>-</u>	<u>(48)</u>	<u>67</u>	<u>21</u>	<u>46</u>
Totals	<u>\$ 152,709</u>	<u>\$ 13,044</u>	<u>\$ (15,363)</u>	<u>\$ 150,390</u>	<u>\$ 13,680</u>	<u>\$ 136,710</u>

	Total Balance 7/1/10	Additions	Reductions	Total Balance 6/30/11	Less Current Portion	Long-Term Portion 6/30/11
<u>Business-Type Activities</u>						
Bonds and notes payable	\$ 42,924	\$ -	\$ (3,348)	\$ 39,576	\$ 3,348	\$ 36,228
Deferred adjustments:						
Unamortized bond premium	126	-	(10)	116	9	107
Total bonds and notes payable	43,050	-	(3,358)	39,692	3,357	36,335
Compensated absences	461	115	(42)	534	48	486
Net OPEB obligation	232	89	(36)	285	-	285
Other:						
Landfill closure and post-closure	5,284	-	(450)	4,834	-	4,834
Totals	\$ 49,027	\$ 204	\$ (3,886)	\$ 45,345	\$ 3,405	\$ 41,940

E. Debt Refundings

1. Advance Refunding of Serial Bonds Issued January 15, 1999

On December 15, 2006, the City issued general obligation bonds in the amount of \$1,501,200 with interest rates ranging from 3.500% to 5.000% to advance refund \$1,525,000 serial bonds with interest rates ranging from 4.400% to 4.700%. The serial bonds mature January 15, 2015 through

January 15, 2019 and are callable on January 15, 2009. The general obligation bonds were issued at a true interest cost of 3.8574%. Of the net proceeds from the issuance of the general obligation bonds, \$1,555,823 was used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the serial bonds are called on January 15, 2009. The advance refunding met the requirements of an in-substance debt defeasance and the serial bonds were removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$95,301, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$46,688.

Defeased debt still outstanding at June 30, 2011 is \$ 915,000.

2. Advance Refunding of Serial Bonds Issued September 15, 2000

On December 15, 2006, the City issued general obligation bonds in the amount of \$34,663,800 with interest rates ranging from 3.500% to 5.000% to advance refund \$33,555,000 serial bonds with interest rates ranging from

4.800% to 5.375%. The serial bonds mature September 15, 2011 through September 15, 2020 and are callable on September 15, 2010. The general obligation bonds were issued at a true interest cost of 3.8976%. Of the net proceeds from the issuance of the general obligation bonds, \$35,755,607 was used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the serial bonds are called on September 15, 2010. The advance refunding met the requirements of an in-substance debt defeasance and the serial bonds were removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$1,813,522, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,349,828.

Defeased debt still outstanding at June 30, 2011 is \$ 0.

3. Advance Refunding of Serial Bonds Issued January 15, 2002 Series A

On December 15, 2006, the City issued general obligation bonds in the amount of \$21,055,000 with interest rates ranging from 3.500% to 5.000% to advance refund \$19,780,000 serial bonds with interest rates ranging from 5.000% to 5.500%. The serial bonds mature July 15, 2013 through July 15, 2021 and are callable on July 15, 2012. The general obligation bonds were issued at a true interest cost of 3.9796%. Of the net proceeds from the issuance of the general obligation bonds, \$21,686,998 was used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the serial bonds are called on July 15, 2012. The advance refunding met the requirements of an in-substance debt defeasance and the serial bonds were removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$803,221, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$730,432.

Defeased debt still outstanding at June 30, 2011 is \$ 3,870,000.

13. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs

as a liability in the financial statements in each period based on landfill capacity used as of each balance sheet date.

The \$ 4,834,260 reported as landfill closure and postclosure care liability at June 30, 2011 is comprised of \$ 3,493,360 of post closure care cost for the Nashua Four Hills unlined landfill, and \$ 1,340,900 in closure, and post closure costs for the Nashua Four Hills Phase I and Phase II lined expansion landfills. The recognition of these costs is based on annual statutorily required engineering estimates. Waste filling operations in the Phase II lined expansion landfill began in November 2009. The combined landfills are conservatively estimated to have an operational life of twelve years and remaining capacity is estimated to be 48%. The City will recognize the remaining estimated cost of closure and post closure care of the lined landfill as the remaining capacity is filled. The actual life of the landfill may be longer due to recycling efforts and actual costs may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

The City is required by State and Federal laws and regulations to make annual contributions to an account held by the City to finance closure and post closure costs of the municipal solid waste landfill. As of June 30, 2011, the City has cash on deposit with a balance of \$ 3,886,865 restricted for closure and post closure costs.

14. Restricted Net Assets

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

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

15. Commitments and Contingencies

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

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

16. **Subsequent Events**

Acquisition of Water System

On November 11, 2010, the City signed a definitive merger agreement (DMA) to acquire all the outstanding shares of Pennichuck Corporation (Pennichuck) for a price of \$29.00 per share or approximately \$138 million in cash. Under the proposed acquisition, the City will acquire control of all of the Pennichuck's assets, liabilities and businesses, including land comprising the watershed of the Pennichuck Brook and the three regulated water utilities owned by the company. The three water utilities are regulated by the New Hampshire Public Utilities Commission (NHPUC). Taking into account all of the assumed liabilities of the company and its businesses, the proposed acquisition is valued at approximately \$200 million.

The acquisition is subject to a number of conditions precedent and contingencies, including the approval of financing by at least two-thirds of the City of Nashua Board of Aldermen, approval by the NHPUC, approval of at least two-thirds of the shareholders of Pennichuck, and the completion of the City's financing of the transaction.

All of the necessary approvals have been received with the most recent being the NHPUC approval of the City's acquisition of Pennichuck on November 23, 2011. As part of its Order, the NHPUC made two important findings: 1) that the transaction is in the public interest, and 2) that the proposed ratemaking structure is intended to provide an appropriate method for determining the revenue requirements and rates of each utility in future rate cases to ensure that the utilities will have rates at levels that are sufficient to enable each utility to meet their operating requirements and to satisfy each utility's apportioned share of responsibility to pay the debt service arising from the City Acquisition Bonds.

The City plans to issue general obligation bonds to acquire all of the shares of Pennichuck with the closing anticipated in early calendar 2012 and will become the sole shareholder of Pennichuck at that time. The Board of Aldermen is currently in the process of appointing an independent board of directors to oversee the operations of Pennichuck. Post acquisition, the City will continue to operate all of the Pennichuck businesses with their current operating employees providing for a seamless transition.

This acquisition of the local water system had its beginnings in fiscal year 2002. At a special election held on January 14, 2003, the voters authorized the City to acquire the privately owned water system serving the City and other municipalities. During the next several fiscal years, negotiations between the parties, eminent domain and regulatory proceedings before the NHPUC and legal proceedings before the Hillsborough County Superior Court and the New Hampshire Supreme Court took place.

The DMA ends the ongoing legal case between the parties and sets the stage for the full and final resolution of the eminent domain dispute. In that dispute, the NHPUC approved the City's taking of the assets of Pennichuck Water Works, Inc. (PWW) for

a value of \$203 million, plus a mitigation fund of \$40 million which was to be established to benefit the customers of Pennichuck's two other regulated water utilities - Pennichuck East Utilities, Inc. and Pittsfield Aqueduct Company from any adverse financial impacts from the eminent domain taking. PWW is a wholly owned subsidiary of Pennichuck and is the water system that serves customers in Nashua and other surrounding municipalities. In contrast to the eminent domain taking, the proposed transaction will maintain the integrated operations of all of the businesses operated by Pennichuck and avoid the need for any mitigation fund.

General Obligation Capital Improvement Bonds

Subsequent to June 30, 2011, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General Obligation Capital Improvement Bonds	\$ 13,460,000	2.00% - 4.00%	10/15/11	10/15/31

For the \$ 13,460,000 issuance, Fitch Rating has assigned an AAA rating.

17. Post-Employment Healthcare Benefits

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

The \$12,278,412 OPEB liability, as calculated below, represents the implementation of Governmental Accounting Standards Board (GASB) Statement No. 45. The purpose of the statement is to reflect the liability of healthcare or other post-employment benefits provided to separated or retired employees. With the exception of one group of retirees described below, the City of Nashua does not pay a direct subsidy towards their retiree's health insurance premiums. In accordance with RSA 100-A:50, retired employees shall be deemed to be part of the same group as active employees for health insurance premium purposes, thereby resulting in a so called "blended rate". The blended rate decreases the cost of insurance premiums for retirees and increases the cost for active employees, thereby resulting in the City paying an Implicit Subsidy.

The City's Explicit Subsidy pertains to only one group of retirees. Teachers who have retired after June 30, 1991 who have at least 20 years of service with the Nashua School District and who are actually receiving retirements benefits under the New

Hampshire Retirement System, will have a portion of their health insurance premiums paid according to a set schedule based on the years of service at retirement. The subsidy ranges from 20% for a teacher retiree with 20 years of service at retirement to 50% for a teacher with 30+ years of service at retirement. The City's Explicit Subsidy associated with each eligible teacher retiree ends when the retiree is eligible for Medicare.

The City's most recent GASB Valuation was for the fiscal year ending June 30, 2010. The valuation calculated the City's total OPEB liability of approximately \$42.0 million. The liability was further broken down for current and future retirees.

The table below shows the Explicit and Implicit liability amounts:

	<u>Explicit</u>	<u>Implicit</u>	<u>Totals</u>
Current Retirees	\$0.9 million	\$13.7 million	\$14.6 million
Future Retirees	<u>\$2.4 million</u>	<u>\$25.0 million</u>	<u>\$27.4 million</u>
Totals	<u>\$3.3 million</u>	<u>\$38.7 million</u>	<u>\$42.0 million</u>

The Explicit Subsidy of \$3.3 million shown above represents only 7.9% of the total OPEB liability of \$42.0 million.

A. Plan Description

In addition to providing the pension benefits described, the City provides post-employment health care and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of July 1, 2009, the actuarial valuation date, approximately 914 retirees and 1,939 active employees meet the eligibility requirements. The Single Employer plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

C. Funding Policy

In general, retirees and their spouses pay 100% of coverage.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2011 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in

accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2011, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2009.

Annual Required Contribution (ARC)	\$ 5,721,612
Interest on net OPEB obligation	299,100
NOO amortization adjustment to the ARC	<u>(389,137)</u>
Annual OPEB cost	5,631,575
Contributions made	<u>(2,290,985)</u>
Increase in net OPEB obligation	3,340,590
Net OPEB obligation - beginning of year	<u>8,937,822</u>
Net OPEB obligation - end of year	<u>\$ 12,278,412</u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 5,631,575	40.7%	\$ 12,278,412
2010	\$ 5,038,535	41.3%	\$ 8,937,822
2009	\$ 4,597,000	37.6%	\$ 5,982,000
2008	\$ 4,597,000	32.2%	\$ 3,115,000

The City's net OPEB obligation as of June 30, 2011 is recorded as net OPEB obligations line on the Statements of Net Assets.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2009, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 42,017,700
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 42,017,700</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 118,962,778</u>
UAAL as a percentage of covered payroll	<u>35.3%</u>

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

F. Actuarial Methods and Assumptions

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

In the July 1, 2009 actuarial valuation the Entry Age Normal method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 5.00% investment rate of return and an initial annual healthcare cost trend rate of 10.00% which decreases to a 5.00% long-term rate for all healthcare benefits in 2021. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.50%.

18. Retirement System

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

New Hampshire Retirement System

A. Plan Description

Full-time employees participate in the State of New Hampshire Retirement System (the System), a cost sharing (multiple-employer defined benefit) contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are available to each group, funding policies, vesting requirements, contribution requirements and plan assets available to pay benefits are disclosed in the System's annual report available from the New Hampshire Retirement System located at 54 Regional Drive, Concord, New Hampshire 03301-8507.

B. Funding Policy

Plan members are required to contribute between 5% and 9.3% of annual covered compensation to the pension plan. The City makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and range from 8.02% to 18.52% of covered compensation. The City's contributions are intended to finance the administrative costs. The City's contributions to the System for the years ended June 30, 2011, 2010, and 2009 were \$11,840,910, \$10,703,914, and \$9,137,592, respectively, which were equal to its annual required contributions for each of these years.

Public Works Employees' Retirement System

C. Plan Description and Contribution Information

All Public Works employees of the City are members of the Public Works Employees' Retirement System (the System), a single employer-defined benefit PERS. Eligible employees must participate in the System. The pension plan provides pension benefits and death and disability benefits to employees reaching age 60, provided they have accumulated 10 years of service. A City ordinance passed in 1947 established the System which is administered by a five-member Board of Trustees. Amendments to benefit provisions are made by the Board of

Trustees with the concurrence of the Board of Aldermen. The Public Works Employees' Retirement System does not issue independent financial statements. Administrative costs are financed by Trust earnings.

Membership of each plan consisted of the following at July 1, 2010, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	84
Terminating plan members entitled to but not yet receiving benefits	-
Active plan members	<u>162</u>
Total	<u><u>246</u></u>

The City employees each contribute 9.15% of their base salary, as specified by ordinance. The City's contribution is determined by the actuarial valuation.

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2004	\$ 679,643	100%
2005	\$ 683,137	100%
2006	\$ 687,094	100%
2007	\$ 660,768	100%
2008	\$ 675,065	100%
2009	\$ 681,750	100%
2010	\$ 774,583	100%
2011	\$ 755,377	100%

D. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due.

Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value.

E. Funded Status and Funding Progress

The information presented below is from the Public Works Employees' Retirement System's most recent valuation (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/10	\$ 32,048	\$ 38,594	\$ 6,546	83.0%	\$ 8,106	80.8%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

F. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the Entry Age Actuarial Cost Method amortized using a level dollar contribution. Under this method an unfunded actuarial accrued liability of \$6,546 million was calculated. The actuarial assumptions included (a) 7.25% investment rate of return and (b) a projected salary increase of 3.00% per year. The actuarial value of assets is determined by using a five-year Smoothed asset value. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of June 30, 2011, the unfunded actuarially accrued liability is being amortized over 15 years.

G. State on-behalf Payments

In fiscal year 2011, the State of New Hampshire contributed \$ 3,417,615 to the NHRS on behalf of the City. This is included in the expenditures and inter-governmental revenues in the general fund.

19. Self-Insurance

The City self-insures against claims for workers compensation, general liability, property, unemployment and employee health coverage. Annual estimated requirements for claims are provided in the City's annual operating budget.

Health Insurance

The City contracts with insurance carriers for claims processing. Under the terms of the insurance coverage, the employee is only liable for the cost sharing premiums and co-pays. The City retains the risk to \$225,000 and maintains excess insurance for claims that exceed \$225,000. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

General Liability/Workers' Compensation

The City is self-administered for claims processing of the City's workers' compensation, property, and casualty programs. The workers' compensation, property, and casualty liabilities represent an estimate of future costs based on historical analysis of similar claims.

Changes in the aggregate liability for claims for the year ended June 30, 2011 are as follows:

	<u>Year Ended</u> <u>June 30, 2011</u>	<u>Year Ended</u> <u>June 30, 2010</u>
Claims liability, beginning of year	\$ 9,483,654	\$ 10,442,256
Claims incurred/recognized	32,623,258	28,929,471
Claims paid	<u>(32,341,839)</u>	<u>(29,888,073)</u>
Claims liability, end of year	<u>\$ 9,765,073</u> *	<u>\$ 9,483,654</u> *

* This liability is considered to be all current.

20. Risk Management

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

NASHUA AIRPORT AUTHORITY FOOTNOTES

NASHUA AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Nashua Airport Authority (“the Authority”) conform to accounting principles 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 Authority was established on August 27, 1961 by legislative act as a separate legal entity. The Authority is located at Boire Field in Nashua, New Hampshire and provides air traffic control services as well as airplane tie-down rentals. The Authority meets the criteria as a component unit of the City of Nashua, New Hampshire (“the City”). Such criteria includes appointment of the board of directors by the Mayor of the City, debt service guarantees by the City, inclusion of the Authority’s employees in the City’s retirement system (New Hampshire Retirement System) and budgetary appropriations from the City.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting, wherein revenues are recognized when earned and expenses are recognized when incurred. Government Accounting Standards Board (“GASB”) Statement No. 20 requires proprietary activities to apply all GASB pronouncements as well as FASB Accounting Standards Codification pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. The Authority has elected not to apply FASB pronouncements issued after November 30, 1989.

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. Significant estimates include depreciation expense.

Assets, Liabilities, and Net Assets

Investments - Investments are recorded at their fair value. Certificates of deposit with a maturity of greater than ninety days from the date of issuance are included in investments.

Accounts Receivable - At June 30, 2011 and 2010, accounts receivable includes unpaid tie-down fees and land lease rental fees. An allowance for estimated uncollected receivables is not deemed necessary as of June 30, 2011 or 2010.

Capital Assets - Capital assets are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives are as follows:

	<u>Years</u>
Land improvements	5-25
Buildings and improvements	10-39
Equipment	3-30

Compensated Absences - Employees earn vacation and sick leave as they provide services. Employees earn 1.25 sick days per month and may accumulate up to a maximum of ninety days sick leave. Any unused sick leave will be paid only upon retirement. Vacation amounts accrue according to length of employment. Up to 50% of total eligible vacation days may be carried forward to the next year. The current portion of the liability for compensated absences represents amounts payable within one year.

Revenues and Expenses

Operating Revenues and Expenses - Operating revenues and expenses for the Authority are those that result from providing services and producing and delivering goods in connection with its principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. It also includes all revenue and expenses not related to capital and related financing or investing activities.

Capital Contributions - Funds received from other governments for the purpose of constructing assets are recorded as capital contributions.

