

CITY OF ROCHESTER, NEW HAMPSHIRE
Financial Statements
With Schedule of Expenditures of Federal Awards
June 30, 2008
and
Independent Auditor's Report

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

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

Schedule of Findings and Questioned Costs

CITY OF ROCHESTER, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2008

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CITY OF ROCHESTER, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor, City Council and Manager
City of Rochester, 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 Rochester, New Hampshire (The City) as of and for the year ended June 30, 2008, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 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 as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2009 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 in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Required Supplementary Information on pages i-viii and 30-31, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Vachon, Clukey & Co. PC

February 10, 2009

City of Rochester, New Hampshire

Management's Discussion and Analysis

Our discussion and analysis of the City of Rochester's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read this analysis in conjunction with the transmittal letter and financial statements presented in this report.

These financial reports represent more than five years since the City of Rochester's implementation of the new Governmental Accounting Standards Board Statement No. 34 (GASB 34). This report continues to build on the statistics for a more meaningful trend and explanation of the City's finances and changes in financial position.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

- The City's total assets of \$215.4 million, exceeded total liabilities of \$113.4 million, by \$102.0 million. This amount is presented as Total Net Assets on Exhibit A, Statement of Net Assets. The \$102.0 million in net assets has been reported as \$84.0 million invested in capital assets, net of related debt, \$1.8 million restricted and \$16.2 million in unrestricted funds. The unrestricted balance represents the amount available to be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$5.9 million or 6.1% in fiscal year 2008. The change in net assets for Governmental Activities increased by \$4.2 million or 7.7% and Business-type Activities increased by \$1.4 million or 4.0%.

Fund Highlights

- The total Fund Balance for all governmental funds increased by \$6.4 million to \$12.2 million for the fiscal year ending June 30, 2008. This amount is shown as the Fund Balance at end of year on Exhibit D, Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds. The General Fund Balance increased by \$.7 million to \$8.7 million. The fund balance for all other governmental funds increased by \$5.7 million to \$3.5 million.
- The total cost of all of the City's programs, not including grants, donations and capital projects, increased by \$4.4 million or 6.0%.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits A & B) present information about the activities of the City as a whole and present a longer-term view of the City's finances. Governmental Fund financial statements are presented in Exhibits C and D. Business Type Activities are shown on Exhibits E, F and G. For governmental activities, these statements report how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins with Exhibit A. One of the most important questions asked about the City's finances is: "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual* basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net* assets and the changes in them. The City's net assets can be thought of as the *difference* between assets and liabilities, as one way to measure the City's financial health, or *financial position*. Over time, *increases* or *decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

The Statement of Net Assets and the Statement of Activities is divided into two kinds of activities:

- **Governmental activities** - Most of the City's basic services are reported here, including the police, fire, public works, parks and recreation, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.
- **Business-type activities** - The City charges a fee to customers to help it cover all or most of the cost of certain services the City provides. The City's Water, Sewer, and Arena Funds are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins with Exhibit D, Statement of Revenues, Expenditures and Changes in Fund Balances. These financial statements provide detailed information about the City's most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes, (e.g. capital improvements, school food service program, Community Center operations, major grants and other business-type activities) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the state or federal government). The City's two significant fund types - *governmental* and *proprietary* - use different accounting approaches.

- **Governmental funds** - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the year-end balances that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation at the end of the fund financial statements.
- **Proprietary funds** - When the City charges customers for the services it provides - whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities (Water, Sewer and Arena) reported in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds.

The City as Trustee

The City is the trustee, or *fiduciary*, for its employees' 457 and 403(b) pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries (Library Trust, School Trusts and Cemetery Trusts). All of the City's fiduciary activities are reported separately in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on Exhibits H and I. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

The City's *combined* total net assets are \$102.0 million. Separating the net assets of Governmental and Business-type Activities, this represents \$58.5 million for Governmental Activities and \$43.5 million for Business-type Activities.

Table 1						
Net Assets						
(in Millions)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current and other assets	37.9	29.3	8.3	1.8	46.2	31.1
Capital assets	<u>98.8</u>	<u>94.0</u>	<u>70.4</u>	<u>67.1</u>	<u>169.2</u>	<u>161.1</u>
Total Assets	136.7	123.3	78.7	68.9	215.4	192.2
Long-term debt						
outstanding	(52.2)	(44.4)	(33.1)	(25.4)	(85.3)	(69.8)
Other liabilities	<u>(26.0)</u>	<u>(24.6)</u>	<u>(2.1)</u>	<u>(1.7)</u>	<u>(28.1)</u>	<u>(26.3)</u>
Total liabilities	(78.2)	(69.0)	(35.2)	(27.1)	(113.4)	(96.1)
Invested in capital assets,						
net of debt	(46.6)	(49.5)	(37.3)	(41.7)	(83.9)	(91.2)
Restricted	(1.8)	4.3	-	-	(1.8)	4.3
Unrestricted (deficit)	<u>(10.1)</u>	<u>(9.1)</u>	<u>(6.2)</u>	<u>(0.1)</u>	<u>(16.3)</u>	<u>(9.2)</u>
Total net assets	(58.5)	(54.3)	(43.5)	(41.8)	(102.0)	(96.1)

The largest portion of the City's net assets consist of investments in land, buildings, equipment and infrastructure less any outstanding debt.

The City's unrestricted governmental net assets increased by \$1.0 million to \$10.1 million. This increase represents an increase in the amount of funds available to meet the City's general fund obligations and an increase in the City's overall fiscal health. The City's ability to complete most major capital projects with cash on hand prior to the actual sale of the bonds has been a testament of its strong fiscal health. However, beginning with fiscal year 2009, it is anticipated that the City will bond annually or at least more frequently than the eighteen – twenty-four month cycle previously used. This shortened time cycle between the sale of bonds is not a reflection of diminished fiscal health but a reaction to the stringent bonding requirement timeframes and a way to maximize cash flow. The strength of the City is also due to its fiscally conservative practices in past years. It is incumbent on the City to maintain these practices in order to maintain financial strength.

The net assets of the City's business-type activities consist of investments in the water and sewer plants, related infrastructure, and the arena building/equipment. These funds however, cannot be used to make up for the other governmental activities. The City, generally, can only use these net assets to finance the continuing operations of the Water, Sewer and Arena Funds.

The City's overall net assets increased by \$5.9 million, as presented in Table 2 below. The largest expenditures are from Education, Public Safety, Public Works and General Government. The difference in funding between expenses and revenues is made up through property taxes.

Table 2						
Changes in Net Assets						
(in Millions)						
	Governmental Activities		Business-type Activities		Total Primary Activities	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services	2.5	2.4	8.1	7.4	10.6	9.8
Federal Grants	29.2	26.3	-	-	29.2	26.3
State grants and entitlements	3.2	1.1	-	-	3.2	1.1
General Revenues:						
Property taxes	43.7	41.6	-	-	43.7	41.6
Licenses and permits	4.5	5.2	-	-	4.5	5.2
Intergovernmental revenues	1.8	1.7	-	-	1.8	1.7
Other general revenues	4.0	4.4	0.3	0.6	4.3	5.0
Total revenues	88.9	82.7	8.4	8.0	97.3	90.7
Program Expenses:						
General government	3.9	3.7	-	-	3.9	3.7
Public safety	10.9	10.1	-	-	10.9	10.1
Public works	6.3	6.1	-	-	6.3	6.1
Health and welfare	0.6	0.6	-	-	0.6	0.6
Culture and recreation	2.4	1.7	-	-	2.4	1.7
Community development	0.8	0.6	-	-	0.8	0.6
Community services	0.7	0.7	-	-	0.7	0.7
Education	50.5	48.2	-	-	50.5	48.2
Food services	1.7	1.6	-	-	1.7	1.6
Capital outlay	0.2	0.3	-	-	0.2	0.3
Interest and fiscal charges	1.8	2.1	-	-	1.8	2.1
Intergovernmental	4.9	4.6	-	-	4.9	4.6
Water	-	-	2.7	2.6	2.7	2.6
Sewer	-	-	3.6	3.7	3.6	3.7
Arena	-	-	0.4	0.4	0.4	0.4
Total Expenses	84.7	80.3	6.7	6.7	91.4	87.0
Excess (deficiency) before special items and transfers	4.2	2.4	1.7	1.3	5.9	3.7
Transfers	-	(0.1)	-	0.1	-	-
Increase (decrease) in net assets	4.2	2.3	1.7	1.4	5.9	3.7

Governmental Activities

The City recognizes that maintaining a strong financial position is crucial to the City's long-term success. The burden that is placed on citizens and businesses must be taken into consideration with all financial decisions. The major fiscal challenges facing the City are: level or decreased State funding for education, health insurance increases, State retirement increases, energy costs, property values and tax rates. Fortunately, other City/School revenues have exceeded expectations and conservative spending has produced balances in many accounts at the end of the year.