Other Post-Employment Benefits - Other post-employment benefit liabilities that are required to be reported by Government Accounting Standard Board (GASB) Number 45 are not material to these financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2011 and 2010 are classified in the accompanying financial statements as follows:

	<u>2011</u>	<u>2010</u>
Statement of Net Assets:		
Cash and cash equivalents	\$ 327,877	\$ 348,001
Investments	<u>434,268</u>	<u>426,654</u>
Total deposits and investments	<u>\$ 762,145</u>	<u>\$ 774,655</u>

Deposits and investments at June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 200	\$ 200
Deposits with financial institutions	<u>761,945</u>	<u>774,455</u>
Total deposits and investments	<u>\$ 762,145</u>	<u>\$ 774,655</u>

The Authority's investment policy requires that deposits and investments be made in New Hampshire based financial institutions that are participants in one of the federal depository insurance programs. The Authority limits its investments to demand deposits, money market accounts, and certificates of deposit.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority has no policy regarding custodial credit risk; however, the Authority has an agreement with its primary bank to collateralize deposits in excess of the FDIC insurance limits.

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Receivables from other governments consist of receivables due from various federal and state funding for airport improvement projects. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables as of June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
State and Federal share of Federal Aviation Grants -		
AIP Project SBG#-12-02-2009	\$ 52,439	\$ 16,179
AIP Project SBG#-12-03-2010	-	40,300
AIP Project SBG#-12-04-2010	246,876	75,160
AIP Project SBG#-12-06-2011	125,763	-
AIP Project SBG#-12-08-2011	<u>3,071</u>	<u>-</u>
	<u>\$ 428,149</u>	<u>\$ 131,639</u>

NOTE 4 - CAPITAL ASSETS

The following is a summary of changes in capital assets during the years ended June 30, 2011 and 2010:

	Balance 7/1/2010	Additions	Reductions	Balance 6/30/2011
Capital assets not being depreciated:				
Land	\$ 2,391,378	\$ -	\$ -	\$ 2,391,378
Construction in progress	2,460,298	844,947	(2,781,652)	523,593
Total capital assets not being depreciated	<u>4,851,676</u>	<u>844,947</u>	<u>(2,781,652)</u>	<u>2,914,971</u>
Other capital assets:				
Land improvements	6,225,832	3,283,342	-	9,509,174
Buildings and improvements	1,520,786	-	-	1,520,786
Equipment	989,818	479,310	-	1,469,128
Total other capital assets at historical cost	<u>8,736,436</u>	<u>3,762,652</u>	<u>-</u>	<u>12,499,088</u>
Less accumulated depreciation for:				
Land improvements	(3,775,683)	(328,208)	-	(4,103,891)
Buildings and improvements	(678,755)	(42,262)	-	(721,017)
Equipment	(596,567)	(31,450)	-	(628,017)
Total accumulated depreciation	<u>(5,051,005)</u>	<u>(401,920)</u>	<u>-</u>	<u>(5,452,925)</u>
Total other capital assets, net	<u>3,685,431</u>	<u>3,360,732</u>	<u>-</u>	<u>7,046,163</u>
Total capital assets, net	<u>\$ 8,537,107</u>	<u>\$ 4,205,679</u>	<u>\$ (2,781,652)</u>	<u>\$ 9,961,134</u>

The following is a summary of changes in capital assets during the year ended June 30, 2010:

	Balance 7/1/2009	Additions	Reductions	Balance 6/30/2010
Capital assets not being depreciated:				
Land	\$ 1,995,474	\$ 395,904	\$ -	\$ 2,391,378
Construction in progress	693,425	2,065,479	(298,606)	2,460,298
Total capital assets not being depreciated	<u>2,688,899</u>	<u>2,461,383</u>	<u>(298,606)</u>	<u>4,851,676</u>
Other capital assets:				
Land improvements	5,999,010	226,822	-	6,225,832
Buildings and improvements	1,515,546	5,240	-	1,520,786
Equipment	952,329	37,489	-	989,818
Total other capital assets at historical cost	<u>8,466,885</u>	<u>269,551</u>	<u>-</u>	<u>8,736,436</u>
Less accumulated depreciation for:				
Land improvements	(3,557,864)	(217,819)	-	(3,775,683)
Buildings and improvements	(636,799)	(41,956)	-	(678,755)
Equipment	(566,985)	(29,582)	-	(596,567)
Total accumulated depreciation	<u>(4,761,648)</u>	<u>(289,357)</u>	<u>-</u>	<u>(5,051,005)</u>
Total other capital assets, net	<u>3,705,237</u>	<u>(19,806)</u>	<u>-</u>	<u>3,685,431</u>
Total capital assets, net	<u>\$ 6,394,136</u>	<u>\$ 2,441,577</u>	<u>\$ (298,606)</u>	<u>\$ 8,537,107</u>

NOTE 5 - PENSION PLAN

Plan Description

The Authority 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, 54 Regional Drive, Concord, New Hampshire 03301.

Funding Policy

Covered general employees are required to contribute 5.0% of their covered salary, and the Authority is required to contribute at an actuarially determined rate. The Authority's contribution rate was 9.16% of covered payroll for general employees during the years ended June 30, 2011 and 2010, respectively. The Authority contributes 100% of the employer cost for general employees.

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 Authority's contributions to the NHRS for the years ending June 30, 2011, 2010, and 2009 were \$15,821, \$18,846, and \$17,896, respectively, equal to the required contributions for each year.

NOTE 6 - OPERATING LEASE

The Authority leases land from the City of Nashua, New Hampshire under a master lease commencing October 8, 1974. The lease expires December 31, 2047. The rent for the term of the lease is \$1.

The Authority subleases a portion of this land pursuant to twenty year operating leases. The base rent is adjusted biannually by the consumer price index. As of June 30, 2011 and 2010, yearly lease income was \$292,423 and \$283,620, respectively.

The Authority also leases the control tower under terms of a lease, which expires August 13, 2020. The rent for the term of the lease is \$1.

NOTE 7 - NET ASSETS

Unrestricted net assets as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Designated for -		
Capital improvements/equipment	\$ 227,421	\$ 263,706
Project capital improvements/equipment	56,882	56,278
Safety related expenditures	<u>5,129</u>	<u>5,119</u>
	289,432	325,103
Undesignated	<u>395,477</u>	<u>351,262</u>
	<u>\$ 684,909</u>	<u>\$ 676,365</u>

NOTE 8 - CONTINGENCIES

Litigation

Authority officials estimate that any potential claims against the Authority, which are not covered by insurance, are immaterial and would not affect the financial position of the Authority.

Federal Grants

The Authority 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 amounts, if any, of expenses which may be disallowed by the granting agency cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

CITY OF NASHUA, NEW HAMPSHIRE
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

(Unaudited)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
07/01/02 ⁽¹⁾	N/A	N/A	N/A	N/A	N/A	N/A
07/01/03 ⁽²⁾	\$ 21,189,323	\$ 25,920,563	\$ 4,731,240	81.7%	\$ 7,088,854	66.7%
07/01/04 ⁽¹⁾	N/A	N/A	N/A	N/A	N/A	N/A
07/01/05 ⁽²⁾	\$ 24,815,269	\$ 30,380,730	\$ 5,565,461	81.7%	\$ 7,523,058	74.0%
07/01/06	\$ 26,908,901	\$ 32,653,431	\$ 5,744,530	82.4%	\$ 7,328,287	78.4%
07/01/07	\$ 29,114,571	\$ 32,224,753	\$ 3,110,182	90.3%	\$ 7,152,736	43.5%
07/01/08	\$ 30,812,052	\$ 33,806,248	\$ 2,994,196	91.1%	\$ 7,524,229	39.8%
07/01/09	\$ 31,131,385	\$ 35,840,918	\$ 4,709,533	86.9%	\$ 7,770,125	60.6%
07/01/10	\$ 32,047,692	\$ 38,593,502	\$ 6,545,810	83.0%	\$ 8,105,565	80.8%

⁽¹⁾ The Aggregate Method was used which does not identify or separately amortize unfunded actuarial liabilities.

⁽²⁾ The Entry Age Actuarial Cost Method was used.

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
07/01/09	\$ -	\$ 42,017,700	\$ 42,017,700	0.0%	\$ 118,962,778	35.3%
07/01/08	\$ -	\$ 42,699,000	\$ 42,699,000	0.0%	\$ 102,640,996	41.6%
07/01/07	\$ -	\$ 42,699,000	\$ 42,699,000	0.0%	\$ 102,640,996	41.6%

See Independent Auditors' Report.

Combining Financial Statements

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are established to account for resources obtained and expended for specified purposes and restricted by law or local action.

Special Revenue Funds are established for the following purposes:

- Police Grants: to account for federal and State grants for the Police Department.
- Fire Grants: to account for federal and State grants for the Fire Department.
- Community Health and Services Grants: to account for federal and State health and human services grants.
- Parks and Recreation Grants: to account for federal and State parks and recreation grants.
- Transit Grants: to account for federal and State transportation grants.
- CDBG/Home Grants: to account for the Community Development Block and HOME grants.
- Community Development Division Grants: to account for the federal and State grants for the Community Development Department.
- Homeland Security Grants: to account for federal and homeland security grants.
- Other City Grants: to account for all other City grants.
- Food Services: to account for the School Department's Food Service Program.
- School Grants: to account for the School Department's federal, State and local grants.
- City Revolving Funds: to account for the City's revolving funds.
- School Revolving Funds: to account for the School Department's revolving funds, other than Food Service.
- Other Trust Funds: to account for other City's Trust Funds.

CAPITAL PROJECT FUNDS

Capital Project Funds are established to account for resources obtained and expended for the acquisition of major capital facilities or equipment other than those employed in the delivery of services accounted for in Enterprise Funds.

The current funds were established for the following purposes:

- Public Works Projects: to account for Public Works Department Capital Projects.
- Community Development Projects: to account for Community Development Department Capital Projects.
- School Department Projects: to account for School Department Capital Projects.
- Technology Projects: to account for Technology projects.
- City Building Projects: to account for capital projects related to City facilities.
- Other Projects: to account for Other Capital Projects.

PERMANENT FUNDS

Permanent Funds are established to account for certain assets held by the City in a fiduciary capacity as trustee. The following is a description of City Permanent Funds:

- Cemetery Permanent Funds: to account for the City's Cemetery Funds.
- Library Permanent Funds: to account for the City's Library Funds.
- Other Permanent Funds: to account for Other Nonexpendable Funds.

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CITY OF NASHUA, NEW HAMPSHIRE

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2011

	Special Revenue Funds			
	<u>Police Grants</u>	<u>Fire Grants</u>	<u>Community Health & Services Grants</u>	<u>Parks & Recreation Grants</u>
<u>ASSETS</u>				
Cash and short term investments	\$ -	\$ -	\$ -	\$ -
Investments	-	-	-	-
Departmental and other receivables	-	-	-	-
Intergovernmental receivables	74,009	43,046	240,794	5,800
Loans receivable	-	-	-	-
Due from other funds	27,941	10,729	-	1,377
Other assets	-	-	-	-
	-	-	-	-
Total Assets	<u>\$ 101,950</u>	<u>\$ 53,775</u>	<u>\$ 240,794</u>	<u>\$ 7,177</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts payable	\$ 5,416	\$ 1,066	\$ 56,488	\$ -
Accrued liabilities	-	-	8,667	-
Deferred revenue	75,181	-	-	-
Due to other funds	-	39,026	167,754	-
	-	39,026	167,754	-
Total Liabilities	80,597	40,092	232,909	-
Fund Equity:				
Nonspendable	-	-	-	-
Restricted	21,353	13,683	7,885	7,177
Committed	-	-	-	-
Unassigned	-	-	-	-
	-	-	-	-
Total Fund Equity	<u>21,353</u>	<u>13,683</u>	<u>7,885</u>	<u>7,177</u>
Total Liabilities and Fund Equity	<u>\$ 101,950</u>	<u>\$ 53,775</u>	<u>\$ 240,794</u>	<u>\$ 7,177</u>

Special Revenue Funds

<u>Transit Grants</u>	<u>CDBG/Home Grants</u>	<u>Community Development Division Grants</u>	<u>Homeland Security Grants</u>	<u>Other City Grants</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	1,323	-	-	-
263,052	146,196	9,861	-	39,429
-	15,798	640,070	-	-
-	-	357,487	23,715	7,628
-	-	-	-	-
<u>\$ 263,052</u>	<u>\$ 163,317</u>	<u>\$ 1,007,418</u>	<u>\$ 23,715</u>	<u>\$ 47,057</u>
\$ 163,651	\$ 69,850	\$ 161,309	\$ -	\$ 22,672
-	-	-	-	-
15,611	36,798	60,902	4,358	-
8,997	56,669	-	-	-
<u>188,259</u>	<u>163,317</u>	<u>222,211</u>	<u>4,358</u>	<u>22,672</u>
-	-	-	-	-
74,793	-	785,207	19,357	24,385
-	-	-	-	-
-	-	-	-	-
<u>74,793</u>	<u>-</u>	<u>785,207</u>	<u>19,357</u>	<u>24,385</u>
<u>\$ 263,052</u>	<u>\$ 163,317</u>	<u>\$ 1,007,418</u>	<u>\$ 23,715</u>	<u>\$ 47,057</u>

(continued)

(continued)

	Special Revenue Funds			
	Food Services	School Grants	City Revolving Funds	School Revolving Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Investments	-	-	-	-
Departmental and other receivables	-	-	132,785	19,053
Intergovernmental receivables	204,599	3,612,475	-	64,398
Loans receivable	-	-	-	-
Due from other funds	202,099	-	2,772,209	1,632,046
Other assets	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	\$ <u>406,698</u>	\$ <u>3,612,475</u>	\$ <u>2,904,994</u>	\$ <u>1,715,497</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts payable	\$ 41,109	\$ 183,069	\$ 49,482	\$ 4,875
Accrued liabilities	-	408,698	15,000	10,726
Deferred revenue	-	78,101	66,845	4,274
Due to other funds	-	2,937,671	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	41,109	3,607,539	131,327	19,875
Fund Equity:				
Nonspendable	-	-	-	-
Restricted	365,589	4,936	-	-
Committed	-	-	2,773,667	1,695,622
Unassigned	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Equity	<u>365,589</u>	<u>4,936</u>	<u>2,773,667</u>	<u>1,695,622</u>
Total Liabilities and Fund Equity	\$ <u>406,698</u>	\$ <u>3,612,475</u>	\$ <u>2,904,994</u>	\$ <u>1,715,497</u>

<u>Special Revenue Funds</u>		<u>Capital Project Funds</u>	
<u>Other Trust Funds</u>	<u>Subtotal</u>	<u>Public Works Projects</u>	<u>Community Development Projects</u>
\$ 1,750,655	\$ 1,750,655	\$ -	\$ -
1,916,999	1,916,999	-	-
2,455	155,616	76,621	-
-	4,703,659	24,948	-
-	655,868	-	-
-	5,035,231	1,450,679	30,426
-	-	-	-
<u>\$ 3,670,109</u>	<u>\$ 14,218,028</u>	<u>\$ 1,552,248</u>	<u>\$ 30,426</u>
\$ 5,679	\$ 764,666	\$ 46,573	\$ -
-	443,091	-	2,781
-	342,070	47,346	-
<u>393,387</u>	<u>3,603,504</u>	<u>-</u>	<u>-</u>
399,066	5,153,331	93,919	2,781
-	-	-	-
-	1,324,365	1,458,329	27,645
<u>3,271,043</u>	<u>7,740,332</u>	<u>-</u>	<u>-</u>
-	-	-	-
<u>3,271,043</u>	<u>9,064,697</u>	<u>1,458,329</u>	<u>27,645</u>
<u>\$ 3,670,109</u>	<u>\$ 14,218,028</u>	<u>\$ 1,552,248</u>	<u>\$ 30,426</u>

(continued)

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Capital Project Funds

	<u>School Department Projects</u>	<u>Technology Projects</u>	<u>City Building Projects</u>	<u>Other Projects</u>	<u>Subtotal</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	-	-	-	-	-
Departmental and other receivables	-	-	-	-	76,621
Intergovernmental receivables	-	-	-	-	24,948
Loans receivable	-	-	-	-	-
Due from other funds	2,816,673	385,211	364,638	-	5,047,627
Other assets	-	-	-	-	-
Total Assets	<u>\$ 2,816,673</u>	<u>\$ 385,211</u>	<u>\$ 364,638</u>	<u>\$ -</u>	<u>\$ 5,149,196</u>
<u>LIABILITIES AND FUND EQUITY</u>					
Liabilities:					
Accounts payable	\$ 671,614	\$ 233,820	\$ 446,279	\$ 43,138	\$ 1,441,424
Accrued liabilities	325	-	9,034	-	12,140
Deferred revenue	-	-	-	-	47,346
Due to other funds	-	-	-	357,771	357,771
Total Liabilities	671,939	233,820	455,313	400,909	1,858,681
Fund Equity:					
Nondisposable	-	-	-	-	-
Restricted	2,144,734	151,391	-	-	3,782,099
Committed	-	-	-	-	-
Unassigned	-	-	(90,675)	(400,909)	(491,584)
Total Fund Equity	<u>2,144,734</u>	<u>151,391</u>	<u>(90,675)</u>	<u>(400,909)</u>	<u>3,290,515</u>
Total Liabilities and Fund Equity	<u>\$ 2,816,673</u>	<u>\$ 385,211</u>	<u>\$ 364,638</u>	<u>\$ -</u>	<u>\$ 5,149,196</u>

Permanent Funds

Cemetery Permanent Funds	Library Permanent Funds	Other Permanent Funds	Subtotal	Total Nonmajor Governmental Funds
\$ 432,021	\$ 646,004	\$ 11,972	\$ 1,089,997	\$ 2,840,652
13,054,879	3,374,385	116,949	16,546,213	18,463,212
2,200	-	-	2,200	234,437
-	-	-	-	4,728,607
-	-	-	-	655,868
-	-	-	-	10,082,858
-	-	-	-	-
<u>\$ 13,489,100</u>	<u>\$ 4,020,389</u>	<u>\$ 128,921</u>	<u>\$ 17,638,410</u>	<u>\$ 37,005,634</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,206,090
-	-	-	-	455,231
-	-	-	-	389,416
139,906	1,490	-	141,396	4,102,671
139,906	1,490	-	141,396	7,153,408
13,349,194	4,018,899	128,921	17,497,014	17,497,014
-	-	-	-	5,106,464
-	-	-	-	7,740,332
-	-	-	-	(491,584)
<u>13,349,194</u>	<u>4,018,899</u>	<u>128,921</u>	<u>17,497,014</u>	<u>29,852,226</u>
<u>\$ 13,489,100</u>	<u>\$ 4,020,389</u>	<u>\$ 128,921</u>	<u>\$ 17,638,410</u>	<u>\$ 37,005,634</u>

CITY OF NASHUA, NEW HAMPSHIRE

Combining Statement of Revenues, Expenditures,
and Changes in Fund Equity

Nonmajor Governmental Funds

For Fiscal Year Ended June 30, 2011

	Special Revenue Funds			
	Police <u>Grants</u>	Fire <u>Grants</u>	Community Health & Services <u>Grants</u>	Parks & Recreation <u>Grants</u>
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Penalties, interest and other taxes	-	-	-	-
Charges for services	-	-	-	-
Intergovernmental	504,203	4,500	876,752	17,445
Investment income	2,583	-	-	-
Miscellaneous	2,677	3,461	-	-
Contributions	<u>47,640</u>	<u>-</u>	<u>6,312</u>	<u>-</u>
Total Revenues	557,103	7,961	883,064	17,445
Expenditures:				
Current:				
General government	-	-	-	-
Police	527,311	-	-	-
Fire	-	4,394	-	-
Education	-	-	-	-
Public works	-	-	-	-
Health and human services	-	-	876,415	-
Culture and recreation	-	-	-	22,898
Community development	-	-	-	-
Debt services				
Principal	-	-	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>527,311</u>	<u>4,394</u>	<u>876,415</u>	<u>22,898</u>
Excess (deficiency) of revenues over expenditures	29,792	3,567	6,649	(5,453)
Other Financing Sources (Uses):				
Issuance of bonds	-	-	-	-
Transfers in	51,657	-	-	-
Transfers out	<u>(82,197)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(30,540)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(748)	3,567	6,649	(5,453)
Fund Equity, beginning	<u>22,101</u>	<u>10,116</u>	<u>1,236</u>	<u>12,630</u>
Fund Equity, ending	<u>\$ 21,353</u>	<u>\$ 13,683</u>	<u>\$ 7,885</u>	<u>\$ 7,177</u>

Special Revenue Funds

<u>Transit Grants</u>	<u>CDBG/Home Grants</u>	<u>Community Development Division Grants</u>	<u>Homeland Security Grants</u>	<u>Other City Grants</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
460,919	-	-	-	-
1,885,824	858,220	1,432,182	414,207	103,883
-	-	295	-	-
11,105	-	3,095	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2,357,848	858,220	1,435,572	414,207	103,883
-	-	-	-	9,429
-	-	-	58,116	-
-	-	-	-	18,295
-	-	-	356,092	-
-	-	-	-	450
2,767,183	858,220	1,637,167	-	78,992
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>2,767,183</u>	<u>858,220</u>	<u>1,637,167</u>	<u>414,208</u>	<u>107,166</u>
(409,335)	-	(201,595)	(1)	(3,283)
-	-	-	-	-
401,090	-	225,000	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
401,090	-	225,000	-	-
(8,245)	-	23,405	(1)	(3,283)
<u>83,038</u>	<u>-</u>	<u>761,802</u>	<u>19,358</u>	<u>27,668</u>
<u>\$ 74,793</u>	<u>\$ -</u>	<u>\$ 785,207</u>	<u>\$ 19,357</u>	<u>\$ 24,385</u>

(continued)

(continued)

	<u>Special Revenue Funds</u>			
	<u>Food Services</u>	<u>School Grants</u>	<u>City Revolving Funds</u>	<u>School Revolving Funds</u>
Revenues:				
Property taxes	\$ -	\$ -	\$ 238,701	\$ -
Penalties, interest and other taxes	-	-	510,395	-
Charges for services	2,347,208	-	1,467,114	1,720,330
Intergovernmental	2,834,170	13,134,316	22,797	-
Investment income	912	-	588	-
Miscellaneous	-	-	303,811	40,569
Contributions	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	5,182,290	13,134,316	2,543,406	1,760,899
Expenditures:				
Current:				
General government	-	-	624,025	-
Police	-	-	1,081,365	-
Fire	-	-	48,802	-
Education	5,210,609	13,142,074	-	933,571
Public works	-	-	4,630	-
Health and human services	-	-	10,484	-
Culture and recreation	-	-	248,608	-
Community development	-	-	1,154,678	-
Debt services				
Principal	-	-	60,000	-
Interest	-	-	38,904	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	5,210,609	13,142,074	3,271,496	933,571
Excess (deficiency) of revenues over expenditures	(28,319)	(7,758)	(728,090)	827,328
Other Financing Sources (Uses):				
Issuance of bonds	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	(345,836)	(620,800)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	-	-	(345,836)	(620,800)
Net change in fund balance	(28,319)	(7,758)	(1,073,926)	206,528
Fund Equity, beginning	<hr/> 393,908	<hr/> 12,694	<hr/> 3,847,593	<hr/> 1,489,094
Fund Equity, ending	<hr/> \$ 365,589	<hr/> \$ 4,936	<hr/> \$ 2,773,667	<hr/> \$ 1,695,622

<u>Special Revenue Funds</u>		<u>Capital Project Funds</u>	
<u>Other Trust Funds</u>	<u>Subtotal</u>	<u>Public Works Projects</u>	<u>Community Development Projects</u>
\$ -	\$ 238,701	\$ -	\$ -
-	510,395	-	-
60,369	6,055,940	-	-
-	22,088,499	197,736	-
361,128	365,506	24,844	293
131,041	495,759	-	-
<u>221,254</u>	<u>275,206</u>	<u>-</u>	<u>-</u>
773,792	30,030,006	222,580	293
136,891	770,345	-	-
1,682	1,610,358	-	-
2,369	113,681	-	-
23,023	19,309,277	-	-
2,765	25,690	632,541	-
4,995	1,247,986	-	-
51,403	323,359	-	-
-	6,496,240	-	-
-	60,000	-	-
<u>-</u>	<u>38,904</u>	<u>-</u>	<u>-</u>
223,128	29,995,840	632,541	-
550,664	34,166	(409,961)	293
-	-	2,205,000	-
5,503	683,250	565,000	-
<u>(681,843)</u>	<u>(1,730,676)</u>	<u>(225,000)</u>	<u>-</u>
(676,340)	(1,047,426)	2,545,000	-
(125,676)	(1,013,260)	2,135,039	293
<u>3,396,719</u>	<u>10,077,957</u>	<u>(676,710)</u>	<u>27,352</u>
\$ <u>3,271,043</u>	\$ <u>9,064,697</u>	\$ <u>1,458,329</u>	\$ <u>27,645</u>

(continued)

(continued)

	Capital Project Funds				
	School Department Projects	Technology Projects	City Building Projects	Other Projects	Subtotal
Revenues:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Penalties, interest and other taxes	-	-	-	-	-
Charges for services	-	-	-	-	-
Intergovernmental	-	-	-	-	197,736
Investment income	-	-	16,076	-	41,213
Miscellaneous	-	62,914	-	-	62,914
Contributions	-	-	-	-	-
Total Revenues	-	62,914	16,076	-	301,863
Expenditures:					
Current:					
General government	-	1,362,277	1,328,647	400,909	3,091,833
Police	-	-	-	-	-
Fire	-	-	-	-	-
Education	1,035,764	-	-	-	1,035,764
Public works	-	-	70,542	-	703,083
Health and human services	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Community development	-	-	-	-	-
Debt services					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total Expenditures	1,035,764	1,362,277	1,399,189	400,909	4,830,680
Excess (deficiency) of revenues over expenditures	(1,035,764)	(1,299,363)	(1,383,113)	(400,909)	(4,528,817)
Other Financing Sources (Uses):					
Issuance of bonds	-	2,500,000	1,295,000	-	6,000,000
Transfers in	652,792	-	-	-	1,217,792
Transfers out	-	-	-	-	(225,000)
Total Other Financing Sources	652,792	2,500,000	1,295,000	-	6,992,792
Net change in fund balance	(382,972)	1,200,637	(88,113)	(400,909)	2,463,975
Fund Equity, beginning	2,527,706	(1,049,246)	(2,562)	-	826,540
Fund Equity, ending	\$ 2,144,734	\$ 151,391	\$ (90,675)	\$ (400,909)	\$ 3,290,515

Permanent Funds				Total Nonmajor Governmental Funds
Cemetery Permanent Funds	Library Permanent Funds	Other Permanent Funds	Subtotal	
\$ -	\$ -	\$ -	\$ -	\$ 238,701
-	-	-	-	510,395
-	-	-	-	6,055,940
4,459	-	-	4,459	22,290,694
2,809,830	490,735	14,324	3,314,889	3,721,608
-	-	19	19	558,692
<u>185,697</u>	<u>-</u>	<u>-</u>	<u>185,697</u>	<u>460,903</u>
2,999,986	490,735	14,343	3,505,064	33,836,933
22,427	-	1,907	24,334	3,886,512
-	-	-	-	1,610,358
-	-	-	-	113,681
-	-	-	-	20,345,041
-	-	-	-	728,773
-	-	-	-	1,247,986
-	90,916	-	90,916	414,275
-	-	-	-	6,496,240
-	-	-	-	60,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,904</u>
22,427	90,916	1,907	115,250	34,941,770
2,977,559	399,819	12,436	3,389,814	(1,104,837)
-	-	-	-	6,000,000
5,583	-	-	5,583	1,906,625
<u>(327,999)</u>	<u>-</u>	<u>-</u>	<u>(327,999)</u>	<u>(2,283,675)</u>
(322,416)	-	-	(322,416)	5,622,950
2,655,143	399,819	12,436	3,067,398	4,518,113
<u>10,694,051</u>	<u>3,619,080</u>	<u>116,485</u>	<u>14,429,616</u>	<u>25,334,113</u>
\$ <u>13,349,194</u>	\$ <u>4,018,899</u>	\$ <u>128,921</u>	\$ <u>17,497,014</u>	\$ <u>29,852,226</u>

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**Detail and Combining Budget
and Actual Schedules**

CITY OF NASHUA, NEW HAMPSHIRE

Detail Schedule of Revenues and Other Financing Sources -
Budget and Actual - General Fund

For the Year Ended June 30, 2011

	Original Budget	Final Budget	Adjusted Actual	Variance With Final Budget
Property Tax	\$ 168,142,478	\$ 168,142,478	\$ 168,142,478	\$ -
Auto permits	10,872,000	10,872,000	10,411,574	(460,426)
Penalties, interest and other taxes:				
Interest and cost on redemption	310,120	310,120	413,695	103,575
Nashua Housing Authority	119,000	119,000	130,243	11,243
Interest on taxes	376,000	376,000	373,768	(2,232)
Other	6,500	6,500	3,695	(2,805)
Total Penalties, interest and other taxes	811,620	811,620	921,401	109,781
Charges for services:				
Financial services	8,500	8,500	9,750	1,250
City clerk	87,800	87,800	72,201	(15,599)
Assessors	6,000	6,000	2,975	(3,025)
Police	89,000	89,000	90,216	1,216
Fire	25,800	25,800	39,020	13,220
Health and welfare	179,250	179,250	143,235	(36,015)
Parks and recreation	49,840	49,840	69,646	19,806
Parking	728,320	728,320	693,964	(34,356)
Cemeteries	95,925	95,925	102,813	6,888
Planning	1,125	1,125	968	(157)
Libraries	16,610	16,610	14,539	(2,071)
School	165,000	165,000	158,487	(6,513)
Total Charges for services	1,453,170	1,453,170	1,397,814	(55,356)
Intergovernmental:				
State adequacy grant	35,998,972	35,998,972	35,998,972	-
State aid - buildings	2,680,079	2,680,079	2,680,079	-
Special education	517,009	517,009	424,496	(92,513)
Medicaid	1,197,991	1,197,991	1,025,332	(172,659)
Meals and room tax	3,886,883	3,886,883	3,886,883	-
Highway	1,581,069	1,581,069	1,582,542	1,473
Other	86,052	86,052	136,678	50,626
Total Intergovernmental	45,948,055	45,948,055	45,734,982	(213,073)
Licenses and permits:				
Financial services	248,000	248,000	287,686	39,686
City clerk	79,200	79,200	76,774	(2,426)
Police	2,550	2,550	3,665	1,115
Fire	44,400	44,400	55,591	11,191
Health and welfare	24,200	24,200	26,065	1,865
Public works	8,000	8,000	7,650	(350)
Planning	178,900	178,900	174,492	(4,408)
Building	431,000	431,000	462,189	31,189
Total Licenses and permits	1,016,250	1,016,250	1,094,112	77,862
Interest	1,500,000	1,500,000	404,617	(1,095,383)
Miscellaneous:				
Cable TV franchise	790,000	790,000	831,715	41,715
Fines and forfeits	324,000	324,000	258,140	(65,860)
Sale of property	3,000	3,000	2,200	(800)
Rental of property	425,118	425,118	314,560	(110,558)
Other	30,175	30,175	29,905	(270)
Total Miscellaneous	1,572,293	1,572,293	1,436,520	(135,773)
Transfers In:				
Transfers from other funds	525,100	2,636,353	2,985,188	348,835
Total Transfers In	525,100	2,636,353	2,985,188	348,835
Other Financing Sources:				
Use of fund balance	4,900,000	4,900,000	4,900,000	-
Total Other Financing Sources	4,900,000	4,900,000	4,900,000	-
Total	\$ 236,740,966	\$ 238,852,219	\$ 237,428,686	\$ (1,423,533)

CITY OF NASHUA, NEW HAMPSHIRE

Detail Schedule of Expenditures and Other Financing Uses
Budget and Actual - General Fund

For the Year Ended June 30, 2011

	Original Budget	Final Budget	Adjusted Actual	Variance With Final Budget
General Government:				
Mayor	\$ 316,175	\$ 316,175	\$ 298,372	\$ 17,803
Legal	406,512	406,512	397,143	9,369
Board of Aldermen	175,065	175,065	174,991	74
Civic and Comm. activities	1,195,370	1,195,370	1,182,497	12,873
Telecommunications	155,000	155,000	147,900	7,100
Pensions	19,646,327	19,559,327	18,644,361	914,966
Insurance - Benefits	26,196,890	26,196,890	26,059,228	137,662
Citistat	112,534	112,534	103,516	9,018
Financial services	1,489,730	1,536,306	1,489,281	47,025
City Clerk	386,398	386,398	379,180	7,218
Risk Management	3,400,153	3,400,153	3,400,153	-
Human resources	245,758	276,709	200,330	76,379
Purchasing	320,928	320,928	288,270	32,658
Building maintenance	378,569	378,569	378,078	491
Assessors	528,043	528,043	502,409	25,634
Hunt building	32,661	32,661	30,547	2,114
Information technology	1,482,007	1,482,007	1,317,795	164,212
GIS	112,857	112,857	109,777	3,080
Computers - city wide	120,000	120,000	119,822	178
Cemeteries	452,979	452,979	443,967	9,012
CERF Expenditures	-	1,195,025	1,195,025	-
Contingencies	855,776	594,000	505,000	89,000
Capital	1,500,000	2,070,000	2,070,000	-
Total General Government	59,509,732	61,003,508	59,437,642	1,565,866
Police	17,947,915	18,261,211	18,195,954	65,257
Fire	14,442,091	14,880,969	14,796,667	84,302
Water fire protection	2,337,189	2,473,189	2,471,096	2,093
Education	93,425,591	93,425,591	92,661,977	763,614
Public Works:				
Street lighting	703,286	790,286	788,381	1,905
PW Division and Engineering	774,116	774,116	765,603	8,513
Street department	5,522,257	5,589,230	5,583,803	5,427
Traffic department	739,628	739,628	736,126	3,502
Parking lots	237,278	237,278	219,547	17,731
Solid waste	3,928,190	3,928,190	3,928,190	-
Total Public Works	11,904,755	12,058,728	12,021,650	37,078
Health and Human Services:				
Community services	197,540	228,333	193,637	34,696
Community health	373,433	373,433	356,282	17,151
Environmental health	350,831	350,831	327,983	22,848
Welfare administration	344,001	344,001	335,809	8,192
Welfare costs	1,272,500	1,272,500	693,291	579,209
Total Health and Human Services	2,538,305	2,569,098	1,907,002	662,096
Culture and recreation:				
Parks and recreation	2,798,567	2,798,567	2,789,423	9,144
Public libraries	2,301,083	2,345,620	2,260,160	85,460
Total Culture and Recreation	5,099,650	5,144,187	5,049,583	94,604
Community Development	1,485,056	1,485,056	1,448,130	36,926
Communications	299,697	299,697	290,648	9,049
Debt Service:				
Principal	12,329,346	12,329,346	11,864,346	465,000
Interest and cost	5,505,016	5,505,016	5,303,790	201,226
Total Debt Service	17,834,362	17,834,362	17,168,136	666,226
Intergovernmental	9,416,623	9,416,623	9,416,623	-
Transfers out	500,000	-	-	-
Total	\$ 236,740,966	\$ 238,852,219	\$ 234,865,108	\$ 3,987,111

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Proprietary Fund Types

Enterprise Funds

Enterprise Funds were established to account for activities that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the activity be self-supporting based on user charges.