- The City's assessed property value for taxation increased to \$2.28 billion or 2.3% increase as of April 1, 2007. The tax rate increased to \$18.81 or 2.6% over the previous year.
- The City is committed to regular infrastructure and capital improvements. The capital budget for fiscal year 2008 was \$10.4 million. With 33.2% earmarked for Highway projects, 12.3% earmarked for Water projects and 10.0% earmarked for Sewer projects. It is important to note that many of the Highway, Water and Sewer projects are interrelated. The remaining capital improvement funds are for a variety of other City and School upgrades and improvements. It is also important to note that due to the softening economy capital projects City-wide are being scaled back considerably and it is expected that this trend will continue for the foreseeable future. For Fiscal Year 2009 the total capital budget is \$7.4 million; less than 50% of the budgeted capital projects in Fiscal year 2007. This is the City's reaction to the slowing economy and conservatism towards supporting debt service payments in the future.

The major areas where revenues exceeded projections are taxes: \$662 thousand; charges for services, \$142 thousand and miscellaneous revenues, \$150 thousand. An indication of the slowing economy is the shortfall in revenue collection of licenses and permits of \$265 thousand for building permits and vehicle registrations. Additional budget to actual variances can be found on Schedule 1, Schedule of Revenues, Expenditures and Changes in Fund Balances.

While the national economy continued to weaken during fiscal year 2008, the New Hampshire economy, although soft, has remained stronger than the nation as a whole. Employment remains strong at this time even though unemployment has increased since June 2007. In New Hampshire and nationally, the housing market and sales of existing homes has flattened substantially, property values are falling and foreclosure rates have increased. However, according to a recent report by the New Hampshire Housing Finance Authority, foreclosure rates are still below the rates seen in the early 1990's and the number of homeowners facing foreclosure does not pose a direct threat to the overall New Hampshire economy. The report also found that over 95% of New Hampshire mortgagees are current in their payments and almost 30% of owner-occupied homes in the state have no mortgage at all. The loan practices of New Hampshire banks have limited their exposure to the current round of delinquencies and foreclosures. Domestic auto manufacturers are experiencing significant challenges and the purchase of ever more expensive automobiles has slowed. Energy prices have skyrocketed which has led to conservatism in other discretionary spending.

Here in Rochester, even though the City is recognizing a slowdown in more expensive vehicle registrations, only a slight reduction in total vehicle registration revenue has occurred in contrast to more substantial reductions that have occurred in other Southern New Hampshire communities. Construction of single-family homes and commercial construction has weakened significantly. The conservative philosophy of sustainable and steady growth that Rochester has embraced over the years remains as one of the keys to the City's continued financial strength and stability.

Business-type Activities

Operating revenues for the City's business-type activities exceeded expenses by \$1.7 million as presented in Exhibit F of the attached statements.

- The City sewer system posted a change in net assets of \$1.1 million. Due to the City's systematic annual increase of the sewer rate structure, this fund is now starting to show contributions to Net Assets instead of

reductions. Cash flow continues to be a major concern for this fund with respect to servicing the debt for the new plant. Exhibit G, Statement of Cash Flows Proprietary Funds, reports a \$1.3 million increase in the cash balance from the beginning of the year. This is a positive change from the previous year's decrease of \$486 thousand. Continued evaluation of the cash flow needs and expected rate changes are essential to the sound management of this fund. The actions taken by the City in the past few years include a thorough review of Sewer Fund revenues and expenses and recommendations for annual rate increases to continue positive cash flow in future years.

- The City water system has produced an operating profit for several years and with the expiration of several bond issues in the next few years the fund is anticipated to remain profitable in the near future. Cash flow in the Water Fund as reported in Exhibit G is also being reviewed in conjunction with the Sewer Fund rate reviews and increases in the water rate will be necessary to maintain positive operations. The reported cash deficit is directly related to the large capital expenditures in anticipation of the next bond sale.
- The City ice arena has a reported net asset increase of \$22 thousand. Expected additional environmental cleanup costs were incurred during fiscal year 2008, but they were less than the amounts previously expended. Net of environmental cleanup costs for fiscal year 2007, this is the second year of profitability in the past eight years for this fund. The actions taken by the City include continued reviews and increases in ice time rental rates and close scrutiny of expenditures. It is important to keep a close eye on trends and market conditions for this fund.
- The negative cash balance in the Business-type Activities operations is not unexpected and is a direct result of completing capital projects before bonding takes place. The City's overall cash balance is strong and is able to accommodate the cash flow fluctuations in the proprietary funds.

THE CITY'S FUNDS

As the City completed the year, its General Fund, as presented in the Schedule of Revenues, Expenditures and Changes in Fund Balance on Schedule 1, reported a budgetary fund balance of \$9.7 million, which is ahead of last year's total of \$9.0 million. Included in this year's total change in Fund Balance, however, is the budgeted use of \$1.2 million from Fund Balance to decrease the amount of dollars needed to raise in taxes less the actual excess of revenues over expenditures.

General Fund Budgetary Highlights

Supplemental appropriations were approved by the City Council at various other times throughout the year for grants and donations for several City departments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its Governmental and Business-type Activities as of June 30, 2008 is \$309.2 million (see Table 3 below). Accumulated depreciation amounts to \$140.0 million, leaving a Total Capital Assets net balance of \$169.2 million. This investment in capital assets includes land, buildings, equipment, computer software, construction in progress and infrastructure. Infrastructure assets are items that are normally immovable, of value only to the City and include roads and bridges. GASB Statement No. 34 requires assets, including infrastructure, for the City's governmental funds reported in the Government Wide Financial Statements.

Table 3
Capital Assets at Year-end
(in Millions)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	6.9	6.8	2.7	2.7	9.6	9.5
Land improvements	4.7	4.3	0.1	-	4.8	4.3
Buildings & improvements	50.2	49.4	43.6	43.4	93.8	92.8
Vehicles & equipment	10.8	10.0	4.0	3.9	14.8	13.9
Infrastructure	118.6	115.0	36.3	33.8	154.9	148.8
Construction in progress	<u>21.1</u>	<u>16.8</u>	<u>10.2</u>	<u>8.0</u>	<u>31.3</u>	<u>24.8</u>
Totals	212.3	202.3	96.9	91.8	309.2	294.1

Debt

The City may issue general obligation bonds, receive State Revolving Fund notes in lieu of bonds, and notes in anticipation of such bonds, taxes and other anticipated revenues. Although the City does issue general obligation bonds regularly and receives State Revolving Loan Funds, it has been many years since the issuance of any anticipation notes. As of June 30, 2008, the total debt outstanding for all funds is \$80.6 million. See Table 4 below.

Table 4
Outstanding Debt at Year-end
(in Millions)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds (backed by the City) and State revolving notes	<u>52.2</u>	<u>44.4</u>	<u>28.4</u>	<u>22.0</u>	<u>80.6</u>	<u>66.4</u>
Totals	52.2	44.4	28.4	22.0	80.6	66.4

The City's overall debt limitations and available debt margin are listed in Note 8 – General Debt Obligations, of the Financial Statements.

The City's general obligation bond rating remains at A3. While financial steadfastness is only one of the criteria that bond rating agencies use in assessing overall risk, continued positive performance in this area will help lead the City to continued increases in bond ratings which in turn mean lower rates and savings to taxpayers.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2009 budget and the resulting impact on tax rates, bills and the fees that will be charged for business-type activities. A significant consideration is the health of the national, regional and local economy. Changes to the local unemployment statistics are one important indicator of economic vitality. As of June 30, 2008, the New Hampshire Employment Security Economic and Labor Market Information Bureau reported that Local Area Unemployment (LAUS) in the City stands at 4.2 % versus 3.9% a year ago. This is slightly higher than the State's unemployment rate of 4.0 %, but

considerably less than the national rate of 5.7 %. During the same period, requests for financial and other assistance by working families to City programs continue to increase.

The City understands that it needs to provide an excellent infrastructure and quality of life to create additional employment opportunities through the attraction of new businesses and the expansion of existing businesses. Business retention is a priority and is especially critical at this time of economic challenges. The Economic Development Manager has produced excellent results in business retention and new development initiatives, and continues to position Rochester to maximize development when the economy strengthens. Although several high profile developments have opened for business in the past 18 months, major new developments are not anticipated for the next couple of years. Smaller scale development and redevelopment of existing locations continues but at a much slower pace. Additional commercial developments along the major highway corridors of the City are still in the preliminary phases, however, the time horizon has lengthened.

While the City continues to take steps to support business development activities for fiscal year 2009 in both the operating and capital budgets, the City has taken a very conservative approach to budgeting and scaling back programs wherever possible. It is also important to note that in November 2008 voters in the City approved a tax cap charter amendment to limit the amount property taxes can increase by a national inflation factor plus new revenues.

Of the \$7.4 million approved for capital improvements, approximately \$5.6 million will focus on infrastructure items; namely road improvements and upgrades to water and sewer delivery/collection systems. Approximately \$1.0 million is designated for School improvements and upgrades. The balance, approximately \$.8 million, is being invested in various other programs.

While it is important to the City Council and the community to provide appropriate levels of service to taxpayers, diversify the tax base, and create new investments in the City, it is equally important to maintain financial stability and equitable taxation. The City has many resources at its disposal that make it a very attractive community within which to live, work, and play. As mentioned earlier, several high profile commercial development projects have already been completed or are nearing completion. Rochester also has industrial property available for development, continuously improving infrastructure, the newest sewer treatment plant in the seacoast region, desirable housing for a range of socioeconomic groups, an expanding state of the art hospital, a high-tech landfill, excellent schools, and it is centrally located near the region's most attractive natural resources. It is anticipated that new commercial and industrial development will increase employment opportunities and continue to expand the current tax base.

There are many volunteer groups in the community that work to attract growth and improve the quality of life in Rochester. Among the most active groups are the Rochester Economic Development Commission, the Rochester Main Street Program (formerly the Community Organization for Rochester Enhancement), the Lilac City Fun Festival Committee and the Greater Rochester Chamber of Commerce. One of Rochester's prized charms is the historic Rochester Opera House located on the second floor of City Hall and is celebrating its Centennial this year. It is one of the oldest, restored opera houses, and the only one remaining with a functioning moving floor in the United States. Taken together, these factors provide the foundation and framework necessary to maintain and expand Rochester's reputation as a desirable and financially stable City.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Finance Office at 31 Wakefield Street, Rochester, NH 03867.

EXHIBIT A
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Net Assets
June 30, 2008

	Primary Government		
	Governmental	Business-type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 12,188,640		\$ 12,188,640
Investments	18,256,847		18,256,847
Taxes receivable, net	1,237,954		1,237,954
Accounts receivable	4,002,309	\$ 2,535,783	6,538,092
Due from other governments	2,094,142	5,003,774	7,097,916
Internal balances	(421,830)	421,830	-
Deferred debt financing expense	53,670	11,840	65,510
Prepaid expenses	30,665	16,497	47,162
Inventory	16,336	231,381	247,717
Tax deeded property	122,279		122,279
Total Current Assets	<u>37,581,012</u>	<u>8,221,105</u>	<u>45,802,117</u>
Noncurrent Assets:			
Deferred debt financing expense	280,382	61,853	342,235
Capital assets:			
Non-depreciable capital assets	28,007,344	12,887,813	40,895,157
Depreciable capital assets, net	<u>70,789,697</u>	<u>57,548,622</u>	<u>128,338,319</u>
Total Noncurrent Assets	<u>99,077,423</u>	<u>70,498,288</u>	<u>169,575,711</u>
Total Assets	<u>\$ 136,658,435</u>	<u>\$ 78,719,393</u>	<u>\$ 215,377,828</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 3,561,425	\$ 485,926	\$ 4,047,351
Accrued expenses	4,829,235	903,027	5,732,262
Retainage payable	449,324	259,268	708,592
Deferred revenue	15,194,077	467,765	15,661,842
Deposits	967,177		967,177
Deferred bond premium	162,145		162,145
Current portion of bonds payable	<u>5,682,107</u>	<u>2,406,522</u>	<u>8,088,629</u>
Total Current Liabilities	<u>30,845,490</u>	<u>4,522,508</u>	<u>35,367,998</u>
Noncurrent Liabilities:			
Bonds payable	46,488,332	25,948,082	72,436,414
Other long-term obligations		4,739,371	4,739,371
Compensated absences payable	<u>847,695</u>		<u>847,695</u>
Total Noncurrent Liabilities	<u>47,336,027</u>	<u>30,687,453</u>	<u>78,023,480</u>
Total Liabilities	<u>78,181,517</u>	<u>35,209,961</u>	<u>113,391,478</u>
NET ASSETS			
Invested in capital assets, net of related debt	46,626,602	37,342,460	83,969,062
Restricted	1,769,941		1,769,941
Unrestricted	<u>10,080,375</u>	<u>6,166,972</u>	<u>16,247,347</u>
Total Net Assets	<u>58,476,918</u>	<u>43,509,432</u>	<u>101,986,350</u>
Total Net Assets and Liabilities	<u>\$ 136,658,435</u>	<u>\$ 78,719,393</u>	<u>\$ 215,377,828</u>

See accompanying notes to the basic financial statements

EXHIBIT B
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 3,895,955	\$ 56,887	\$ 5,000		\$ (3,834,068)		\$ (3,834,068)
Public safety	10,943,414	637,896	584,242		(9,721,276)		(9,721,276)
Highways and streets	6,256,880	221,669	528,351		(5,506,860)		(5,506,860)
Health and welfare	568,597				(568,597)		(568,597)
Culture and recreation	2,439,163	185,439		\$ 500,000	(1,753,724)		(1,753,724)
Community development	827,528		499,341		(328,187)		(328,187)
Community services	695,650	594,710			(100,940)		(100,940)
Education	50,475,859	3,220	26,812,092		(23,660,547)		(23,660,547)
Food service	1,690,534	846,598	755,749		(88,187)		(88,187)
Capital outlay	225,539			2,711,700	2,486,161		2,486,161
Interest and fiscal charges	1,784,450				(1,784,450)		(1,784,450)
Intergovernmental	4,919,375				(4,919,375)		(4,919,375)
Total governmental activities	<u>84,722,944</u>	<u>2,546,419</u>	<u>29,184,775</u>	<u>3,211,700</u>	<u>(49,780,050)</u>	<u>\$ -</u>	<u>(49,780,050)</u>
Business-type activities:							
Sewer	3,612,001	4,500,290				888,289	888,289
Water	2,713,021	3,131,073				418,052	418,052
Nonmajor enterprise fund	423,103	442,467				19,364	19,364
Total business-type activities	<u>6,748,125</u>	<u>8,073,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,325,705</u>	<u>1,325,705</u>
Total primary government	<u>\$ 91,471,069</u>	<u>\$ 10,620,249</u>	<u>\$ 29,184,775</u>	<u>\$ 3,211,700</u>	<u>(49,780,050)</u>	<u>1,325,705</u>	<u>(48,454,345)</u>
General revenues:							
Property and other taxes					43,672,657		43,672,657
Licenses and permits					4,472,192		4,472,192
Grants and contributions:							
State shared revenues					530,950		530,950
Rooms and meals tax distribution					1,292,703		1,292,703
Interest and investment earnings					518,132	23,748	541,880
Miscellaneous					3,514,092	75,314	3,589,406
Capital contributions						235,316	235,316
Transfers					(15,200)	15,200	-
Total general revenues and transfers					<u>53,985,526</u>	<u>349,578</u>	<u>54,335,104</u>
Change in net assets					4,205,476	1,675,283	5,880,759
Net assets - beginning					<u>54,271,442</u>	<u>41,834,149</u>	<u>96,105,591</u>
Net assets - ending					<u>\$ 58,476,918</u>	<u>\$ 43,509,432</u>	<u>\$ 101,986,350</u>

See accompanying notes to the basic financial statements

EXHIBIT C
CITY OF ROCHESTER, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 12,016,173		\$ 172,467	\$ 12,188,640
Investments	18,207,354		49,493	18,256,847
Taxes receivable, net	1,237,954			1,237,954
Accounts receivable	584,926	\$ 3,088,620	328,763	4,002,309
Due from other governments			2,094,142	2,094,142
Due from other funds	5,612,949	189,182	2,078,631	7,880,762
Prepaid expenses	29,885		780	30,665
Inventory	5,417		10,919	16,336
Tax deeded property	122,279			122,279
Total Assets	<u>\$ 37,816,937</u>	<u>\$ 3,277,802</u>	<u>\$ 4,735,195</u>	<u>\$ 45,829,934</u>
LIABILITIES				
Accounts payable	\$ 1,584,086	\$ 1,727,449	\$ 249,890	\$ 3,561,425
Accrued expenses	4,103,330		13,720	4,117,050
Retainage payable		449,324		449,324
Deferred revenue	15,892,849		346,937	16,239,786
Deposits	967,177			967,177
Due to other funds	6,591,878		1,710,714	8,302,592
Total Liabilities	<u>29,139,320</u>	<u>2,176,773</u>	<u>2,321,261</u>	<u>33,637,354</u>
FUND BALANCES				
Reserved for endowments			35,515	35,515
Reserved for prepaid expenses	29,885			29,885
Reserved for inventory	5,417		10,919	16,336
Reserved for special purposes	20,000			20,000
Unreserved reported in:				
General fund	8,622,315			8,622,315
Special revenue funds			2,353,522	2,353,522
Capital projects funds		1,101,029		1,101,029
Permanent funds			13,978	13,978
Total Fund Balances	<u>8,677,617</u>	<u>1,101,029</u>	<u>2,413,934</u>	<u>12,192,580</u>
Total Liabilities and Fund Balances	<u>\$ 37,816,937</u>	<u>\$ 3,277,802</u>	<u>\$ 4,735,195</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 98,797,041

Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis 1,045,709

Deferred debt expense is recognized on an accrual basis in the statement of net assets, not the modified accrual basis 171,907

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:

Bonds payable (52,170,439)
Compensated absences (847,695)
Accrued interest on long-term obligations (712,185)

Net assets of governmental activities \$ 58,476,918

See accompanying notes to the basic financial statements

EXHIBIT D

CITY OF ROCHESTER, NEW HAMPSHIRE

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2008

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 43,623,444			\$ 43,623,444
Licenses and permits	4,472,192			4,472,192
Intergovernmental	25,752,105	\$ 2,711,700	\$ 5,756,323	34,220,128
Charges for services	1,100,099		1,446,320	2,546,419
Investment income	520,989		(2,857)	518,132
Miscellaneous	2,815,454	570,237	128,401	3,514,092
Total Revenues	<u>78,284,283</u>	<u>3,281,937</u>	<u>7,328,187</u>	<u>88,894,407</u>
Expenditures:				
Current operations:				
General government	3,566,588		5,594	3,572,182
Public safety	10,515,510		183,553	10,699,063
Highways and streets	2,677,701			2,677,701
Health and welfare	568,609			568,609
Culture and recreation	1,624,375		15,095	1,639,470
Community development	159,604		667,924	827,528
Community services			670,159	670,159
Education	46,157,347		3,925,093	50,082,440
Food service			1,686,611	1,686,611
Capital outlay		9,932,090	746,132	10,678,222
Debt service:				
Principal retirement	5,128,197			5,128,197
Interest and fiscal charges	1,879,691			1,879,691
Intergovernmental	4,919,375			4,919,375
Total Expenditures	<u>77,196,997</u>	<u>9,932,090</u>	<u>7,900,161</u>	<u>95,029,248</u>
Excess of revenues over (under) expenditures	<u>1,087,286</u>	<u>(6,650,153)</u>	<u>(571,974)</u>	<u>(6,134,841)</u>
Other financing sources (uses):				
Proceeds from bond issuances		12,541,308		12,541,308
Proceeds of refunding bonds	4,718,566			4,718,566
Transfers in	262,093	713,861	253,279	1,229,233
Refunding bonds payment	(4,718,566)			(4,718,566)
Transfers out	(679,543)	(276,310)	(288,580)	(1,244,433)
Total other financing sources (uses)	<u>(417,450)</u>	<u>12,978,859</u>	<u>(35,301)</u>	<u>12,526,108</u>
Net change in fund balances	669,836	6,328,706	(607,275)	6,391,267
Fund balances (deficit) at beginning of year	<u>8,007,781</u>	<u>(5,227,677)</u>	<u>3,021,209</u>	<u>5,801,313</u>
Fund balances at end of year	<u>\$ 8,677,617</u>	<u>\$ 1,101,029</u>	<u>\$ 2,413,934</u>	<u>\$ 12,192,580</u>

See accompanying notes to the basic financial statements

CITY OF ROCHESTER, 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, 2008

New Change in Fund Balances--Total Governmental Funds	\$ 6,391,267
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	4,855,784
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	49,213
Proceeds from bond issues are other financing sources in the funds, but bond issues increase long-term liabilities in the statement of net assets.	(12,541,308)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	5,128,197
In the statement of activities, deferred debt financing expense is amortized and included with interest expense.	(14,362)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	109,603
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 governmental funds.	227,082
Change in Net Assets of Governmental Activities	<u>\$ 4,205,476</u>

EXHIBIT E
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business-type Activities			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	Totals
ASSETS				
Current Assets:				
Accounts receivable	\$ 1,592,872	\$ 937,330	\$ 5,581	\$ 2,535,783
Due from other governments	4,383,402	620,372		5,003,774
Due from other funds	4,278,937	677	45,128	4,324,742
Deferred debt financing expense	6,448	5,392		11,840
Prepaid expenses		16,497		16,497
Inventory		231,381		231,381
Total Current Assets	<u>10,261,659</u>	<u>1,811,649</u>	<u>50,709</u>	<u>12,124,017</u>
Noncurrent Assets:				
Deferred debt financing expense	33,684	28,169		61,853
Capital assets:				
Non-depreciable capital assets	6,610,189	6,205,651	71,973	12,887,813
Depreciable capital assets, net	<u>37,648,798</u>	<u>18,889,617</u>	<u>1,010,207</u>	<u>57,548,622</u>
Total Noncurrent Assets	<u>44,292,671</u>	<u>25,123,437</u>	<u>1,082,180</u>	<u>70,498,288</u>
Total Assets	<u>\$ 54,554,330</u>	<u>\$ 26,935,086</u>	<u>\$ 1,132,889</u>	<u>\$ 82,622,305</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 255,539	\$ 204,060	\$ 26,327	\$ 485,926
Accrued expenses	630,858	247,671	24,498	903,027
Retainage payable	133,988	125,280		259,268
Deferred revenue	466,033		1,732	467,765
Due to other funds	3,681,239	191,445	30,228	3,902,912
Current portion of bonds payable	<u>1,730,924</u>	<u>618,363</u>	<u>57,235</u>	<u>2,406,522</u>
Total Current Liabilities	<u>6,898,581</u>	<u>1,386,819</u>	<u>140,020</u>	<u>8,425,420</u>
Noncurrent Liabilities:				
Bonds payable	17,131,563	8,000,872	815,647	25,948,082
Other long-term obligations	<u>2,928,280</u>	<u>1,811,091</u>		<u>4,739,371</u>
Total Noncurrent Liabilities	<u>20,059,843</u>	<u>9,811,963</u>	<u>815,647</u>	<u>30,687,453</u>
Total Liabilities	<u>26,958,424</u>	<u>11,198,782</u>	<u>955,667</u>	<u>39,112,873</u>
NET ASSETS				
Invested in capital assets, net of related debt	22,468,220	14,664,942	209,298	37,342,460
Unrestricted (deficit)	<u>5,127,686</u>	<u>1,071,362</u>	<u>(32,076)</u>	<u>6,166,972</u>
Total Net Assets	<u>27,595,906</u>	<u>15,736,304</u>	<u>177,222</u>	<u>43,509,432</u>
Total Liabilities and Net Assets	<u>\$ 54,554,330</u>	<u>\$ 26,935,086</u>	<u>\$ 1,132,889</u>	<u>\$ 82,622,305</u>

See accompanying notes to the basic financial statements

EXHIBIT F
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Business-type Activities			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	Totals
Operating revenues:				
Charges for services	\$ 4,500,290	\$ 3,131,073	\$ 442,467	\$ 8,073,830
Miscellaneous	12,345	61,229	1,740	75,314
Total operating revenues	<u>4,512,635</u>	<u>3,192,302</u>	<u>444,207</u>	<u>8,149,144</u>
Operating expenses:				
Personal services	974,320	1,040,795	206,833	2,221,948
Materials and supplies	289,749	283,316	7,374	580,439
Utilities	440,970	112,008	89,959	642,937
Depreciation	944,812	782,216	41,802	1,768,830
Miscellaneous	251,288	287,769	36,447	575,504
Total operating expenses	<u>2,901,139</u>	<u>2,506,104</u>	<u>382,415</u>	<u>5,789,658</u>
Operating income	<u>1,611,496</u>	<u>686,198</u>	<u>61,792</u>	<u>2,359,486</u>
Non-operating revenues (expenses):				
Interest revenue	7,498	15,000	1,250	23,748
Interest expense	(710,862)	(206,917)	(40,688)	(958,467)
Net non-operating revenues (expenses)	<u>(703,364)</u>	<u>(191,917)</u>	<u>(39,438)</u>	<u>(934,719)</u>
Income before contributions and transfers	908,132	494,281	22,354	1,424,767
Capital contributions	220,802	14,514		235,316
Transfers in	<u>10,500</u>	<u>4,700</u>		<u>15,200</u>
Change in net assets	1,139,434	513,495	22,354	1,675,283
Total net assets at beginning of year	<u>26,456,472</u>	<u>15,222,809</u>	<u>154,868</u>	<u>41,834,149</u>
Total net assets at end of year	<u>\$ 27,595,906</u>	<u>\$ 15,736,304</u>	<u>\$ 177,222</u>	<u>\$ 43,509,432</u>