The City of Nashua has the following Enterprise Funds:

Wastewater Fund: To account for the operation of sewer treatment plants, pumping stations and sewer lines.

Solid Waste Fund: To account for the operation of the City's landfill and solid waste disposal.

CITY OF NASHUA, NEW HAMPSHIRE

Schedule of Revenues and Expenses
Budget and Actual

Enterprise Funds

For the Year Ended June 30, 2011

	Waste Water Fund		
	Final Budget	Actual (Budgetary Basis)	Variance
Operating Revenues:			
Charges for services	\$ 10,301,998	\$ 8,762,187	\$ (1,539,811)
Total Operating Revenues	10,301,998	8,762,187	(1,539,811)
Operating Expenses:			
Personnel	3,133,509	3,085,099	48,410
Non-personnel	3,211,834	2,792,629	419,205
Capital	10,620,318	10,620,318	-
Debt service	2,531,645	2,533,059	(1,414)
Total Operating Expenses	19,497,306	19,031,105	466,201
Operating Income (Loss)	(9,195,308)	(10,268,918)	(1,073,610)
Nonoperating Income and (Expenses):			
Grants income	177,812	549,539	371,727
Investment income	80,072	12,170	(67,902)
Contributions	590,990	226,819	(364,171)
Total Nonoperating Revenues (Expenses)	848,874	788,528	(60,346)
Income (Loss) Before Contributions and Transfers	(8,346,434)	(9,480,390)	(1,133,956)
Transfers (net)	(1,187,429)	(1,176,879)	(10,550)
Use of net assets	9,533,863	9,533,863	-
Net Income	\$ -	\$ (1,123,406)	\$ (1,144,506)

Solid Waste Fund

<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance</u>
\$ 2,650,000	\$ 2,640,001	\$ (9,999)
2,650,000	2,640,001	(9,999)
2,552,260	2,518,393	33,867
1,198,663	639,317	559,346
-	-	-
<u>2,568,478</u>	<u>2,540,004</u>	<u>28,474</u>
<u>6,319,401</u>	<u>5,697,714</u>	<u>621,687</u>
(3,669,401)	(3,057,713)	611,688
214,894	214,894	-
43,980	20,604	(23,376)
-	-	-
<u>258,874</u>	<u>235,498</u>	<u>(23,376)</u>
(3,410,527)	(2,822,215)	588,312
3,410,527	3,410,527	-
-	-	-
<u>\$ -</u>	<u>\$ 588,312</u>	<u>\$ 588,312</u>

Proprietary Fund Types

Internal Service Funds

Internal Service Funds are proprietary fund types established for the City's self-insurance programs.

The City of Nashua has the following Internal Service Funds:

Employee Benefits Fund: To account for the operation of the City's self-insurance program for employees' health care.

Property and Casualty Fund: To account for the operation of the City's self-insurance program for general property and casualty insurance.

CITY OF NASHUA, NEW HAMPSHIRE

INTERNAL SERVICE FUND

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental Activities Internal Service Fund		
	Employee Benefits Fund	Property & Casualty Fund	Total
<u>ASSETS</u>			
Current:			
Due from other funds	\$ 19,806,016	\$ 5,496,444	\$ 25,302,460
Other assets	<u>629,381</u>	<u>9,231</u>	<u>638,612</u>
TOTAL ASSETS	20,435,397	5,505,675	25,941,072
<u>LIABILITIES</u>			
Current:			
Accounts payable	1,214,000	6,011	1,220,011
Accrued liabilities	5,539,593	4,225,480	9,765,073
Other liabilities	<u>9,358</u>	<u>-</u>	<u>9,358</u>
TOTAL LIABILITIES	6,762,951	4,231,491	10,994,442
<u>NET ASSETS</u>			
Unrestricted	<u>13,672,446</u>	<u>1,274,184</u>	<u>14,946,630</u>
TOTAL NET ASSETS	<u>\$ 13,672,446</u>	<u>\$ 1,274,184</u>	<u>\$ 14,946,630</u>

See notes to financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

INTERNAL SERVICE FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR FISCAL YEAR ENDED JUNE 30, 2011

	Governmental Activities Internal Service Fund		
	Employee Benefits Fund	Property & Casualty Fund	Total
Operating Revenues:			
Contributions	\$ 27,134,236	\$ 3,400,153	\$ 30,534,389
Other	806,594	-	806,594
Total Operating Revenues	27,940,830	3,400,153	31,340,983
Operating Expenses:			
Non-personnel expenses	29,119,056	3,222,782	32,341,838
Total Operating Expenses	29,119,056	3,222,782	32,341,838
Operating Income (Loss)	(1,178,226)	177,371	(1,000,855)
Nonoperating Revenues:			
Investment income (loss)	64,839	16,272	81,111
Total Nonoperating Revenues, Net	64,839	16,272	81,111
Income (Loss) Before Transfers	(1,113,387)	193,643	(919,744)
Transfers out	-	(500,000)	(500,000)
Change in Net Assets	(1,113,387)	(306,357)	(1,419,744)
Net Assets at Beginning of Year	14,785,833	1,580,541	16,366,374
Net Assets at End of Year	\$ 13,672,446	\$ 1,274,184	\$ 14,946,630

See notes to financial statements.

CITY OF NASHUA, NEW HAMPSHIRE

INTERNAL SERVICE FUND

STATEMENT OF CASH FLOWS

FOR FISCAL YEAR ENDED JUNE 30, 2011

	Governmental Activities Internal Service Fund		
	Employee Benefits Fund	Property & Casualty Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 27,980,526	\$ 3,737,317	\$ 31,717,843
Payments to vendors	<u>(28,045,365)</u>	<u>(3,253,589)</u>	<u>(31,298,954)</u>
Net Cash Provided By (Used for) Operating Activities	(64,839)	483,728	418,889
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfers	-	(500,000)	(500,000)
Net Cash Provided By (Used for) Noncapital Financing Activities	-	(500,000)	(500,000)
<u>Cash Flows From Investing Activities:</u>			
Investment income	<u>64,839</u>	<u>16,272</u>	<u>81,111</u>
Net Change in Cash and Short-Term Investments	-	-	-
Cash and Short-Term Investments, Beginning of Year	-	-	-
Cash and Short-Term Investments, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income (loss)	\$ (1,178,226)	\$ 177,371	\$ (1,000,855)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Changes in assets and liabilities:			
Other assets	417,513	598,538	1,016,051
Accounts payable	148,413	(35,497)	112,916
Accrued liabilities	538,103	(256,684)	281,419
Other liabilities	<u>9,358</u>	<u>-</u>	<u>9,358</u>
Net Cash Provided By (Used for) Operating Activities	<u>\$ (64,839)</u>	<u>\$ 483,728</u>	<u>\$ 418,889</u>

See notes to financial statements.

FIDUCIARY FUNDS

AGENCY FUND

Agency Funds are established to account for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others.

Agency Fund represents monies held in escrow from developer in the City.

CITY OF NASHUA, NEW HAMPSHIRE

Combining Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2011

	Balance July 1, <u>2010</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2011</u>
<u>Developer Escrows</u>				
Assets - cash and short-term investments	\$ 553,431	\$ 185,984	\$ (13,083)	\$ 726,332
Assets - due from other funds	<u>67,360</u>	<u>243,997</u>	<u>(292,682)</u>	<u>18,675</u>
	<u>\$ 620,791</u>	<u>\$ 429,981</u>	<u>\$ (305,765)</u>	<u>\$ 745,007</u>
Liabilities - other liabilities	<u>\$ 620,791</u>	<u>\$ 282,510</u>	<u>\$ (158,294)</u>	<u>\$ 745,007</u>

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CITY OF NASHUA, NEW HAMPSHIRE

STATISTICAL SECTION

The City of Nashua comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

	<u>Page</u>
<i>Financial Trends</i> These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	118
<i>Revenue Capacity</i> These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	124
<i>Debt Capacity</i> These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	131
<i>Demographic and Economic Information</i> These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	134
<i>Operating Information</i> These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the service the government provides and the activities it performs.	136

City of Nashua, New Hampshire

Net Assets by Component

Last Ten Fiscal Years¹
(accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental Activities									
Invested in capital assets, net of related debt	\$ 41,900,074	\$ 48,407,254	\$ 58,679,109	\$ 71,330,362	\$ 75,371,785	\$ 82,615,430	\$ 91,043,817	\$ 103,436,163	\$ 111,077,357
Restricted	22,562,881	25,984,094	26,595,733	30,981,554	33,679,170	29,126,492	21,686,588	21,611,710	24,687,379
Unrestricted	42,736,195	43,554,836	36,099,549	34,217,644	46,055,519	55,983,443	48,672,885	43,639,686	35,368,271
Total governmental activities net assets	107,199,150	117,946,184	121,374,391	136,529,560	155,106,474	167,725,365	161,403,290	168,687,559	171,133,007
Business-type activities									
Invested in capital assets, net of related debt	76,085,896	76,948,532	77,780,283	81,467,773	94,270,446	109,669,910	115,532,890	99,864,775	102,157,830
Restricted	514,562	645,407	1,168,612	1,732,999	2,336,365	2,913,041	3,612,918	3,773,376	3,972,974
Unrestricted	12,083,201	13,511,536	13,173,740	11,181,863	40,245	(13,599,364)	(21,136,265)	(5,306,300)	(6,555,882)
Total business-type activities net assets	88,683,659	91,105,495	92,122,635	94,382,635	96,647,056	98,983,587	98,009,543	98,331,851	99,574,922
Primary government									
Invested in capital assets, net of related debt	117,985,970	125,355,786	136,459,392	152,798,135	169,642,231	192,285,340	206,576,707	203,300,938	213,235,187
Restricted	23,077,443	26,629,501	27,764,345	32,714,553	36,015,535	32,039,533	25,299,506	25,385,086	28,660,353
Unrestricted	54,819,396	57,066,392	49,273,289	45,399,507	46,095,764	42,384,079	27,536,620	38,333,386	28,812,389
Total primary government net assets	\$ 195,882,809	\$ 209,051,679	\$ 213,497,026	\$ 230,912,195	\$ 251,753,530	\$ 266,708,952	\$ 259,412,833	\$ 267,019,410	\$ 270,707,929

Data Source:
Audited Financial Statements

Notes:

¹ The City will continue to annually report information until this schedule includes 10 fiscal years. Roads and sidewalks retroactive to 1980 were reported in FY2006 (compliant with GASB 34 requirements).

City of Nashua, New Hampshire

Change in Net Assets
Last Ten Fiscal Years¹
(accrual basis of accounting)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses										
Governmental activities²										
General government	\$ 9,444,094	\$ 10,508,757	\$ 11,304,737	\$ 9,553,394	\$ 11,147,538	\$ 10,634,275	\$ 24,124,526	\$ 20,301,156	\$ 20,288,378	\$ 22,129,077
Police	16,972,562	18,750,664	20,106,190	22,693,536	23,070,949	22,210,688	24,713,982	26,257,722	27,426,675	28,223,669
Fire	12,673,106	13,951,084	16,519,202	18,303,777	19,193,738	17,918,642	17,965,927	21,093,703	21,026,095	22,111,191
Water Supply/Hydrants	1,672,352	1,680,348	1,725,577	1,775,188	1,634,047	1,781,355	2,205,303	2,234,921	2,152,983	2,471,096
Education	92,042,342	103,478,605	112,640,113	123,124,413	127,629,646	125,136,253	132,479,339	140,999,742	143,489,872	150,017,895
Public Works	9,897,360	9,539,821	8,421,769	11,020,903	10,893,022	9,968,194	11,408,120	11,542,212	10,030,585	10,792,781
Health and Human Services	3,175,105	3,829,848	3,823,235	3,858,967	3,454,063	3,959,298	4,217,761	4,340,447	4,065,289	3,964,857
Culture and Recreation	5,732,589	6,309,324	6,707,659	7,430,362	7,605,481	6,671,417	6,972,660	7,918,634	7,929,703	8,156,558
Community Development	4,694,751	5,458,052	5,684,745	6,116,347	5,935,757	6,316,105	6,798,877	7,287,986	9,156,255	7,375,291
Communications	277,198	565,646	1,069,301	1,079,047	1,003,608	1,031,116	1,037,747	-	1,114,063	1,152,961
Interest and Costs	6,859,007	7,436,384	7,144,014	8,731,875	7,702,676	6,611,817	6,651,921	6,096,780	5,612,006	5,220,526
Intergovernmental ³	9,472,306	9,574,285	9,418,474	9,177,447	9,233,128	9,241,763	-	-	-	-
Total governmental activities expenses	172,912,772	191,082,818	204,565,016	222,865,256	228,503,653	221,480,923	238,576,163	248,073,303	252,291,904	261,615,902
Business-type activities:										
Wastewater services	8,436,092	8,390,920	8,486,194	9,073,077	10,776,209	9,431,492	9,563,755	10,396,778	10,770,142	11,082,780
Solid waste services	4,260,877	4,365,834	5,507,278	5,647,914	5,836,163	5,444,335	6,383,897	5,950,822	6,177,791	5,277,700
Total business-type activities expenses	12,696,969	12,756,754	13,993,472	14,720,991	16,612,372	14,875,827	15,947,652	16,347,600	16,947,933	16,360,480
Total primary government expense	\$ 185,609,741	\$ 203,839,572	\$ 218,558,488	\$ 237,586,247	\$ 245,116,025	\$ 236,356,750	\$ 254,523,815	\$ 264,420,903	\$ 269,239,837	\$ 277,976,382
Program Revenues										
Governmental activities:										
Charges for services⁴										
General government	\$ 567,341	\$ 575,152	\$ 580,771	\$ 935,305	\$ 1,021,847	\$ 904,182	\$ 754,146	\$ (6,297)	\$ 3,153,839	\$ 5,585,985
Police	1,595,125	1,733,365	1,802,347	2,390,822	2,675,975	1,417,615	1,153,325	824,514	1,096,769	1,399,425
Fire	68,630	23,654	70,888	698,107	806,487	41,571	168,004	94,589	85,145	98,393
Education	2,808,327	3,181,108	4,674,823	7,236,032	7,912,683	3,982,594	5,048,693	4,151,332	3,962,169	4,277,655
Public Works	569,406	570,057	822,147	1,089,298	1,173,293	855,065	866,151	763,471	797,022	732,071
Health and Human Services	327,235	243,853	324,435	440,211	437,627	257,735	236,922	211,484	189,391	186,295
Culture and Recreation	245,420	533,911	328,602	782,640	955,609	608,880	601,723	80,052	632,545	904,781
Community Development	939,526	1,186,442	1,358,939	1,244,787	1,342,026	1,225,355	1,250,864	1,155,276	1,068,159	1,118,703
Total charges for services	7,121,010	8,047,542	9,962,952	14,817,202	16,325,547	9,290,997	10,079,828	7,274,421	10,985,039	14,303,288
Operating grants and contributions	43,189,954	45,027,118	46,005,977	43,783,950	45,251,496	46,220,633	52,854,392	48,769,370	63,039,056	63,121,867
Capital grants and contributions	7,806,468	5,051,672	8,269,307	3,880,643	7,105,541	8,486,039	6,007,837	4,775,411	5,823,681	4,278,212
Total governmental activities program revenues	58,117,432	58,126,332	64,238,236	62,481,795	68,682,584	63,997,669	69,002,059	60,819,202	81,847,776	81,703,367
Business-type activities:										
Wastewater services	10,961,185	10,092,100	8,869,848	8,689,711	8,696,732	8,355,360	8,449,653	8,251,735	8,969,303	8,762,187
Solid Waste services	3,483,707	2,988,737	2,924,621	3,163,578	4,463,357	3,540,753	3,422,189	2,782,627	2,588,522	2,640,001
Total charges for services	14,444,892	13,080,837	11,794,469	11,853,289	13,160,089	11,896,113	11,871,842	11,034,362	11,557,825	11,402,188
Operating grants and contributions	882,405	1,328,547	3,804,177	1,267,772	3,189,482	848,793	2,263,301	814,289	1,458,288	776,358
Capital grants and contributions ⁵	15,327,297	14,409,384	15,598,646	13,121,061	16,349,571	12,744,906	14,135,143	11,848,651	13,016,113	12,178,546
Total business-type activities program revenues	15,327,297	14,409,384	15,598,646	13,121,061	16,349,571	12,744,906	14,135,143	11,848,651	13,016,113	12,178,546
Total primary government program revenue	\$ 73,444,729	\$ 72,535,716	\$ 79,836,882	\$ 75,602,856	\$ 85,032,155	\$ 76,742,575	\$ 83,137,202	\$ 72,667,853	\$ 94,863,889	\$ 93,881,913
Net (Expenses)Revenue										
Governmental activities	\$ (114,795,340)	\$ (132,956,486)	\$ (140,326,780)	\$ (160,383,461)	\$ (159,821,069)	\$ (157,483,254)	\$ (169,574,104)	\$ (188,381,457)	\$ (170,444,128)	\$ (179,912,535)
Business-type activities	2,630,328	1,652,630	1,605,174	(1,599,930)	(262,801)	(2,130,921)	(1,812,509)	(4,498,949)	(3,931,820)	(4,181,934)
Total Primary government net expense	\$ (112,165,012)	\$ (131,303,856)	\$ (138,721,606)	\$ (161,983,391)	\$ (160,083,870)	\$ (159,614,175)	\$ (171,386,613)	\$ (192,880,406)	\$ (174,375,948)	\$ (184,094,469)
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Property tax	\$ 119,230,622	\$ 125,767,506	\$ 130,912,139	\$ 139,413,702	\$ 146,928,299	\$ 154,449,099	\$ 158,896,532	\$ 161,979,688	\$ 163,353,082	\$ 169,333,116
Auto Permits	11,130,499	11,255,201	11,542,180	11,934,156	12,078,138	11,642,585	11,528,023	10,836,895	10,427,551	10,347,555
Penalties, interest and other taxes	-	989,372	876,278	791,830	1,032,775	865,462	1,594,935	1,418,455	1,512,934	1,535,805
Grants and contributions not restricted to sp	6,117,730	4,305,876	5,166,853	5,397,605	5,696,471	6,173,967	6,297,569	6,237,452	3,971,032	4,720,761
Investment income	2,864,387	2,740,353	1,671,273	4,068,578	5,093,220	4,335,585	5,600,182	2,935,434	1,262,208	422,349
Miscellaneous	2,484,172	1,418,409	770,980	3,847,232	1,393,811	995,117	950,109	1,232,553	1,067,955	1,023,290
Transfers, net	23,117	-	(25,900)	(1,750,010)	(1,388,652)	(2,500,000)	(2,697,663)	(2,690,322)	(3,975,592)	(5,177,336)
Permanent fund contributions	93,919	140,186	159,111	108,575	6,825	98,353	23,308	109,227	109,227	152,443
Total governmental activities	141,944,446	146,616,903	151,073,814	163,811,668	170,840,882	176,060,168	182,192,995	182,059,382	177,728,397	182,357,983
Business-type activities:										
Grants and contributions not restricted to sp	-	-	-	-	-	784,155	1,059,579	826,769	230,507	214,895
Investment income	1,038,563	895,397	791,662	867,060	1,134,149	1,111,187	391,798	7,814	48,029	32,774
Transfers, net	(23,117)	-	25,000	1,750,010	1,388,652	2,500,000	2,697,663	2,690,322	3,975,592	5,177,336
Total business-type activities	1,015,446	895,397	816,662	2,617,070	2,522,801	4,395,342	4,149,040	3,524,905	4,254,128	5,425,005
Total primary government	\$ 142,959,892	\$ 147,512,300	\$ 151,890,476	\$ 166,428,738	\$ 173,363,688	\$ 180,455,510	\$ 186,342,035	\$ 185,584,287	\$ 181,982,525	\$ 187,782,988
Change in Net Assets										
Governmental activities	\$ 27,149,106	\$ 13,660,417	\$ 10,747,034	\$ 3,428,207	\$ 11,019,818	\$ 18,576,914	\$ 12,618,891	\$ (6,322,075)	\$ 7,284,269	\$ 2,445,448
Business-type activities	3,645,774	2,548,027	2,421,836	1,017,140	2,260,000	2,264,421	2,336,531	(974,044)	322,308	1,243,071
Total primary government	\$ 30,794,880	\$ 16,208,444	\$ 13,168,870	\$ 4,445,347	\$ 13,279,818	\$ 20,841,335	\$ 14,955,422	\$ (7,296,119)	\$ 7,606,577	\$ 3,688,519