See accompanying notes to the basic financial statements

EXHIBIT G
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008

	Business-type Activities			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 5,105,011	\$ 3,163,437	\$ 438,626	\$ 8,707,074
Cash paid to suppliers and employees	(1,913,231)	(1,749,499)	(316,595)	(3,979,325)
Net cash provided by operating activities	<u>3,191,780</u>	<u>1,413,938</u>	<u>122,031</u>	<u>4,727,749</u>
Cash flows from non-capital financing activities:				
Transfer from other funds	10,500	4,700		15,200
Net cash provided by non-capital financing activities	<u>10,500</u>	<u>4,700</u>	<u>-</u>	<u>15,200</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(2,302,318)	(2,832,797)	(22,175)	(5,157,290)
Proceeds from refunding bonds	566,874	474,060		1,040,934
Payment on refunding bonds	(566,874)	(474,060)		(1,040,934)
Proceeds from bonds payable	2,582,814	5,836,283		8,419,097
Principal paid on long-term debt	(1,620,399)	(442,999)	(57,235)	(2,120,633)
Interest paid on long-term debt	(748,145)	(124,312)	(41,632)	(914,089)
Capital contributions	220,802			220,802
Net cash provided (used) for capital and related financing activities	<u>(1,867,246)</u>	<u>2,436,175</u>	<u>(121,042)</u>	<u>447,887</u>
Cash flows from investing activities:				
Interest on investments	7,498	15,000	1,250	23,748
Net cash provided by investing activities	<u>7,498</u>	<u>15,000</u>	<u>1,250</u>	<u>23,748</u>
Net increase in cash and cash equivalents	1,342,532	3,869,813	2,239	5,214,584
Cash and cash equivalents (deficiency) at beginning of year	(744,834)	(4,060,581)	12,661	(4,792,754)
Cash and cash equivalents (deficiency) at end of year	<u>\$ 597,698</u>	<u>\$ (190,768)</u>	<u>\$ 14,900</u>	<u>\$ 421,830</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 1,611,496	\$ 686,198	\$ 61,792	\$ 2,359,486
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	944,812	782,216	41,802	1,768,830
Changes in assets and liabilities:				
Accounts receivable	(519,310)	(56,751)	(5,581)	(581,642)
Due from other governments	645,653	27,886		673,539
Prepaid expenses		(2,435)		(2,435)
Inventory		10,702		10,702
Accounts payable	32,593	(7,131)	22,857	48,319
Accrued expenses	10,503	(1,747)	1,161	9,917
Deferred revenue	466,033			466,033
Deposits		(25,000)		(25,000)
Net cash provided by operating activities	<u>\$ 3,191,780</u>	<u>\$ 1,413,938</u>	<u>\$ 122,031</u>	<u>\$ 4,727,749</u>
Non-cash transactions affecting financial position:				
Capital asset additions included in year end liabilities	\$ 321,384	\$ 239,088	\$ 22,175	\$ 582,647
Principal forgiveness on debt		14,514		14,514
Amortization on deferred debt financing	3,224	2,696		5,920
	<u>\$ 324,608</u>	<u>\$ 256,298</u>	<u>\$ 22,175</u>	<u>\$ 603,081</u>

See accompanying notes to the basic financial statements

EXHIBIT H
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Private- Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 27,568	\$ 183,310
Investments	<u>1,395,724</u>	
Total Assets	<u>\$ 1,423,292</u>	<u>\$ 183,310</u>
LIABILITIES		
Due to student groups		<u>\$ 183,310</u>
Total Liabilities	<u>\$ -</u>	<u>\$ 183,310</u>
NET ASSETS		
Held in trust	<u>1,423,292</u>	
Total Net Assets	<u>\$ 1,423,292</u>	

See accompanying notes to the basic financial statements

EXHIBIT I
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2008

	<u>Private- Purpose Trust Funds</u>
ADDITIONS:	
Contributions:	
Private donations	\$ 202,018
Total Contributions	<u>202,018</u>
Investment earnings:	
Interest	51,740
Net decrease in the fair value of investments	<u>(94,625)</u>
Total Investment Earnings	<u>(42,885)</u>
Less: Investment expense	<u>-</u>
Net Investment Earnings	<u>(42,885)</u>
Total Additions	<u>159,133</u>
DEDUCTIONS:	
Benefits	<u>39,883</u>
Total Deductions	<u>39,883</u>
Change in Net Assets	119,250
Net assets - beginning of year	<u>1,304,042</u>
Net assets - end of year	<u><u>\$ 1,423,292</u></u>

See accompanying notes to the basic financial statements

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

The City of Rochester, New Hampshire (the City) is a municipal corporation governed by an elected City Council. The City operates under the Mayor/City Council/Manager form of government and performs local governmental functions as authorized by its charter.

The financial statements include those of the various departments governed by the City Council and other officials with financial responsibility. The City has no other separate organizational units, which meet criteria for inclusion in the financial statements as defined by the Governmental Accounting Standards Board (GASB).

Basis of Presentation

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

1. Government-Wide Financial Statements:

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

2. Fund Financial Statements:

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

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Fund Accounting

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

1. Governmental Funds:

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

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

The Capital Projects Fund accounts for all financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).

Other nonmajor governmental funds consist of Permanent Funds and the following special revenue funds: Community Development Fund, Police Grants Fund, Miscellaneous Grants Fund, Other School Grants Fund, Homeland Security Grants Fund, Food Service Fund, Federal Projects Fund, Economic Development Fund, Planning Fund, Conservation Commission Fund, Land Protection Fund, and Rochester Community Center Fund. All of the special revenue funds have similar characteristics in which the revenues are restricted in nature for specific expenditures.

2. Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The City has no internal service funds. The following are the City's major proprietary funds:

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

The Water Fund accounts for all revenues and expenses pertaining to the City's water operations.

The Sewer and Water Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e. expenses including depreciation) of providing goods or services to the residents on a continuing basis are financed or recovered primarily through user charges.

3. Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

governments and are therefore not available to support the City's own programs. The City maintains four private purpose trusts which account for monies designated to benefit individuals within the City. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The City's agency funds account for Student Activities Funds of the school.

Measurement Focus

1. Government-Wide Financial Statements:

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

2. Fund Financial Statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund type is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

The private purpose trust fund is reported using the economic resources measurement focus.

Basis of Accounting

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

In the government-wide financial statements and proprietary fund statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

1. Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available.

Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of fiscal year end.

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

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

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

2. Deferred Revenue:

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

3. Expenses/Expenditures:

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

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

Budgetary Data

The City's budget represents functional appropriations as authorized by annual or special Council meetings. The Council may transfer funds between operating categories as they deem necessary. The City adopts its budget under State regulations, which differ somewhat from accounting principles

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended June 30, 2008, the City applied \$1,586,674 of its unappropriated fund balance to reduce taxes.

Cash and Cash Equivalents

The City pools its cash resources for the governmental and proprietary funds. Cash applicable to a particular fund is reflected as an interfund balance. For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of the following:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Totals</u>
Proprietary Funds:			
Sewer Fund	\$ 4,278,937	\$ 3,681,239	\$ 597,698
Water Fund	677	191,445	(190,768)
Nonmajor Enterprise Fund	45,128	30,228	14,900
	<u>\$ 4,324,742</u>	<u>\$ 3,902,912</u>	<u>\$ 421,830</u>

Investments

Investments are stated at their fair value in all funds. Certificates of deposit and repurchase agreements with a maturity of greater than ninety days from the date of issuance are included in investments.

Taxes Receivable

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2008 are recorded as receivables net of reserves for estimated uncollectibles of \$1,762,836.

Deferred Debt Financing Expense

The refinancing of general obligation bonds resulted in a difference between the reacquisition price and the net carrying value of the old debt. This difference, reported in the accompanying financial statements as deferred debt financing expense, is being amortized as a component of interest expense over the remaining life of the new debt. The balance of the deferred debt financing expense as of June 30, 2008 is \$334,052, \$33,561, and \$40,132 in the governmental activities, water fund, and sewer fund, respectively.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2008 are recorded as prepaid items.