Data Source:
Audited Financial Statements

Notes:

- ¹ The City will continue to annually report information until this schedule includes 10 fiscal years.
- ² Beginning in FY07, employee benefit withholdings are netted against the appropriate function's expenses rather than included with "Charges for Services".
- ³ Beginning in FY08, Intergovernmental expenses were reclassified to General Government expenses, per GFOA recommendation.
- ⁴ In FY05 and FY06, "Charges for Services" includes employee benefit withholdings. Beginning in FY07, employee benefit withholdings are netted against the appropriate function's expenses rather than included with "Charges for Services".
- ⁵ Beginning in FY07, State Aid Grants were reclassified from Program Revenues to General Revenues, per GFOA recommendation.
- ⁶ Negative charges for services in FY09 is due to the loss in the market value of investments of the cemetery permanent funds.
- ⁷ Decrease in charges for services in FY09 is due to the loss in the market value of investments of the library permanent funds.

City of Nashua, New Hampshire

Fund Balances, Governmental Funds

Last Ten Fiscal Years
(modified accrual basis of accounting)

General Fund	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Reserved ¹	\$ 5,641,057	\$ 7,326,048	\$ 5,025,464	\$ 12,620,998	\$ 4,526,670	\$ 6,808,655	\$ 5,040,391	\$ 5,163,134	\$ -	\$ -
Unreserved ²	19,100,322	22,075,884	23,523,522	31,812,193	27,241,589	28,037,193	33,293,567	33,249,976	-	-
Nonspendable ⁷	-	-	-	-	-	-	-	-	184,062	225,671
Committed ⁷	-	-	-	-	-	-	-	-	16,685,057	13,851,725
Assigned ⁷	-	-	-	-	-	-	-	-	6,550,000	5,950,000
Unassigned ⁷	-	-	-	-	-	-	-	-	26,560,824	25,540,287
Total General Fund	\$ 24,741,379	\$ 29,401,932	\$ 28,548,986	\$ 44,433,191	\$ 31,768,259	\$ 34,845,848	\$ 38,333,958	\$ 38,413,110	\$ 49,979,943	\$ 45,567,683
Other Governmental Funds										
Reserved ³	\$ 22,007,957	\$ 17,825,857	\$ 16,580,070	\$ 19,290,527	\$ 21,388,586	\$ 18,311,928	\$ 17,162,438	\$ 15,639,501	\$ -	\$ -
Unreserved:										
Special Revenue Funds ⁴	29,647,742	30,281,823	32,692,008	12,250,621	23,410,292	24,692,996	25,947,458	19,994,384	-	-
Capital Project Funds ⁵	20,858,017	(15,472,616)	9,972,489	3,588,482	(12,114,644)	3,134,217	3,161,390	2,558,311	-	-
Permanent Funds ⁶	337,678	357,309	424,084	498,499	590,337	710,518	903,422	960,742	-	-
Nonspendable ⁷	-	-	-	-	-	-	-	-	14,429,616	17,497,014
Restricted ⁷	-	-	-	-	-	-	-	-	3,899,609	5,106,464
Committed ⁷	-	-	-	-	-	-	-	-	8,733,406	7,740,332
Unassigned ⁷	-	-	-	-	-	-	-	-	(1,728,518)	(491,584)
Total Other Funds	\$ 72,851,394	\$ 32,992,373	\$ 59,668,651	\$ 35,628,129	\$ 33,274,571	\$ 46,849,659	\$ 47,174,708	\$ 39,152,938	\$ 25,334,113	\$ 29,852,226

Data Source:
Audited Financial Statements

Notes:

- ¹ FY2005 - \$8 million is reserved for School Capital Reserve Fund.
- ² FY2005 - \$11 million is designated for FY06 tax rate, \$4 million for FY07/08 School bonded debt.
- ³ FY2006 - Reclassified \$7,821,553 in School Capital Reserve Funds from Reserved Fund Balance into Unreserved Fund Balance, Special Revenue Funds.
- ⁴ Prior to FY02, excludes permanent funds and some special revenue funds classified as trust funds under the pre GASB 34 reporting model. Also in FY2006 reclassified \$7,821,553 in School Capital Reserve Funds from Reserved Fund Balance into Unreserved Fund Balance, Special Revenue Funds.
- ⁵ Prior to FY02, capital projects with a positive fund balance were reported as reserved (FY02 and subsequent years as unreserved). For this report, these fund balances have been reclassified to unreserved fund balance to maintain consistency throughout the ten-year period.
- ⁶ Prior to FY02, excludes permanent funds and some special revenue funds classified as trust funds under the pre GASB 34 reporting model. Also in FY02 - FY04, the total fund balance of permanent funds were reported as unreserved; beginning in FY05, only the expendable portion is reported as unreserved. For this report, FY02 - FY04 fund balances have been reclassified to conform to the current year presentation.
- ⁷ FY2010 - Fund balances reflect implementation of GASB 54

City of Nashua, New Hampshire

Change in Fund Balances, Governmental Funds¹
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Taxes	\$ 118,254,190	\$ 126,036,366	\$ 131,745,073	\$ 139,504,354	\$ 146,864,377	\$ 154,488,154	\$ 158,353,188	\$ 160,881,410	\$ 162,964,723	\$ 169,105,924
Licenses and Permits ²	12,285,295	12,080,340	12,583,432	13,354,800	13,234,555	12,846,500	12,311,950	11,558,473	11,311,752	11,200,038
Penalties, interest and other taxes ³	710,766	989,372	1,369,998	1,245,976	1,357,033	1,250,253	1,594,935	1,418,455	1,447,786	1,471,786
Intergovernmental	54,230,337	53,398,218	56,288,906	53,353,723	54,957,475	57,917,495	64,085,098	66,192,430	74,194,941	71,166,117
Charges for services	6,596,808	7,004,198	6,211,920	6,446,565	6,846,669	6,914,168	7,094,328	7,289,468	7,324,028	7,888,220
Interest earnings ⁴	3,044,125	2,865,742	1,654,012	3,809,685	4,153,022	7,745,663	4,793,461	(303,680)	2,833,498	4,168,180
Miscellaneous	2,275,514	1,036,942	3,002,599	3,593,579	1,282,935	1,173,971	1,921,409	1,882,909	1,500,780	1,399,369
Contributions	1,444,563	1,226,678	2,752,805	917,206	1,149,442	539,057	96,002	354,065	510,942	460,903
Total revenues	198,841,798	204,646,856	215,608,745	222,625,288	229,844,908	242,875,261	250,180,371	249,273,550	262,087,855	267,060,537
Expenditures by Function										
General government	26,442,878	30,941,856	34,582,618	39,852,087	47,640,841	51,202,587	54,841,257	53,859,718	55,969,477	60,784,069
Public safety	25,894,620	27,819,182	30,509,895	31,445,464	37,723,214	30,897,525	32,191,601	35,887,184	35,144,482	37,095,411
Water supply/hydrants	1,672,352	1,680,348	1,725,577	1,775,188	1,634,047	1,781,355	2,205,303	2,234,921	2,152,983	2,471,096
Education	121,118,039	128,469,056	116,891,981	102,184,295	98,086,304	96,233,019	100,296,133	110,099,584	110,680,934	113,933,265
Public Works	7,619,794	8,012,161	9,551,499	9,862,103	9,536,606	8,689,653	9,540,761	10,452,441	11,766,925	10,100,177
Health and human services	3,011,467	3,453,632	3,388,734	3,162,482	2,687,438	3,373,460	3,516,881	3,693,028	3,328,537	3,141,990
Culture and recreation	9,554,230	5,698,051	5,547,512	5,396,417	5,436,393	5,121,466	5,898,670	5,923,548	5,357,914	5,725,091
Community development	8,903,820	5,007,414	5,846,253	6,416,732	11,396,347	9,168,047	6,396,239	6,004,281	9,495,558	7,942,209
Communications	1,292,397	528,054	270,219	279,964	246,026	228,044	237,896	280,361	283,590	289,648
Miscellaneous	155,274									
Debt service	7,810,750	9,654,987	9,682,441	11,038,740	12,073,570	12,118,441	12,111,061	12,300,467	12,221,828	11,924,348
Principal	6,399,691	7,615,223	7,300,046	8,450,677	7,779,830	6,222,224	7,032,893	6,243,971	5,892,249	5,455,421
Interest	9,472,306	9,574,285	9,418,474	9,177,447	9,233,129	9,241,763	9,489,137	9,546,322	9,367,968	9,416,623
Intergovernmental	3,888,311									
Capital Outlay ⁴	233,235,929	238,454,269	234,715,249	229,031,596	243,474,745	234,277,584	243,777,832	236,525,826	261,664,255	268,277,348
Total expenditures	(34,394,131)	(33,807,413)	(19,106,504)	(6,406,308)	(13,629,837)	8,397,677	6,402,539	(7,252,296)	423,600	(1,216,811)
Excess of revenues	43,095,000	46,510,000	46,510,000	46,510,000	46,510,000	46,510,000	46,510,000	46,510,000	46,510,000	46,510,000
Over(under) expenditures	39,300,871	39,300,871	39,300,871	39,300,871	39,300,871	39,300,871	39,300,871	39,300,871	39,300,871	39,300,871
Other Financing Sources (Uses)										
Bond proceeds										
Capital lease proceeds										
Transfers in	7,055,955	4,638,708	5,861,446	25,066,009	15,512,898	4,482,821	7,454,175	10,384,784	6,045,974	3,907,733
Transfers out	(9,709,394)	(6,029,763)	(7,441,610)	(26,816,019)	(16,901,550)	(6,982,821)	(10,151,839)	(11,275,106)	(8,721,566)	(8,585,069)
Total other financing sources (uses)	40,441,561	(1,391,055)	44,929,836	(1,750,010)	(1,388,652)	8,655,000	(2,589,378)	(690,322)	(2,675,592)	1,322,664
Net Change in fund balances	\$ -6,047,430	\$ (35,198,468)	\$ 25,823,332	\$ (8,156,318)	\$ (15,018,489)	\$ 16,632,677	\$ 3,813,161	\$ (7,942,618)	\$ (2,251,992)	\$ 105,853
Debt Service as a percentage of non-capital outlay expenditures	8.11%	8.96%	8.36%	8.99%	8.84%	8.13%	8.09%	7.45%	7.24%	6.80%

Data Source: Audited Financial Statements

Notes:
¹ Prior to FY02, excludes permanent funds and some special revenue funds classified as trust funds under the pre-GASB 34 reporting model.
² Includes Auto Permits.
³ Prior to FY02, recorded under Miscellaneous revenues.
⁴ Capital Outlay redistributed among applicable functions in FY03 and subsequent years.

City of Nashua, New Hampshire

Expenditures and Other Financing Uses by Department and Budget Category, General Fund

Last Ten Fiscal Years
(modified accrual basis of accounting)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenditures and Other Financing Uses by Department										
Financial Services	1,115,601	1,474,645	1,307,268	1,307,535	1,322,705	1,236,659	1,469,502	2,727,354	2,878,399	3,771,283
Administrative Services ¹	2,821,687	2,994,877	2,967,180	2,945,436	2,788,574	1,991,401	2,131,361	-	-	-
Information Technology ²	-	-	-	-	-	784,969	1,102,648	1,237,701	1,230,025	1,459,019
Misc General Government ³	22,290,203	26,254,134	30,188,418	33,367,963	43,233,659	47,080,238	49,114,240	48,833,886	49,966,148	51,687,255
Police	13,178,009	13,979,968	14,669,482	15,484,532	15,062,015	14,920,270	16,918,427	18,551,324	18,343,212	19,165,600
Fire	10,638,749	11,665,411	13,001,349	13,254,721	13,876,296	13,068,849	13,122,412	15,670,602	15,211,313	16,203,772
Water Supply/Utilities	1,672,352	1,680,348	1,725,577	1,775,188	1,694,047	1,781,355	2,205,307	2,234,921	2,152,983	2,471,086
Community Health and Welfare	2,513,649	2,945,896	2,853,574	2,547,088	2,501,368	2,169,131	2,188,388	2,437,681	1,966,721	1,894,004
Street Department	4,375,314	5,053,235	5,336,956	6,000,921	5,156,101	4,923,751	6,051,230	6,736,230	7,278,181	6,856,012
Parks and Recreation	2,324,547	2,878,759	2,636,535	2,748,857	2,672,691	2,539,850	2,545,439	2,944,658	2,741,007	3,015,085
Other Public Works	2,156,388	2,343,385	3,004,428	2,836,774	3,140,497	3,203,179	2,413,679	2,410,901	2,406,616	2,515,392
Community Development Division	1,269,021	1,866,674	1,466,087	1,497,368	1,432,102	1,322,027	1,327,753	1,416,773	1,461,688	1,445,969
Public Libraries	2,118,188	2,201,879	2,170,235	2,213,977	2,249,446	2,040,754	2,225,556	2,438,439	2,293,340	2,295,731
Communications	113,732	166,105	262,258	279,964	246,026	228,044	237,896	280,361	285,390	289,648
Capital Outlay ⁴	3,888,311	-	-	-	-	-	-	-	-	-
Transfers Out	8,422,638	3,417,359	4,594,382	4,206,670	11,696,153	4,337,325	6,028,358	4,183,445	5,916,468	6,301,394
Total City Departments	78,898,389	78,922,675	86,183,728	92,466,994	106,811,680	101,607,803	109,682,192	112,115,276	114,131,491	119,351,260
Education (includes transfers out)	68,044,222	75,430,823	79,070,809	82,140,051	82,965,529	81,504,499	85,575,583	94,120,678	92,619,046	93,588,224
Debt service										
Principal	7,810,750	9,654,987	9,682,441	11,038,740	12,073,570	12,118,441	12,051,061	12,240,467	12,161,838	11,864,348
Interest	63,995,691	7,615,223	7,300,016	8,430,677	7,779,830	6,222,224	7,003,833	6,200,867	3,851,245	3,416,517
Total Debt Service	14,210,441	17,270,210	16,982,457	19,469,417	19,853,400	18,340,665	19,054,896	18,441,334	18,013,073	17,280,865
Intergovernmental	9,472,306	9,574,285	9,418,474	9,177,447	9,233,129	9,241,763	9,489,137	9,546,322	9,367,968	9,416,623
Total expenditures (includes transfers out)	\$ 170,625,358	\$ 181,197,993	\$ 191,655,498	\$ 203,273,909	\$ 218,863,738	\$ 210,694,730	\$ 223,201,808	\$ 234,221,610	\$ 234,131,578	\$ 239,636,972

Expenditures as a percentage of total

City Departments	46.2%	43.6%	45.0%	45.5%	48.8%	48.2%	48.9%	47.9%	48.7%	49.8%
Education	39.5%	41.6%	41.3%	40.4%	37.9%	38.7%	38.3%	40.2%	39.6%	39.1%
Debt service	8.3%	9.3%	8.9%	9.6%	9.1%	8.7%	8.5%	7.9%	7.7%	7.2%
Intergovernmental	5.6%	5.3%	4.9%	4.5%	4.2%	4.4%	4.3%	4.1%	4.0%	3.9%
Total	100.0%									

Expenditure Percentage Change

City Departments	7.7%	0.0%	9.2%	7.3%	15.5%	-4.9%	7.4%	10.3%	4.6%	6.5%
Education	3.6%	10.9%	4.8%	3.9%	1.0%	-1.8%	5.0%	15.5%	8.2%	-0.6%
Debt service	42.1%	21.5%	-1.7%	14.8%	1.9%	-7.6%	3.9%	0.5%	-5.5%	-6.3%
Intergovernmental	5.1%	1.1%	-1.6%	-2.6%	0.6%	0.1%	-2.7%	3.3%	-1.3%	-1.4%
Total	8.0%	6.3%	5.8%	6.1%	7.7%	-3.7%	5.9%	11.2%	4.9%	2.3%

Data Source:
Audited Internal City of Nashua Financial Statements and Audited Financial Statements

Notes:

¹ FY09 - Departments within the Administrative Services Division were reassigned to the Financial Services Division and Miscellaneous General Government functions.