Inventory

The City accounts for inventories under the purchase method on a first-in, first out basis. Inventories are recorded at cost.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Capital Assets

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

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

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

<u>Description</u>	<u>Years</u>
Infrastructure	10 - 50
Structures and Land Improvements	10 - 50
Mains, Pump Stations, and Sewer Lines	40 - 100
Equipment	3 - 100
Waster Water Treatment Plant	50
Furniture and Fixtures	7

Compensated Absences

City employees are granted vacation and sick leave in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick and vacation leave which is (subject to certain limitations) at their then current rates of pay. The estimated cost of unused sick and vacation leave which may be payable upon retirement or termination has been recorded in the government-wide financial statements.

Accrued Liabilities and Long-Term Obligations

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

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Net Assets

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

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

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the water fund and sewer fund, these revenues are charges to customers for sales and services. Operating expenses, which include depreciation on capital assets, are necessary costs incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$2,316,298,140 as of April 1, 2007) and are due in two installments on July 3, 2007 and December 31, 2007. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

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

In accordance with State law, the City collects taxes for Strafford County, an independent governmental unit, which are remitted to the County as required by law. Total taxes appropriated to Strafford County for the year ended June 30, 2008 were \$4,919,375. The City bears responsibility for uncollected taxes.

NOTE 3—RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the City was a member of the Local Government Center Property-Liability Insurance Trust, Inc. (LGC-PLIT) and the New Hampshire Public Risk Management Exchange (PRIMEX). The City currently reports all of its risk management activities in its General Fund. These Trusts are classified as a "Risk Pools" in accordance with accounting principles generally accepted in the United States of America.

The Trust agreements permit the Trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trusts foresee no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2008.

Property and Liability Insurance

The LGC-PLIT provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the LGC-PLIT, the City shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000.

Worker's Compensation

PRIMEX provides statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. The Trust is self-sustaining through annual member premiums and provides coverage for the statutorily required workers' compensation benefits and employer's

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

liability coverage up to \$2,000,000. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

NOTE 4—DEPOSITS AND INVESTMENTS

The City has combined the cash resources of its governmental fund types and business-type activities. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance.

Deposits and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 12,188,640
Investments	18,256,847
Statement of fiduciary net assets:	
Cash and cash equivalents	210,878
Investments	<u>1,395,724</u>
Total deposits and investments	<u>\$ 32,052,089</u>

Deposits and investments as of June 30, 2008 consist of the following:

Cash on hand	\$ 4,713
Deposits with financial institutions	30,591,166
Investments	<u>1,456,210</u>
Total deposits and investments	<u>\$ 32,052,089</u>

The City's investment policy for governmental fund types requires that deposits and investments be made in New Hampshire based financial institutions that are participants in one of the federal depository insurance programs. The City limits its investments to demand deposits, money market accounts, certificates of deposit, and repurchase agreements in accordance with New Hampshire State law (RSA 41:29) or the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. Responsibility for the investments of the Trust Funds is with the Board of Trustees.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time.

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

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

		<u>Remaining Maturity (in Years)</u>		
Federal agency securities	\$ 274,728	\$ 25,102	\$ 76,523	\$ 173,103
Corporate bonds	237,600	25,197	106,522	105,881
	<u>\$ 512,328</u>	<u>\$ 50,299</u>	<u>\$ 183,045</u>	<u>\$ 278,984</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following is the actual rating as of year end for each investment type.

<u>Investment Type</u>		<u>Rating as of Year End</u>				<u>Not Rated</u>
		<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa</u>	
Corporate bonds	\$ 237,600	\$ -	\$ 112,370	\$ 80,280	\$ 44,950	
State investment pool	10,993					\$ 10,993
Mutual funds	140,247					140,247
Money market mutual funds	261,897					261,897
	<u>\$ 650,737</u>	<u>\$ -</u>	<u>\$ 112,370</u>	<u>\$ 80,280</u>	<u>\$ 44,950</u>	<u>\$ 413,137</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Of the City's deposits with financial institutions at year end \$31,091,925 was collateralized by securities held by the bank in the bank's name. As of June 30, 2008, District investments in the following investment types were held by the same counterparty that was used to buy the securities.

<u>Investment Type</u>	<u>Reported Amount</u>
Federal agency securities	\$ 274,728
U.S. Treasury notes	51,588
Corporate bonds	237,600
Equity securities	479,157
Mutual funds	140,247
Money market mutual funds	261,897
	<u>\$ 1,445,217</u>

Investment in NHPDIP

The City is a voluntary participant in the New Hampshire Public Deposit Investment Pool (NHPDIP). The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company. The NHPDIP was created by state law and is administered by a public body of state, local and banking officials.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Investments in the NHPDIP are not investment securities and, as such, are not categorized by risk. The City's exposure to derivatives is indirect through its participation in the NHPDIP. The City's proportional share of these derivatives is not available. The fair value of the position in the investment pool is equal to the value of the pool shares.

NOTE 5—DUE FROM OTHER GOVERNMENTS

Receivables from other governments at June 30, 2008 consist of various federal and state reimbursement receivables. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables is as follows:

Police grants	\$ 40,215
Federal food service reimbursement	219,665
State and federal school grant reimbursements	1,834,262
State filtration grant	86
State revolving loan funds - Water	620,286
State revolving loan funds - Sewer	662,381
Sewer state aid grant reimbursement	<u>3,721,021</u>
	<u>\$ 7,097,916</u>

NOTE 6—CAPITAL ASSETS AND DEPRECIATION

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

	Balance <u>7/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2008</u>
Governmental activities:				
Capital asset not depreciated:				
Land	\$ 6,753,100	\$ 138,741		\$ 6,891,841
Construction in process	<u>16,837,064</u>	<u>9,706,550</u>	<u>\$(5,428,112)</u>	<u>21,115,502</u>
Total capital assets not being depreciated	<u>23,590,164</u>	<u>9,845,291</u>	<u>(5,428,112)</u>	<u>28,007,343</u>
Other capital assets:				
Infrastructure	115,044,734	3,627,318		118,672,052
Land improvements	4,288,768	378,592		4,667,360
Buildings and improvements	49,402,864	830,018		50,232,882
Vehicles and equipment	<u>9,955,921</u>	<u>843,471</u>		<u>10,799,392</u>
Total other capital assets at historical cost	<u>178,692,287</u>	<u>5,679,399</u>	<u>-</u>	<u>184,371,686</u>
Less accumulated depreciation for:				
Infrastructure	(83,043,401)	(3,349,550)		(86,392,951)
Land improvements	(2,072,850)	(206,485)		(2,279,335)
Buildings and improvements	(17,059,365)	(953,832)		(18,013,197)
Vehicles and equipment	<u>(6,165,578)</u>	<u>(730,927)</u>		<u>(6,896,505)</u>
Total accumulated depreciation	<u>(108,341,194)</u>	<u>(5,240,794)</u>	<u>-</u>	<u>(113,581,988)</u>
Total other capital assets, net	<u>70,351,093</u>	<u>438,605</u>	<u>-</u>	<u>70,789,698</u>
Total capital assets, net	<u>\$ 93,941,257</u>	<u>\$ 10,283,896</u>	<u>\$(5,428,112)</u>	<u>\$ 98,797,041</u>

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Depreciation was charged to functions as follows:

General government	\$ 325,579
Public safety	336,963
Highways and streets	3,579,577
Culture and recreation	54,693
Community services	25,491
Education	914,063
Food service	4,428
Total governmental activities depreciation expense	<u>\$ 5,240,794</u>

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

	Balance 7/1/2007	Additions	Reductions	Balance 6/30/2008
Business-type activities:				
Capital asset not depreciated:				
Land	\$ 2,653,830			\$ 2,653,830
Construction in process	8,043,097	\$ 4,850,159	\$(2,659,273)	10,233,983
Total capital assets not being depreciated	<u>10,696,927</u>	<u>4,850,159</u>	<u>\$(2,659,273)</u>	<u>12,887,813</u>
Other capital assets:				
Land improvements	53,600			53,600
Infrastructure	33,810,430	2,528,285		36,338,715
Buildings and improvements	43,360,772	279,409		43,640,181
Vehicles and equipment	3,915,236	77,142		3,992,378
Total other capital assets at historical cost	<u>81,140,038</u>	<u>2,884,836</u>	<u>-</u>	<u>84,024,874</u>
Less accumulated depreciation for:				
Land improvements	(34,600)	(2,000)		(36,600)
Infrastructure	(9,940,555)	(654,610)		(10,595,165)
Buildings and improvements	(12,605,422)	(887,203)		(13,492,625)
Vehicles and equipment	(2,126,845)	(225,017)		(2,351,862)
Total accumulated depreciation	<u>(24,707,422)</u>	<u>(1,768,830)</u>	<u>-</u>	<u>(26,476,252)</u>
Total other capital assets, net	<u>56,432,616</u>	<u>1,116,006</u>	<u>-</u>	<u>57,548,622</u>
Total capital assets, net	<u>\$ 67,129,543</u>	<u>\$ 5,966,165</u>	<u>\$(2,659,273)</u>	<u>\$ 70,436,435</u>

Depreciation was charged to proprietary funds as follows:

Sewer fund	\$ 944,812
Water fund	782,216
Nonmajor enterprise fund	41,802
Total business-type activities depreciation expense	<u>\$ 1,768,830</u>

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

NOTE 7—DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the New Hampshire Retirement System (NHRS), a cost-sharing, multiple-employer, defined benefit pension plan administrated 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 public safety employees are required to contribute 9.3% of their covered salary, whereas teachers and general employees are required to contribute 5.0% of their covered salary. The City is required to contribute at an actuarially determined rate. The City's contribution rates for the covered payroll of police officers, fire employees, teachers, and general employees were 11.84%, 15.92%, 5.80%, and 8.74%, respectively. The City contributes 65% of the employer cost for police officers, fire employees, and teachers, and the State contributes the remaining 35% of the employer cost. The City contributes 100% of the employer cost for general employees of the City. In accordance with accounting principles generally accepted in the United States of America (GASB #24), on-behalf fringe benefits contributed by the State of New Hampshire of \$1,135,404 have been reported as a revenue and expenditure of the General Fund in these financial statements.

Under State law (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 City's contributions to the NHRS for the years ending June 30, 2008, 2007 and 2006 were \$2,948,973, \$2,039,729, and \$1,953,476, respectively, equal to the required contributions for each year.

NOTE 8—GENERAL DEBT OBLIGATIONS

General Long-term Obligations

The changes in the City's long-term debt obligations for the year ended June 30, 2008 are as follows:

	Balance <u>7/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2008</u>	Due Within <u>One Year</u>
Governmental activities:					
Bonds payable	\$ 44,396,442	\$ 17,620,761	\$ (9,846,764)	\$ 52,170,439	\$ 5,682,107
Compensated absences	<u>1,074,777</u>	<u>195,212</u>	<u>(422,294)</u>	<u>847,695</u>	<u>-</u>
Total governmental activities	<u>\$ 45,471,219</u>	<u>\$ 17,815,973</u>	<u>\$ (10,269,058)</u>	<u>\$ 53,018,134</u>	<u>\$ 5,682,107</u>

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Business-type activities:

Bonds payable	\$ 22,021,087	\$ 9,509,599	\$ (3,176,082)	\$ 28,354,604	\$ 2,406,522
Other long-term obligations	<u>3,426,658</u>	<u>2,158,077</u>	<u>(845,364)</u>	<u>4,739,371</u>	<u>-</u>
Total business-type activities	<u>\$ 25,447,745</u>	<u>\$ 11,667,676</u>	<u>\$ (4,021,446)</u>	<u>\$ 33,093,975</u>	<u>\$ 2,406,522</u>

Payments on the general obligation bonds of the governmental activities are paid out of the General Fund. Payments on the general obligation bonds and other long-term obligations of the business-type activities are paid out of the Sewer, Water and Arena Funds. Compensated absences will be paid from the fund where the employee's salary is paid.

Governmental Activities

Bonds payable at June 30, 2008 are comprised of the following individual issues:

	Original Issue <u>Amount</u>	Interest <u>Rate</u>	Final Maturity <u>Date</u>	Balance at <u>6/30/08</u>
1991 NHMBB	\$ 5,484,100	6.80%	December 2010	\$ 822,615
1991 NHMBB	13,031,515	6.80%	January 2011	1,715,000
1992 Series D bonds	1,194,500	5.0-6.10%	January 2013	300,000
Refinancing bonds 1994	6,259,500	2.90-5.20%	November 2009	882,300
1995 Series bond issue	2,440,000	5.25-5.625%	August 2015	960,000
1996 Series bond issue	1,197,000	5.625-5.75%	August 2016	529,000
1997 Series bond issue	1,320,000	4.70-5.30%	August 2017	650,000
1998 Series A	1,779,000	3.90-4.75%	August 2018	864,241
2002 Series bond issue	6,383,000	4.25-4.70%	August 2022	4,758,000
2004 Series bond issue	11,169,735	3.10-4.75%	July 2024	8,910,000
2005 Series bond issue - 20 year	3,724,700	4.0-4.40%	January 2026	3,335,000
2005 Series bond issue - 15 year	285,000	4.0-4.25%	January 2021	245,000
2005 Series bond issue - 10 year	2,144,568	4.0-4.25%	January 2016	1,700,000
2005 Series bond issue - Honeywell	9,611,575	4.0-4.25%	January 2016	7,680,000
2005 QZAB	1,382,910	0%	December 2020	1,198,522
Refinancing bonds 2007 - 3 year	1,409,139	5.50-5.60%	August 2010	1,409,139
Refinancing bonds 2007 - 13 year	3,670,314	5.50-5.80%	August 2020	3,670,314
2008 Series bond issue - 20 year	9,593,958	3.0-5.0%	February 2028	9,593,958
2008 Series bond issue - 10 year	315,380	5.25-6.50%	February 2018	315,380
2008 Series bond issue - 10 year	<u>2,631,970</u>	3.0-5.0%	February 2018	<u>2,631,970</u>
Totals	<u>\$ 50,258,350</u>			<u>\$ 52,170,439</u>

Debt service requirements to retire general obligation bonds outstanding at June 30, 2008 are as follows:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Year Ending June 30,	Principal	Interest	Total
2009	\$ 5,682,107	\$ 2,176,371	\$ 7,858,478
2010	5,385,627	1,903,765	7,289,392
2011	5,063,431	1,670,776	6,734,207
2012	4,075,058	1,460,736	5,535,794
2013	4,070,961	1,300,492	5,371,453
2014-2018	16,114,536	4,158,239	20,272,775
2019-2023	8,109,985	1,699,201	9,809,186
2024-2028	3,668,734	404,786	4,073,520
Total	<u>\$ 52,170,439</u>	<u>\$ 14,774,366</u>	<u>\$ 66,944,805</u>

Business-type Activities

Bonds payable at June 30, 2008 are comprised of the following individual issues:

	Issue Amount	Interest Rate	Maturity Date	Balance at 6/30/08
1991 NHMBB	\$ 615,900	6.80%	January 2011	\$ 92,395
1992 Series D bonds	405,500	5.0-6.10%	January 2013	100,000
Refinancing bonds 1994	13,240,500	2.90-5.20%	November 2009	457,700
1996 Series bond issue	280,000	5.625-5.75%	August 2016	126,000
1998 Series A	871,000	3.90-4.75%	August 2018	570,760
2002 Series bond issue	2,253,000	4.25-4.70%	August 2022	1,653,000
2002 State Revolving loan fund	19,036,378	4.185%	August 2020	12,501,166
2004 Series bond issue	2,181,000	3.10-4.75%	July 2024	1,845,000
2005 Series bond issue	261,015	4.0-4.40%	January 2026	230,000
2005 State Revolving loan fund	716,020	3.18%	January 2015	501,214
2006 State Revolving loan fund	879,685	3.488%	August 2025	791,717
2007 State Revolving loan fund	341,373	3.352%	July 2027	341,373
2007 State Revolving loan fund	483,988	3.352%	September 2026	460,041
Refinancing bonds 2007 - 3 year	310,862	5.50-5.60%	August 2010	310,862
Refinancing bonds 2007 - 13 year	809,685	5.50-5.80%	August 2020	809,685
2008 Series bond issue - 20 year	5,536,042	3.0-5.0%	February 2028	5,536,042
2008 Series bond issue - 10 year	1,079,620	5.25-6.50%	February 2018	1,079,620
2008 Series bond issue - 10 year	948,029	3.0-5.0%	February 2018	948,029
Totals	<u>\$ 50,249,597</u>			<u>\$ 28,354,604</u>

Debt service requirements to retire general obligation bonds outstanding, net of principal forgiveness from the State of New Hampshire to be forgiven over a period of 10 years from the start of the individual State Revolving Loan Funds of \$143,118 at June 30, 2008 are as follows:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 2,406,522	\$ 1,158,557	\$ 3,565,079
2010	2,133,851	1,065,670	3,199,521
2011	2,051,913	980,180	3,032,093
2012	1,991,165	898,904	2,890,069
2013	1,991,153	819,513	2,810,666
2014-2018	9,612,177	2,874,248	12,486,425
2019-2023	6,070,455	1,026,061	7,096,516
2024-2028	1,954,250	226,963	2,181,213
Total	<u>28,211,486</u>	<u>9,050,096</u>	<u>37,261,582</u>
Principal forgiveness	<u>143,118</u>	<u>-</u>	<u>143,118</u>
	<u>\$ 28,354,604</u>	<u>\$ 9,050,096</u>	<u>\$ 37,404,700</u>

Interest expense for the year ended June 30, 2008 was \$2,742,917 on general obligation debt for the City of Rochester. The State of New Hampshire annually reimburses the City for its share of Sewer related debt service payments. For the year ended June 30, 2008, the reimbursement was \$471,977.