² Information Technology separated from Administrative Services division in FY07.

³ Includes City-wide employee health and pension benefits.

⁴ Capital Outlay redistributed among applicable departments/divisions in FY03 and subsequent years.

City of Nashua, New Hampshire

Combined Enterprise Funds Revenue, Expenditures, Other Financing Sources and Uses and Change in Total Net Assets
Last Ten Fiscal Years

Fiscal Year	Revenue and Other Financing Sources			Expenses & Other Financing Uses			Total	Increase (Decrease) Total Net Assets	Contributed Capital	Total Net Assets
	Intergovernmental	Charges for Services	Transfers	Operations & Maintenance	Depreciation	Interest Expense				
2011	764,434	11,031,678	403,284	5,177,336	17,376,732	9,043,390	5,677,482	1,639,598	1,016,252	99,574,922
2010	1,394,420	11,310,759	293,093	3,383,092	16,985,366	9,902,650	5,874,516	1,170,767	27,933	98,331,851
2009	826,769	10,600,225	241,933	2,690,322	14,539,267	9,899,937	5,363,027	1,084,636	(1,788,333)	98,009,543
2008	1,059,579	11,642,137	621,303	2,697,663	16,020,882	10,187,447	4,631,222	1,128,983	73,280	96,983,587
2007	784,155	11,748,817	2,107,276	2,900,000	17,140,248	9,188,126	4,429,469	1,238,232	2,264,421	96,647,056
2006	2,813,045	13,050,184	1,620,491	1,400,652	18,884,372	10,609,849	4,607,965	1,394,558	2,280,000	94,382,635
2005	885,303	11,793,107	1,309,711	1,750,010	15,738,131	8,593,849	4,496,904	1,630,238	1,017,140	92,122,635
2004	2,693,496	11,770,493	1,926,319	25,000	16,415,308	8,674,040	4,104,296	1,215,136	2,421,836	91,105,495
2003	770,532	13,055,609	1,478,640	-	15,304,781	8,055,246	3,465,155	1,236,353	2,548,027	88,683,659
2002	656,042	14,369,824	1,339,994	-	16,365,860	7,623,736	2,752,945	1,358,369	3,645,774	72,028,791

Includes Wastewater and Solid Waste fund.

Wastewater Fund Revenue, Expenditures, Other Financing Sources and Uses and Change in Fund Equity
Last Ten Fiscal Years

Fiscal Year	Revenue and Other Financing Sources			Expenses & Other Financing Uses			Total	Increase (Decrease) Total Net Assets	Contributed Capital	Total Net Assets	
	Intergovernmental	Charges for Services	Transfers	Operations & Maintenance	Depreciation	Interest Expense					Transfers Out
2011	549,539	8,762,187	12,170	10,550	9,334,446	5,881,704	4,319,104	881,972	(1,748,334)	226,819	104,504,428
2010	1,163,913	8,969,303	18,992	10,152,208	10,152,208	5,987,223	4,438,309	344,610	(627,434)	294,375	106,025,943
2009	595,705	8,251,735	(10,990)	-	8,836,450	5,920,909	4,111,586	364,283	(1,560,328)	814,289	106,359,002
2008	540,960	8,449,653	292,271	-	9,282,884	5,558,151	3,592,752	412,852	(280,871)	2,263,301	107,105,041
2007	611,891	8,354,834	1,785,550	-	10,752,275	5,361,226	3,409,069	461,197	1,320,783	-	105,122,611
2006 ¹	2,756,730	8,650,837	1,352,095	-	12,760,062	6,661,219	3,605,550	509,440	1,977,853	-	103,801,828
2005	827,607	8,655,136	1,208,184	-	10,691,927	4,842,464	3,577,215	653,398	1,618,850	-	101,823,975
2004	2,619,424	8,869,848	1,861,535	25,000	13,375,807	4,320,947	3,484,478	680,769	4,889,613	-	100,205,125
2003 ²	710,089	10,092,100	1,378,834	-	12,181,023	4,498,465	3,141,829	750,626	3,790,103	-	95,315,512
2002 ³	525,662	10,961,185	1,106,699	-	12,593,546	4,194,512	2,502,042	777,619	4,140,802	-	77,418,568

Solid Waste Fund Revenue, Expenditures, Other Financing Sources and Uses and Change in Fund Equity
Last Ten Fiscal Years

Fiscal Year	Revenue and Other Financing Sources			Expenses & Other Financing Uses			Total	Increase (Decrease) Total Net Assets	Contributed Capital	Total Net Assets	
	Intergovernmental	Charges for Services	Transfers	Operations & Maintenance	Depreciation	Interest Expense					Transfers Out
2011	214,895	2,269,491	391,114	5,166,786	8,042,286	3,161,686	1,358,388	757,626	2,764,586	-	(4,929,506)
2010	230,507	2,341,456	276,103	3,983,092	6,833,158	3,915,427	1,436,207	826,157	6,553,67	-	(7,694,092)
2009	231,064	2,348,488	252,943	2,690,322	5,722,817	3,979,028	1,251,441	720,353	(228,005)	-	(8,349,459)
2008 ⁴	518,619	3,192,484	329,232	2,697,663	6,737,998	4,629,296	1,038,470	716,131	6,383,897	-	(8,121,454)
2007	172,264	3,393,983	321,726	2,400,000	6,387,973	3,626,900	1,020,400	797,035	5,444,335	-	(8,475,555)
2006	56,315	4,399,347	267,996	1,400,652	6,124,310	3,948,630	1,002,415	885,118	282,147	-	(9,419,193)
2005	57,696	3,137,971	100,327	1,750,010	5,046,204	3,751,385	919,689	976,840	(601,710)	-	(9,701,340)
2004	74,072	2,900,645	64,784	-	3,039,501	4,353,093	619,818	534,367	5,507,278	-	(9,099,630)
2003	60,443	2,963,509	99,806	-	3,123,758	3,556,781	323,326	485,727	(1,242,076)	-	(6,631,853)
2002 ⁴	130,380	3,408,639	233,295	-	3,772,314	3,429,224	250,903	580,750	(495,028)	-	(5,389,777)

Data Source: Audited Financial Statements

Notes:

- ¹ Operations & Maintenance expenses include a one-time charge of \$1,017,225 for asbestos contaminated soil removal.
- ² Storm drains were reclassified from General Infrastructure to Wastewater Fund Infrastructure.
- ³ Beginning Fund Balance restated due to correction of prior accrual.
- ⁴ Capitalization of additional or removal of fixed assets.
- ⁵ Operations & Maintenance expenses include \$1.2 million in current year and prior year (previously understated) landfill closure costs.
- ⁶ Landfill Regulatory Closure Fund, Solid Waste Loan Repayment Fund, and Solid Waste Equipment Reserve Fund were reclassified from Trust Funds to Solid Waste Enterprise Fund.

City of Nashua, New Hampshire

General Government Tax Revenues by Source

Last Ten Fiscal Years

Fiscal Year	Property Taxes	Current Use Penalties	Railroad Tax	Boat Tax	Yield Tax	Payment in Lieu of Tax	Excavation Tax	Tax Interest & Penalties	Total
2011	\$ 169,572,998	\$ 92,890	\$ 7,172	\$ -	\$ 2,654	\$ 130,243	\$ 1,041	\$ 787,463	170,594,460
2010	163,664,814	45,000	12,175	-	2,052	111,386	115	771,023	164,606,565
2009	161,465,821	73,130	2,389	-	1,257	118,117	139	731,810	162,392,663
2008	158,565,422	762,870	-	-	5,571	138,605	203	624,141	160,096,812
2007	155,452,947	238,430	7,731	-	13,535	116,182	1,037	488,548	156,318,410
2006	147,765,609	417,880	7,786	-	11,506	121,350	-	416,798	148,740,929
2005	140,333,946	246,830	6,486	-	4,614	126,508	984	406,407	141,125,776
2004	133,508,298	248,890	10,858	-	3,752	137,746	645	474,388	134,384,577
2003	127,223,114	720,438	15,479	-	2,277	175,489	2,520	795,883	128,935,201
2002	119,019,053	391,420	5,330	2,143	-	181,975	1,853	519,464	120,121,238

Data Source:
Audited Internal Financial Statements

City of Nashua, New Hampshire

Property Tax Levies and Collections Last Ten Fiscal Years

Fiscal Year	Property Tax Levied for Fiscal Year	Collected within the Fiscal Year of the Levy		Lien Amount Balance at Fiscal Year End of Levy Year	Subsequent Tax lien Collections	Balance at end of Current Fiscal year	Total Collections to Date		Number of Parcels		
		Amount	% of Levy				Amount	% of Levy	in Levy	Liened	% Liened
2011	170,706,403	168,303,403	98.6 %	2,403,272	539,882	1,863,350	168,843,413	98.9 %	27,992	671	2.4 %
2010	165,010,958	162,496,172	98.5	2,514,786	359,829	2,154,957	162,856,001	98.7	27,983	741	2.6
2009	162,492,774	160,152,238	98.6	2,340,536	337,289	2,003,247	160,489,527	98.8	28,004	738	2.6
2008	160,045,795	157,811,037	98.6	2,234,758	289,153	1,945,605	158,100,190	98.8	27,954	707	2.5
2007	156,687,784	154,976,500	98.9	1,711,284	236,234	1,475,050	155,212,734	99.1	27,446	539	2.0
2006	148,834,769	147,558,424	99.1	1,276,345	754,988	521,357	148,313,412	99.6	27,000	460	1.7
2005	140,619,078	139,086,811	98.9	1,532,267	1,389,676	142,591	140,476,487	99.9	26,824	421	1.6
2004	133,099,408	132,036,240	99.2	1,063,168	1,027,221	35,947	133,063,461	100.0	26,778	419	1.6
2003	127,036,624	125,750,773	99.0	1,285,851	1,269,463	16,388	127,020,236	100.0	26,698	471	1.8
2002	119,172,751	118,059,296	99.1	1,113,455	1,107,004	6,451	119,166,300	100.0	26,642	482	1.8

Data Source:

Audited Internal Financial Statements, Property Tax Warrants and Reports of Tax Lien Executions

Notes:

Once a lien is executed a taxpayer has 2 years and 1 day to redeem the taxes before a deed may be executed.

City of Nashua, New Hampshire

Assessed and Estimated Full Value of Real Property Last Ten Fiscal Years

Fiscal Year	Local Assessed Value ¹			Total Assessed Value	Less Exemptions to Assessed Value ¹	Total Taxable Assessed Value ¹	Total Direct Tax Rate per \$1,000 of Assessed Value	Estimated Full Value ²	Ratio of Total Assessed Value to Total Estimated Full Value
	Residential	Commercial/Industrial	Utilities						
2011	\$ 5,716,945,366	\$ 2,637,335,441	\$ 233,956,480	\$ 8,588,237,287	\$ 146,159,148	\$ 8,442,078,139	19.28	\$ 8,519,356,326	100.0
2010	5,696,232,358	2,626,290,983	214,500,880	8,537,024,221	147,658,598	8,389,365,623	18.70	8,575,136,081	98.6
2009	6,578,232,904	2,727,069,006	205,170,480	9,510,472,390	157,178,400	9,353,293,990	16.54	9,018,506,088	104.4
2008	6,553,746,660	2,715,276,344	182,868,180	9,451,891,184	170,666,650	9,281,224,534	16.39	9,358,505,782	100.0
2007	6,520,190,304	2,651,715,145	174,690,180	9,346,723,689	175,974,650	9,170,749,039	16.21	9,714,255,257	95.2
2006	6,472,850,667	2,666,131,229	173,339,680	9,312,321,576	158,734,700	9,153,586,876	15.33	9,297,862,943	99.2
2005	4,838,753,300	2,261,291,015	172,475,900	7,272,520,215	121,364,150	7,151,156,065	18.59	8,440,901,750	86.2
2004	3,489,423,200	1,964,785,883	148,146,200	5,602,355,283	90,503,875	5,511,851,408	22.69	8,023,468,897	69.8
2003	3,434,889,300	1,935,736,174	144,138,500	5,514,763,974	78,932,475	5,435,831,499	21.86	7,370,090,989	74.8
2002	3,382,541,900	1,885,837,010	142,733,900	5,411,112,810	79,098,375	5,332,014,435	20.75	6,539,029,408	82.7

Data Sources:

¹ State MS-1 Report of Assessed Values, and NHDRA website to conform with final residential values.

² NH Department of Revenue Administration's annual Equalization Survey including utilities and railroad.

Notes:

Residential values include value of land in current use.

City of Nashua, New Hampshire

Principal Taxpayers Current Year and Nine Years Ago

Taxpayer	Type of Business	Fiscal Year 2011 Assessed Value	Rank	Percentage of Total Assessed Value	Fiscal Year 2002 Assessed Value	Rank	Percentage of Total Assessed Value
Pleasant Lane Realty TR	Shopping Mall	\$ 143,796,408	1	1.69 %	\$ 94,500,000	1	1.74
Pennichuck Water Works Inc	Water Distributor	94,878,200	2	1.12	37,889,000	4	0.70
Public Service Co of NH	Utility	88,392,200	3	1.04	26,207,000	7	0.48
Aimco Royal Crest-Nashua LLC	Apartment Complex	81,595,500	4	1.04			
Southern New Hampshire	Hospital	52,974,200	5	0.62			
Energy North Natural Gas Inc.	Utility	50,407,700	6	0.59	41,099,500	3	0.76
BAE Systems info & Elec System	Electronics Manufacturer	43,073,700	7	0.51			
Nashua Oxford-Bay Associates	Real Estate	38,804,700	8	0.46	13,100,100	10	
Flatley, John J Company	Office /Land/Apis/Retail	37,794,600	9	0.44			
OCW Retail-Nashua LLC	Real Estate Investment Co.	34,976,700	10	0.41			
Thomas Flatley	Real Estate				55,254,900	2	1.02
Hi Point Realty	Real Estate				27,108,700	5	0.50
Digital Equipment Corporation	Computer Hardware				26,793,800	6	0.49
Somerset Apartments	Apartment Complex				11,178,000		0.21
RDG, Inc.	Real Estate				17,441,900	8	0.32
Vickery Realty	Real Estate				14,630,000	9	0.27
Total Principal Taxpayers		666,693,908		7.93 %	365,202,900		6.48
Total Net Assessed Taxable Value		\$ 8,497,688,561			\$ 5,435,992,099		

Data Source
City of Nashua Tax Warrant and State MS-1 Report

City of Nashua, New Hampshire

**Property Tax Rates per \$ 1,000 of Assessed Value
Direct and Overlapping Governments
Last Ten Fiscal Years**

Fiscal Year	City Direct Rates										Overlapping Rate	Total	Estimated Full Value Rate
	Budgetary Use of Fund Balance		Local School		State School		Total School		Total Direct				
	City	Total City	Local School	Total School	State School	Total School	Local School	Total Direct					
2011	\$ 7.87	\$ 4,300,000	7.87	\$ 9.03	\$ 2.38	\$ 11.41	\$ 19.28	\$ 20.40	\$ 20.15	1.12	\$ 20.40	\$ 20.15	
2010	7.91	4,700,000	7.91	8.37	2.42	10.79	18.70	19.82	19.33	1.12	19.82	19.33	
2009	6.50	2,903,333	6.50	7.79	2.25	10.04	16.54	17.55	18.15	1.01	17.55	18.15	
2008	6.73	-	6.73	7.39	2.27	9.66	16.39	17.40	17.21	1.01	17.40	17.21	
2007	6.17	4,500,000	6.17	7.70	2.34	10.04	16.21	17.20	16.20	0.99	17.20	16.20	
2006 ¹	5.06	19,004,860	5.06	7.77	2.50	10.27	15.33	16.32	16.02	0.99	16.32	16.02	
2005	6.80	8,250,000	6.80	8.33	3.46	11.79	18.59	19.85	16.75	1.26	19.85	16.75	
2004	8.88	5,400,000	8.88	7.91	5.90	13.81	22.69	24.37	16.63	1.68	24.37	16.63	
2003	8.51	3,265,000	8.51	7.36	5.99	13.35	21.86	23.60	17.29	1.74	23.60	17.29	
2002	7.82	1,125,000	7.82	6.76	6.17	12.93	20.75	22.50	18.21	1.75	22.50	18.21	

Data Source:
NH State Department of Revenue Administration

Notes:

¹ \$8 million of this amount offsets an \$8 million appropriation in FY06 to re-establish a school Capital Reserve Fund.

City of Nashua, New Hampshire

Utility Fund Net Budget, Billable Volumes and Rates
 Last Ten Fiscal Years

Fiscal Year	Amount to be Raised by Rates		Billable Volume Used for Setting Rates		Rates per HCF	
		Sewer		Sewer ¹		Sewer
2011	\$	10,062,265		4,855,854,335	\$	1.55
2010		9,956,152		4,804,646,255		1.55
2009		8,542,200		5,237,348,852		1.22
2008		8,290,000		5,082,721,311		1.22
2007		8,158,000		5,001,790,164		1.22
2006		8,158,000		5,001,790,164		1.22
2005		8,165,000		5,006,081,967		1.22
2004		10,110,000		6,198,590,164		1.22
2003		9,990,000		6,125,016,393		1.22
2002		10,589,000		4,742,857,485		1.67

Data Source:
 City of Nashua Budget and Budget Resolutions

Notes:
¹ Volumes based on revenue divided by rate per 100 cubic feet.

City of Nashua, New Hampshire

Nashua's Share of the Hillsborough County Tax Apportionment

Last Ten Fiscal Years

(based on percentage of equalized value)

Tax Year	Total Equalized Values			Apportionment of County Tax Levy			Fiscal Year	County Tax Levy	Nashua's Share	Nashua's Share \$ Change	Nashua's Share % Change
	Nashua	County	Nashua's %	Nashua's Share	Nashua's Share \$ Change	Nashua's Share % Change					
2011	\$ 8,519,356,326	\$ 39,269,708,789	21.6945 %	9,416,623	48,655	0.01 %	2011	\$ 44,109,838	9,416,623	48,655	0.01 %
2010	8,575,136,081	40,168,096,310	21.3481	9,367,968	(178,354)	(0.02)	2010	44,720,387	9,367,968	(178,354)	(0.02)
2009	9,018,506,088	43,052,141,297	20.9479	9,546,322	57,185	0.60	2009	45,633,047	9,546,322	57,185	0.60
2008	9,358,505,782	44,735,255,285	20.9198	9,489,137	247,374	2.68	2008	44,400,065	9,489,137	247,374	2.68
2007	9,714,255,257	45,453,407,212	21.3719	9,241,763	8,635	0.09	2007	43,779,760	9,241,763	8,635	0.09
2006	9,297,862,943	44,045,516,136	21.1097	9,233,128	55,681	0.61	2006	43,487,679	9,233,128	55,681	0.61
2005	8,440,901,750	39,756,319,650	21.2316	9,177,447	(241,027)	(2.56)	2005	40,917,396	9,177,447	(241,027)	(2.56)
2004	8,023,468,897	35,772,416,479	22.4292	9,418,474	(155,811)	(1.63)	2004	40,233,427	9,418,474	(155,811)	(1.63)
2003	7,370,090,989	31,483,236,852	23.4096	9,574,285	101,979	1.08	2003	40,421,656	9,574,285	101,979	1.08
2002	6,539,029,048	27,607,114,973	23.6860	9,472,306	457,472	5.07	2002	39,912,619	9,472,306	457,472	5.07

Data Source:
NH Department of Revenue Administration

City of Nashua, New Hampshire

Ratios of Long Term Debt Outstanding and Legal Debt Limits
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt at June 30										
General Obligation Debt	\$ 29,598,357	\$ 27,868,094	\$ 27,565,652	\$ 25,742,467	\$ 23,901,229	\$ 32,970,385	\$ 30,544,656	\$ 28,096,205	\$ 25,644,190	\$ 29,310,621
City Depts.	126,294,636	118,796,632	156,748,591	148,568,036	138,135,704	129,863,111	120,177,775	110,365,580	100,595,773	91,064,992
School Dept.	153,892,993	146,664,726	184,314,243	174,110,503	162,036,933	162,833,496	150,727,431	138,461,785	126,239,963	120,375,613
Total General Fund										
Solid Waste Fund ¹	295,000	291,802	262,893	233,982	205,391	177,336	149,818	7,387,890	6,851,332	6,315,222
General Obligation Debt	18,420,047	21,517,224	21,505,447	21,576,755	20,400,320	19,154,055	17,907,784	16,661,514	15,415,257	14,168,989
State Revolving Loan Funds										
Wastewater Fund	5,462,007	4,908,472	4,332,865	3,750,515	3,167,677	2,584,171	2,007,752	1,445,326	883,710	514,167
General Obligation Debt	8,764,138	8,302,867	7,841,597	7,380,326	6,919,056	6,457,788	5,996,515	5,535,245	19,773,978	18,577,707
State Revolving Loan Funds	32,941,192	33,020,365	33,942,802	32,941,580	30,692,444	28,373,350	26,061,869	31,029,975	42,924,277	39,576,085
Total Enterprise Funds										
Total Debt at June 30	\$ 188,834,185	\$ 181,685,091	\$ 218,257,045	\$ 207,052,083	\$ 192,729,377	\$ 191,206,846	\$ 176,784,300	\$ 169,491,760	\$ 169,164,240	\$ 159,951,698
Base Value for Debt Limits	\$ 6,667,786,319	\$ 7,505,206,241	\$ 8,167,360,524	\$ 8,584,525,785	\$ 9,438,642,749	\$ 9,861,998,165	\$ 9,497,984,632	\$ 9,150,834,250	\$ 8,574,513,075	\$ 8,519,004,742
Legal Debt Limits (% of Base Value)										
City - 2% ²	133,355,766	150,104,125	163,347,210	171,690,516	188,772,855	197,239,963	189,959,693	183,016,685	171,490,262	170,380,095
School - 6% ²	400,067,299	450,312,374	490,041,631	515,071,547	566,318,565	591,719,890	569,879,078	549,030,055	514,470,785	511,140,285
Debt Against Legal Debt Limits										
City Depts.	29,598,357	27,868,094	27,565,652	25,742,467	23,901,229	32,970,385	30,544,656	28,096,205	25,644,190	29,310,621
School Dept.	126,294,636	118,796,632	156,748,591	148,568,036	138,135,704	129,863,111	120,177,775	110,365,580	100,595,773	91,064,992
Exempt from Legal Debt Limits	32,941,192	33,020,365	33,942,802	32,941,580	30,692,444	28,373,350	26,061,869	31,029,975	42,924,277	39,576,085
Total Debt at June 30	\$ 188,834,185	\$ 181,685,091	\$ 218,257,045	\$ 207,052,083	\$ 192,729,377	\$ 191,206,846	\$ 176,784,300	\$ 169,491,760	\$ 169,164,240	\$ 159,951,698
Unused Capacity of Legal Debt Limits										
City Depts.	\$ 103,757,409	\$ 122,236,031	\$ 135,781,558	\$ 145,948,049	\$ 164,871,626	\$ 164,269,578	\$ 159,415,037	\$ 154,920,480	\$ 145,846,072	\$ 141,069,474
School Dept.	273,772,663	331,515,742	333,293,040	366,703,511	428,182,861	461,856,779	449,701,303	438,684,475	413,875,012	420,075,293
% of Legal Debt Limits Used										
City Depts.	22.2%	18.6%	16.9%	15.0%	12.7%	16.7%	16.1%	15.4%	15.0%	17.2%
School Dept.	31.6%	26.4%	32.0%	28.8%	24.4%	21.9%	21.1%	20.1%	19.6%	17.8%
Data Source:										
Audited Financial Statements										
N.H. Department of Revenue Administration										

Notes:
¹ Excludes \$3,375,000 in BANS issued 01/1996 for Landfill Closure; matured 10/1997. Subsequently financed through State Revolving Loan funds.
² City imposed more restrictive limits (2% City, 6% School) than state statute allows (3% City, 7% School).

Ratios of Outstanding Debt by Debt Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities - General Obligation Debt				Tax Supported Debt	% of Net Debt to Assessed Value	Tax Supported Debt per capita
	City Depts.	School Dept.	Total	Less Est. State School Aid			
2011	\$ 29,310,621	\$ 91,064,992	120,375,613	27,319,498	93,056,115	1.1 %	1,082
2010	25,644,190	100,595,773	126,239,963	30,178,732	96,061,231	1.1	1,092
2009	28,096,205	110,365,580	138,461,785	33,109,674	105,352,111	1.1	1,213
2008	30,544,656	120,177,775	150,722,431	36,053,333	114,669,099	1.2	1,324
2007	32,970,385	129,863,111	162,833,496	38,958,933	123,874,563	1.4	1,433
2006	23,901,230	138,135,705	162,036,935	41,440,712	120,596,224	1.3	1,393
2005	25,742,467	148,368,036	174,110,503	44,510,411	129,600,092	1.4	1,496
2004	27,565,652	156,748,591	184,314,243	47,024,577	137,289,666	1.9	1,581
2003	27,868,094	118,796,632	146,664,726	35,638,990	111,025,736	2.0	1,278
2002	29,598,357	126,294,636	155,892,993	37,888,391	118,004,602	2.2	1,350

Fiscal Year	Business-Type Activities - General Obligation Debt and State Revolving Fund Loans				Net Debt	Net debt per capita	% of Personal Income
	Solid Waste Fund	Wastewater Fund	Total	Less Est. State Aid ¹			
2011	20,484,211	19,091,874	39,576,085	3,073,796	36,502,289	424	1.2 %
2010	22,266,589	20,657,688	42,924,277	3,418,197	39,506,081	449	1.4
2009	24,049,404	6,980,571	31,029,975	3,801,055	27,228,920	314	0.9
2008	18,057,602	8,004,267	26,061,869	3,406,614	22,655,255	262	0.8
2007	19,331,391	9,041,959	28,373,350	3,741,531	24,631,819	285	0.8
2006	20,605,711	10,086,733	30,692,444	4,077,918	26,614,526	307	0.9
2005	21,810,738	11,130,842	32,941,580	4,407,242	28,534,338	329	1.0
2004	21,768,340	12,174,462	33,942,802	4,611,726	29,331,076	338	1.1
2003	21,809,026	13,211,339	35,020,365	4,823,170	30,197,195	348	1.2
2002	18,715,047	14,226,144	32,941,191	4,716,734	28,224,458	323	1.2

Fiscal Year	Total Primary Government	Less State Aid	Net Debt	% of Net Debt to Assessed Value	Net Debt per capita	% of Personal Income
2011	159,951,698	30,393,294	129,558,405	1.5 %	1,506	4.4 %
2010	169,164,240	33,596,928	135,567,312	1.6	1,541	4.6
2009	169,491,760	36,910,729	132,581,031	1.4	1,527	4.6
2008	176,784,300	39,459,946	137,324,354	1.5	1,586	4.6
2007	191,206,846	42,700,464	148,506,382	1.6	1,718	5.0
2006	192,729,379	45,518,630	147,210,749	1.6	1,700	5.0
2005	207,052,083	48,917,653	158,134,430	1.7	1,826	5.7
2004	218,257,045	51,636,304	166,620,741	2.3	1,919	6.4
2003	181,685,091	40,462,160	141,222,931	2.6	1,626	5.8
2002	188,834,184	42,605,124	146,229,060	2.7	1,673	6.3

Data Source:
 Audited Financial Statements
 U.S. Census Bureau
 Assessors Department MS-1 Report

Notes:

¹ The State of NH has suspended the State Aid Grant (SAG) program relating to debt issued after 7/1/2008

City of Nashua, New Hampshire

**Computation of Overlapping Debt
Hillsborough County Long Term Debt
Last Ten Fiscal Years**

End of Fiscal Year	Net General Obligation Debt	Percentage Applicable to Government ²	Amount Applicable to Government
	Outstanding ¹		
2011	-	21.6945 %	-
2010	-	21.3481	-
2009	-	20.9479	-
2008	-	20.9198	-
2007	-	21.3719	-
2006	-	21.1097	-
2005	-	21.2316	-
2004	-	22.4292	-
2003	-	23.4096	-
2002	1,445,500	23.6860	34,238,154

Data Sources:

¹ Hillsborough County Audited Financial Statements at fiscal year end including interest, does not include leases.

² NH Department of Revenue Administration.

City of Nashua, New Hampshire

Demographic Statistics Last Ten Fiscal Years

Fiscal Year	Population ¹	Median Family Income ²	Per Capita Income ²	City ³		Unemployment Rates		
				Unemployed	Labor Force	City ³	State of NH ⁴	US ⁴
2011	86,038	\$ 65,135	\$ 34,587	2,990	49,409	6.1 %	5.4 %	9.3 %
2010	86,494	80,889	33,197	3,637	49,224	7.2	6.7	9.8
2009	87,555	81,071	33,352	2,730	49,287	5.5	5.1	7.6
2008	87,073	84,011	34,561	1,905	49,804	3.8	4.0	5.8
2007	86,904	83,006	34,014	1,871	49,612	4.0	3.6	4.6
2006	86,856	80,211	32,731	1,972	49,179	4.0	3.5	4.6
2005	86,771	79,087	31,999	2,005	49,267	4.2	3.6	5.1
2004	86,947	78,900	30,016	2,191	48,880	5.1	3.9	5.5
2003	86,931	77,800	28,317	2,642	48,806	5.6	4.5	6.0
2002	87,465	71,100	26,878	2,821	49,041	5.3	4.5	5.8

Data Sources:

¹ FY2001-2009 population estimates derived from U.S. Census Bureau, Population Division data.

FY2010 population projection - New Hampshire Office of State Planning.

² FY2001-2004 from HUD User Policy Development and Research Information Service.

FY2005-2010 obtained from "Editor & Publisher Market Guide", The Editor & Publisher Co.

³ Unemployment and Labor Force data for City obtained from NH Economic and Labor Market Data Information System - fiscal year annual averages are not seasonally adjusted.

⁴ US Bureau of Labor Statistic - fiscal year annual averages are not seasonally adjusted.

City of Nashua, New Hampshire

Principal Employers

Current Year and Nine Years Ago

Employer	Type of Business	2011			2002		
		Employee	Rank	Percentage of Total City Employment	Employee	Rank	Percentage of Total City Employment
BAE Systems ¹	Aerospace/Electronics	2,840	1	6.16 %	2,600	1	5.64 %
Southern New Hampshire Medical Center	Hospital	2,184	2	4.73	1,792	3	3.88
Nashua School District	Schools	1,582	3	3.43	1,581	5	3.43
St. Joseph Hospital and Trauma Center	Hospital	1,936	4	4.20	1,917	2	4.16
City of Nashua	City Government	818	5	1.77	799	6	1.73
Federal Aviation Administration	Air Traffic Control	565	6	1.22	500	8	1.08
Benchmark electronics	Hi-tech manufacturing	379	7	0.82	-	-	-
US Post Office	Postal Service	477	8	1.03	550	7	1.19
Oracle Corporation	Software	523	9	1.13	382	9	-
Amphenol ²	Backplane Connection Systems	477	10	1.03	1,630	4	3.53
Compaq Computer Corp. ³	Computer Software/Hardware				500	8	1.08
Total Principal Employers		11,781		25.54 %	12,251		25.73 %
Total City Employment		49,409			46,136		

Data Source:
New Hampshire Business Review - Book of Lists

Notes:

- 1 Previously identified as Sanders, a Lockheed Martin Company.
- 2 Previously identified as Teradyne Connection Systems Inc. (TER)
- 3 Previously identified as Digital Equipment Corp. (DEC)

City of Nashua, New Hampshire

Operating Indicators by Function
Last Ten Fiscal Years

Function	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Finance										
Taxable property parcels assessed	26,698	26,778	26,824	27,062	27,151	27,446	27,094	27,968	27,983	27,992
Property transfers processed ¹	2,200	2,200	2,200	2,200	2,200	2,379	1,918	2,087	2,351	1,946
Motor vehicles registered	90,156	90,746	89,328	89,816	90,503	87,985	87,999	82,324	85,379	83,606
Planning - Inspection Division										
Building inspections	9,813	10,022	10,250	*	8,405	7837	6,475	6,057	5,300	6,571
Estimated construction value in millions	159.5	68.8	103.6	*	125	164	84	54.7	123	101
Police²										
Physical arrests	3,850	3,902	4,199	4,117	4,519	4,111	4,411	4,157	4,335	3,230
Traffic violations	6,513	7,230	10,176	26,204	23,473	18,391	31,727	32,275	32,786	24,997
Parking violations	28,432	37,030	38,499	31,967	34,237	28,170	25,509	24,612	24,217	22,528
Fire and Rescue										
Calls answered	6,353	6,733	7,007	7,373	7,801	7,691	7,744	8,312	9,318	9,847
Emergency responses	3,107	3,356	3,528	3,689	3,777	3,940	4,019	4,053	4,503	5,678
Fires extinguished	326	281	329	304	300	317	370	450	540	648
Number of inspections conducted		76	52	27	66	104	149	519	1,612	1,634
Emergency medical responses	2,222	2,354	2,563	2,726	2,875	3,025	3,086	3,974	4,503	4,781
Public Works										
Refuse collected (tons) ³	72,389	65,883	64,547	55,157	54,475	59,325	58,315	57,111	53,762	50,534
Recycling (tons) ⁴	10,845	13,199	13,979	10,878	11,200	9,106	12,301	17,884	17,490	11,451
Streets resurfaced (miles)	13.1	10.8	10.4	8.3	7.9	10.2	4.2	3.3	5.9	5.0
Potholes repaired	*	753	1,152	818	717	1,024	1,178	1,077	1,385	1,412
Wastewater System										
Daily average treatment (millions of gallons)	11.5	12.7	11.9	12.9	14.2	12.1	11.7	12.2	11.9	10.3
Public Library										
Items in collection ⁵	230,000	240,000	245,000	257,147	243,724	240,496	263,974	269,427	263,462	263,462
Items circulated	359,251	434,286	559,411	657,413	692,939	731,274	798,704	810,573	817,953	769,606
Public Health-Environmental Health										
Food service establishment inspections	*	*	*	*	*	*	1,506	1,357	1,619	1,565
Residential inspections	*	*	*	*	*	*	117	26	31	17
Pools/spas sampled	*	*	*	*	*	*	254	114	147	141
Public Health-Welfare/Assistance										
General assistance	1,356,287	1,900,474	1,679,242	1,360,418	1,281,992	1,044,358	1,281,992	1,192,483	857,843	693,291
Number of contacts	5,913	7,621	8,613	9,817	12,066	11,268	11,410	13,257	11,440	11,373
Applicants	1,849	2,145	2,117	2,052	5,206	2,232	2,137	1,329	2,160	2,084
Interviews	*	5,919	5,348	5,332	5,206	5,182	4,336	4,839	3,906	3,572
Assisted cases	3,977	4,737	4,099	3,476	3,693	3,427	2,937	3,371	2,600	2,260
Public Health-Community Health/Clinic Services										
Childhood immunizations	*	*	*	*	*	*	499	418	1,401	507
Adult influenza vaccinations	*	*	*	*	*	*	1,365	1,770	1,917	1,407
Outreach clients	*	*	*	*	*	*	326	523	503	502
Clinic counseling and testing	*	*	*	*	*	*	1,091	1,045	910	922

Data Source:
Various city departments

Notes:

- Based on an estimate per the City of Nashua, Assessing Department.
- Police data is based on a calendar year. The current year's data is for January through October 15, 2010.
- Refuse consists of residential, commercial, and industrial municipal solid waste (MSW) by calendar year; 2005 data is year-to-date through October.
- Recycling consists of mixed paper, mixed containers, scrap metal, soft yard waste, auto tires and batteries by calendar year; 2005 data is year-to-date through October.
- 2003-2004 data for Public Library-Items in collection are based on an estimate due to change in data gathering process.

* Data unavailable for these years.

City of Nashua, New Hampshire

Capital Asset Statistics by Function Last Ten Fiscal Years

Function	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police										
Number of stations	1	1	1	1	1	1	1	1	1	1
Number of patrol units	35	35	35	35	35	35	35	35	35	35
Fire and Rescue										
Number of stations	7	7	7	7	7	7	7	7	7	7
Number of ladder trucks	4	4	4	4	4	4	4	4	4	4
Number of pumps	8	8	8	8	8	8	8	8	8	8
Number of support vehicles	25	25	25	25	25	25	25	25	25	25
Public Works										
Miles of streets	*	*	*	322	322	322	323	343	344	344
Miles of storm drains	*	*	*	130.0	130.8	131.0	131.1	133.0	133.6	133.9
Number of traffic lights	76	78	78	80	84	85	87	92	92	92
Number of bridges	18	18	18	19	19	19	19	19	19	19
Culture and Recreation										
Number of Parks	47	47	48	49	49	49	50	51	52	52
Park acreage	632	632	632	632	632	632	688	930	931	931
Playgrounds	24	24	24	24	24	24	24	24	24	24
Baseball fields	27	27	27	27	27	27	27	27	27	27
Softball fields	12	12	12	12	12	12	12	12	12	12
Football fields	3	3	3	3	3	3	3	3	3	3
Soccer fields	14	14	14	14	14	14	14	14	14	14
Swimming pools	3	3	3	3	3	3	3	3	3	3
Tennis courts	17	17	17	17	17	17	17	17	17	17
Sewage System										
Miles of sanitary sewers	*	*	*	285.0	285.3	285.7	285.7	285.7	285.7	285.7
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Number of service connections	21,689	21,902	22,120	22,349	22,408	22,669	22,782	22,955	22,993	23,074
Average Daily Flow (MGD)	11.5	12.7	11.9	12.9	14.2	12.1	11.7	12.2	11.9	10.3
Maximum daily capacity of treatment (MGD) dry weather	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Maximum daily capacity of treatment (MGD) wet weather	50.0	50.0	50.0	50.0	50.0	50.0	50.0	110.0	110.0	110.0
Education										
Elementary School Buildings	12	12	12	12	12	12	12	12	12	12
Middle School Buildings	3	4	4	4	4	4	4	4	4	3
High School Buildings	1	2	2	2	2	2	2	2	2	2

Data Source:
Various city departments

* Data unavailable for these years.

City of Nashua, New Hampshire

City Government Employees by Division - Full Time Equivalents
Last Ten Fiscal Years

Division	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government Division										
Mayor's Office	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.0	6.0	6.0
Legal	5.0	5.0	5.0	4.9	4.9	4.9	4.9	5.0	4.9	5.0
Board of Aldermen	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Citistat	-	-	-	-	-	-	-	2.0	2.0	2.0
Employee Benefits	-	-	-	-	-	-	-	1.8	2.8	3.2
Office of the City Clerk	7.5	6.8	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.0
Human Resources	3.9	3.9	3.9	3.9	3.9	3.9	3.9	4.1	4.1	3.7
Total General Government	23.1	22.4	22.6	22.5	22.6	22.6	22.6	25.6	28.6	27.6
Financial Services Division										
Finance	31.8	30.8	30.5	31.0	30.6	31.4	31.4	31.3	31.0	32.0
Risk Management	5.0	5.0	4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Purchasing	5.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Building Maintenance	4.6	5.6	5.6	5.6	5.6	5.6	4.6	4.6	4.6	4.6
Hunt Building	-	-	-	-	-	-	-	0.5	0.5	0.5
Assessing	11.0	12.0	10.0	11.0	11.0	11.0	10.0	10.0	10.0	10.0
Total Financial Services	57.4	57.4	54.1	56.6	56.2	57.0	55.0	55.4	55.1	56.1
Administrative Services Division¹										
	1.6	1.9	1.5	1.9	1.9	1.9	1.9	-	-	-
Information Technology Division²										
	10.0	10.0	8.0	9.0	9.0	13.0	12.0	13.0	12.0	13.0
Public Safety Division										
Police	232.6	236.9	236.9	238.9	240.0	248.0	248.1	248.6	236.9	241.9
Fire	178.0	178.0	181.6	181.6	176.0	174.0	176.0	176.0	175.0	175.0
Communications	-	-	-	-	-	-	-	1.8	1.8	1.8
Total Public Safety	410.6	414.9	418.5	420.5	416.0	422.0	424.1	426.4	413.7	418.7
Public Health & Community Services Division										
Community Services	7.1	7.1	8.6	7.5	7.8	7.8	8.0	8.3	6.9	6.1
Community Health	16.6	13.4	11.3	10.4	8.6	10.4	10.3	10.3	9.7	8.9
Environmental Health	5.6	6.0	6.0	6.0	6.0	7.0	7.0	7.0	6.0	6.0
Welfare	5.5	6.0	8.0	7.8	6.9	7.9	7.9	7.4	7.4	7.0
Total Health & Comm. Services	34.8	32.6	33.9	31.6	29.3	33.1	33.2	32.9	29.9	28.0
Public Works Division										
Admin/Engineering	19.0	19.0	18.0	19.0	16.0	17.0	14.0	14.0	14.0	14.0
Parks & Recreation	26.0	28.0	29.0	29.0	29.0	27.0	28.0	36.0	28.0	27.0
Streets	65.0	67.0	63.0	61.0	56.0	59.5	58.0	57.5	56.5	55.5
Traffic	9.0	9.0	8.0	10.0	10.0	10.0	10.0	10.0	9.5	9.5
Parking	-	1.0	2.0	2.0	1.0	1.0	1.0	1.0	2.5	3.1
Wastewater	26.0	28.0	30.0	31.0	35.0	31.0	35.0	35.0	35.0	35.0
Solid Waste	39.0	39.0	37.0	33.0	33.0	31.5	31.5	31.5	30.5	30.0
Total Public Works	184.0	191.0	187.0	185.0	180.0	177.0	177.5	185.0	176.0	174.1
Community Development Division³										
Community Development	2.0	2.0	2.0	2.4	2.3	2.3	2.0	2.0	2.0	2.2
Planning	8.0	8.0	8.0	7.6	7.6	8.0	8.0	8.0	8.0	8.0
Office of Economic Development	1.0	1.0	1.0	1.4	1.4	1.4	1.4	1.5	1.5	1.5
Urban Programs	6.0	6.0	6.0	6.0	6.0	7.0	11.0	11.0	10.0	3.5
Building	9.0	9.0	10.0	10.0	10.0	10.0	10.0	9.3	9.3	8.2
Code Enforcement	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Total Community Development	29.0	29.0	30.0	30.4	30.3	31.7	35.4	34.8	33.8	26.4
Public Services										
Edgewood Cemetery	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Woodlawn Cemetery	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Total Public Services	8.0	8.0	8.0	7.0	8.0	8.0	8.0	8.0	8.0	8.0
Library Department										
	50.7	50.4	47.5	48.5	45.8	45.8	45.8	45.2	44.5	41.5
School Department										
Teachers	795.0	821.0	830.0	838.0	821.0	824.0	830.0	834.0	800.0	793.0
Other staff	786.0	849.0	839.0	867.0	856.0	850.0	862.0	817.2	811.0	788.7
Total School Department	1,581.0	1,670.0	1,669.0	1,705.0	1,693.0	1,674.0	1,692.0	1,651.2	1,611.0	1,581.7
Total All Functions	2,390.1	2,487.6	2,480.2	2,518.0	2,492.1	2,486.1	2,507.5	2,477.5	2,412.5	2,375.1
Percent of Total										
General Government Division	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	1.2%	1.2%
Financial Services Division	2.4%	2.3%	2.2%	2.2%	2.3%	2.3%	2.2%	2.2%	2.3%	2.4%
Administrative Services Division	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%
Information Technology Division	0.4%	0.4%	0.3%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%
Public Safety Division	17.2%	16.7%	16.9%	16.7%	16.7%	17.0%	16.9%	17.2%	17.1%	17.6%
Public Health & Community Services Division	1.5%	1.3%	1.4%	1.3%	1.2%	1.3%	1.3%	1.3%	1.2%	1.2%
Public Works Division	7.7%	7.7%	7.5%	7.3%	7.2%	7.1%	7.1%	7.5%	7.3%	7.3%
Community Development Division	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%	1.4%	1.4%	1.4%	1.1%
Public Services Division	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Library Department	2.1%	2.0%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%	1.7%
School Department	66.1%	67.1%	67.3%	67.7%	67.9%	67.3%	67.3%	66.6%	66.8%	66.6%
Total	100.0%									

Data Source

City of Nashua Budget. Full time equivalent based on 40 hours per week

Notes:

¹ The Administrative Services Division was dissolved in FY2009 with departmental functions reassigned to the Financial Services and General Government Divisions.

² Information Technology was established as a new Division during FY2007.

³ Community Development Division was reorganized in FY2002.

City of Nashua, New Hampshire

Student/Teacher Statistical Information
Last Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005 ¹	2006	2007	2008	2009	2010	2011
Student Enrollment:										
Elementary	7,456	7,227	7,028	5,702	5,469	5,378	5,486	5,592	5,632	5,633
Middle School	3,096	3,233	3,230	3,287	3,240	3,076	2,768	2,632	2,575	2,646
High School	2,867	2,997	3,081	4,236	4,274	4,258	4,261	4,122	4,178	3,887
Total	13,419	13,457	13,339	13,225	12,983	12,712	12,515	12,346	12,385	12,166
Teacher FTEs:²										
Elementary	420	417	415	359	339	340	345	331	317	317
Middle School	201	213	213	215	214	214	213	212	200	193
High School	147	155	164	226	230	230	232	259	250	250
District-wide	28	36	38	38	38	40	40	32	33	33
Total	795	821	830	838	821	824	830	834	800	793

Data Source:
Nashua School District

Notes:

- ¹ Data reflects the transition of 6th grade moving from elementary to middle school and 9th grade moving from middle to high school.
- ² The distribution among teachers by grade level is an estimate.

City of Nashua, New Hampshire

School Department Operating Statistics

Last Ten Fiscal Years

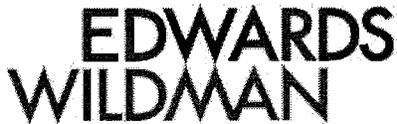
Fiscal Year	Operating Budget ¹	Debt Service ¹	Total Budget	Enrollment	Cost per Pupil	Percentage Change	Teaching Staff	Pupil/Teacher Ratio
2011	93,425,591	13,729,566	107,155,157	12,166	8,808	6.9 %	793	15.3
2010	87,630,820	14,384,073	102,014,893	12,385	8,237	0.8	800	15.5
2009	86,025,543	14,818,757	100,844,300	12,346	8,168	3.4	834	14.8
2008	83,554,436	15,273,288	98,827,724	12,515	7,897	3.3	830	15.1
2007	80,791,428	16,377,196	97,168,624	12,712	7,644	-0.6	824	15.4
2006	83,101,595	16,776,199	99,877,794	12,983	7,693	4.3	821	15.8
2005	81,545,643	16,014,196	97,559,839	13,225	7,377	9.7	838	15.8
2004	76,210,800	13,455,535	89,666,335	13,339	6,722	3.2	830	16.1
2003	73,763,630	13,869,625	87,633,255	13,457	6,512	10.1	821	16.4
2002	68,656,687	10,735,676	79,392,363	13,419	5,916	9.9	795	16.9

Data Source:

Budget information from City Adopted Budget and non-financial information provided by the School Department.

Notes:

¹ Budget is for the General Fund only and excludes grant funds and food services.



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(Date of Delivery)

David Fredette, City Treasurer
City of Nashua
Nashua, New Hampshire

\$150,570,000
City of Nashua, New Hampshire
Pennichuck Corporation Acquisition Bonds
(Federally Taxable)
Dated January 25, 2012

We have acted as bond counsel to the City of Nashua, New Hampshire (the "City") in connection with the issuance by the City of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the City contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the City and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the City without limitation as to rate or amount; provided that, to the extent the City has established any development districts pursuant to Chapter 162-K of the New Hampshire Revised Statutes Annotated, taxes levied on certain taxable property located within any such district may be restricted and unavailable to pay the principal of and interest on the Bonds.

2. Interest on the Bonds is included in the gross income of the owners of the Bonds for federal income tax purposes. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

3. The interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. We express no opinion regarding any other New Hampshire tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than New Hampshire.



This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

This opinion is not intended or written by Edwards Wildman Palmer LLP to be used and cannot be used by you for the purpose of avoiding penalties that may be imposed under federal tax law in connection with the Bonds.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Wildman Palmer LLP

BOS111 12663733.1

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Nashua, New Hampshire (the "Issuer") in connection with the issuance of \$150,570,000 General Obligation Pennichuck Corporation Acquisition Bonds (Federally Taxable) dated January __, 2012 (the "Bonds"). The Issuer covenants and agrees, to the extent permitted by law, as follows:

SECTION 1 Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2 Definitions. The following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Dissemination Agent" shall mean the City Treasurer of the Issuer or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

"Owners of the Bonds" shall mean the registered owners, including beneficial owners, of the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3 Provision of Annual Reports

(a) Commencing with the fiscal year ending in 2012, the Issuer shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2012, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, however, that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report when available. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(a).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer).

(c) If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB in substantially the form attached as Exhibit B.

(d) The Dissemination Agent shall, to the extent information is known to it, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate and stating the date it was provided.

SECTION 4 Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) Quantitative information for the preceding fiscal year of the type provided in the Issuer's Official Statement relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget; (ii) capital expenditures; (iii) fund balances; (iv) property tax information (including assessed valuations, tax rates and tax levies, tax levy calculations, tax collections and largest taxpayers); (v) outstanding indebtedness, overlapping debt and debt ratios of the Issuer and (vi) pension obligations and other post-employment benefit obligations of the Issuer.

(b) The audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a), the Annual Report will include unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when available.

Any and all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which: (i) are available to the public on the MSRB internet website; or (ii) have been filed with

the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5 Reporting of Significant Events.

(a) The Issuer shall give notice, in accordance with subsection 5(b) below, of the occurrence of any of the following events with respect to the Bonds:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. modifications to rights of the Owners of the Bonds, if material;
8. Bond calls, if material;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Bonds, if material;
11. rating changes;
12. tender offers;
13. bankruptcy, insolvency, receivership or similar event of the Issuer;¹

¹ For purposes of the event identified in Section 2(a)(13) above, the event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

14. the consummation of a merger, consolidation, or acquisition involving the Issuer, the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or
15. appointment of a successor or additional trustee, or the change of name of a trustee, if material.

(b) Upon the occurrence of a Listed Event described in subsections (a)(1), (3), (4), (5), (6), (9), (11), (12), or (13), and in the event that the Issuer determines that the occurrence of a Listed Event described in subsections (a)(2), (6), (7), (8), (10), (14) or (15) is material under applicable federal securities laws, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6 Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7 Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

SECTION 8 Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City Treasurer of the Issuer.

SECTION 9 Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities laws (which may include bond counsel to the Issuer), to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the

presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB.

SECTION 10 Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Certificate to update such information of occurrence of a Listed Event.

SECTION 11 Default. In the event of a failure of the Issuer to comply with any provisions of this Disclosure Certificate any Owner of the Bonds or the Participating Underwriter may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12 Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

SECTION 13 Notices. Any notice or communication to the Issuer may be given as follows: City of Nashua, New Hampshire, City Hall, 229 Main Street, Nashua, New Hampshire 03061, attention: City Treasurer.

SECTION 14 Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and the Owners of the Bonds, and shall create no rights in any other person or entity.

Dated: January __, 2012

CITY OF NASHUA, NEW HAMPSHIRE

By: _____
City Treasurer

By: _____
Mayor

EXHIBIT A

Filing information relating to the Municipal Securities Rulemaking Board is as follows:

Municipal Securities Rulemaking Board
<http://emma.msrb.org>

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name Of Issuer: City of Nashua, New Hampshire
Name of Bond Issue: \$150,570,000 General Obligation Pennichuk Corporation Acquisition Bonds (Federally Taxable)
Date of Issuance: January __, 2012

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds.

Date: CITY OF NASHUA, NEW HAMPSHIRE

By: _____