State Revolving Loan

The U.S. Environmental Protection Agency sponsors a low interest rate loan program. The loans are administered by the States and are used by local communities to improve their water systems. In fiscal year 2008, the City borrowed an additional \$2,158,078 through the New Hampshire Water Pollution Control Revolving Fund Program. During the year \$825,361 was converted into general obligation bonds and total funding to date is \$4,739,371, which is reported as "other long-term obligations" in the Proprietary Funds.

Authorized and Unissued Debt

The following debt was authorized and unissued as of June 30, 2008:

<u>Purpose</u>	<u>Amount</u>	<u>Total</u>
Governmental Funds:		
FY 2002 Authorized	\$ 101,000	
FY 2003 Authorized	82,750	
FY 2004 Authorized	250,000	
FY 2005 Authorized	1,543,998	
FY 2006 Authorized	2,161,896	
FY 2007 Authorized	3,163,800	
FY 2008 Authorized	2,074,938	
School FY 2003 Authorized	5,500	
School FY 2006 Authorized	134,500	
School FY 2007 Authorized	487,000	
School FY 2008 Authorized	<u>980,000</u>	
Total Governmental Funds		\$ 10,985,382

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Business-type Funds:		
Sewer FY 2002 Authorized	\$	75,000
Sewer FY 2003 Authorized		200,000
Sewer FY 2004 Authorized		823,940
Sewer FY 2005 Authorized		2,440,000
Sewer FY 2006 Authorized		767,234
Sewer FY 2007 Authorized		2,658,000
Sewer FY 2008 Authorized		450,000
Water FY 2001 Authorized		90,000
Water FY 2003 Authorized		216,932
Water FY 2004 Authorized		900,000
Water FY 2005 Authorized		2,565,000
Water FY 2006 Authorized		1,692,000
Water FY 2007 Authorized		3,597,600
Water FY 2008 Authorized		<u>720,000</u>
Total Business-type Funds		17,195,706
Combining Total		<u>\$ 28,181,088</u>

Available Debt Margin

The City is subject to State statute which limits debt outstanding to a percentage (dependent upon purpose) of a valuation calculation made annually by the State. As of June 30, 2008, the City had the following available debt margins:

	Net Debt <u>Outstanding</u>	% of Assessed <u>Valuation</u>	Statutory <u>Limit</u>	Available <u>Debt Limit</u>
School	\$ 20,430,204	7.0%	\$ 171,389,716	\$ 150,959,512
Water	8,476,117	10.0%	244,842,451	236,366,334
All other	32,613,116	3.0%	73,452,735	40,839,619

Per State law, debt incurred for sewer expansion is not included in the limitation calculations.

Overlapping Debt

The City's proportionate share of debt of other governmental units which provide services within the City's boundaries, and which must be borne by the resources of the City, is summarized below (unaudited):

<u>Related Entity</u>	Total <u>Principal</u>	City's <u>Percent</u>	City's <u>Share</u>
Strafford County	<u>\$ 21,172,838</u>	21.3294%	<u>\$ 4,516,039</u>

This liability is appropriately not reported in the accompanying financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

NOTE 9—ADVANCE REFUNDING OF DEBT

Governmental Activities

During the year ending June 30, 2008, the City issued \$5,079,453 of general obligation bonds to advance refund \$4,718,566 of outstanding bonds (old debt). The net proceeds were used to retire the old debt of \$4,718,566 entirely. As a result, this old debt is considered to be defeased, and the liability for those bonds has been removed from the balance sheet.

Although the advance refunding resulted in the recognition of an economic loss of \$360,887, the City in effect reduced its aggregate debt service payments by \$170,592 for the next thirteen years. In the government-wide statements, this economic loss is being amortized as a component of interest expense over the remaining life of the new debt.

Business-Type Activities

During the year ending June 30, 2008, the City issued \$510,316 of general obligation bonds in the Water Fund to advance refund \$474,059 of outstanding bonds (old debt). During the year ending June 30, 2008, the City also issued \$610,230 of general obligation bonds in the Sewer Fund to advance refund \$566,874 of outstanding bonds (old debt). The net proceeds were used to retire the old debt of \$474,059 and \$610,230 entirely in the Water Fund and Sewer Fund, respectively. As a result this old debt is considered to be defeased, and the liability for those bonds has been removed from the balance sheet.

Although the advance refunding resulted in the recognition of an economic loss of \$36,257 and \$43,356 in the Water Fund and Sewer Fund, respectively, the City in effect reduced its aggregate debt service payments by \$17,139 and \$20,494, respectively for the next thirteen years. In the accompanying financial statements, this economic loss is being amortized as a component of interest expense over the remaining life of the new debt.

NOTE 10—INTERFUND BALANCES AND TRANSFERS

The City has combined the cash resources of its governmental and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reposted in the specific finds as an interfund balance. Interfund balances at June 30, 2008 are as follows:

	General Fund	Due from				Totals
		Nonmajor Governmental Funds	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	
General Fund		\$ 1,710,714	\$ 3,680,562	\$ 191,445	\$ 30,228	\$ 5,612,949
Capital Projects Fund	\$ 189,182					189,182
Nonmajor Governmental Funds	2,078,631					2,078,631
Water Fund			677			677
Sewer Fund	4,278,937					4,278,937
Nonmajor Enterprise Fund	45,128					45,128
	<u>\$ 6,591,878</u>	<u>\$ 1,710,714</u>	<u>\$ 3,681,239</u>	<u>\$ 191,445</u>	<u>\$ 30,228</u>	<u>\$ 12,205,504</u>

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

During the year, several interfund transactions occurred between funds. The various operating transfers were made in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2008 are as follows:

	General Fund	Transfer from		Totals
		Capital Projects Fund	Nonmajor Governmental Funds	
Transfer to General Fund		\$ 240,412	\$ 21,681	\$ 262,093
Capital Projects Fund	\$ 544,174		169,687	713,861
Nonmajor Governmental Funds	135,369	35,898	82,012	253,279
Water Fund			4,700	4,700
Sewer Fund			10,500	10,500
	<u>\$ 679,543</u>	<u>\$ 276,310</u>	<u>\$ 288,580</u>	<u>\$ 1,244,433</u>

NOTE 11—RESTRICTED NET ASSETS

Net assets are restricted for specific purposes as follows:

	Governmental Activities
Endowments	\$ 35,515
Conservation Commission	633,397
Capital Projects	1,101,029
	<u>\$ 1,769,941</u>

NOTE 12—PERMANENT FUNDS

Cemetery care funds are accounted for as permanent funds. The principal amounts of all cemetery funds are restricted in that only income earned may be expended. Principal and income balances at June 30, 2008 are as follows:

	<u>Principal</u>	<u>Income</u>	<u>Total</u>
Cemetery Funds	\$ 35,515	\$ 13,978	\$ 49,493

NOTE 13—TOP TAXPAYERS

The following are the five major property owners as they relate to the assessed property valuation of \$2,316,298,140:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

<u>Taxpayer</u>	<u>Property Valuation</u>	<u>Percentage of Total Valuation</u>
Waste Management of New Hampshire	\$ 55,743,837	2.41%
Public Service Co. of New Hampshire	26,398,300	1.14%
OCW Retail Rochester, LLC	24,671,522	1.07%
Infinity Rochester Property	14,699,000	0.63%
Next Wave Home Estates, LLC	13,464,113	0.58%

NOTE 14—CONTINGENT LIABILITIES

Litigation

There are various claims and suits pending against the City, which arise in the normal course of the City's activities. In the opinion of legal counsel and City management, the potential claims against the City, which are not covered by insurance are immaterial and would not affect the financial position of the City.

Federal Grants

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

NOTE 15—SUBSEQUENT EVENT

During July 2008, the City issued general obligation bonds in the amount of \$713,000 with interest at 4.00% – 5.25% maturing August 15, 2028.

SCHEDULE 1

CITY OF ROCHESTER, NEW HAMPSHIRE

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual (Budgetary Basis) - General Fund

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 43,010,246	\$ 43,010,246	\$ 43,672,657	\$ 662,411
Licenses and permits	4,736,800	4,736,800	4,472,192	(264,608)
Intergovernmental	24,412,332	24,412,332	24,616,701	204,369
Charges for services	958,272	958,272	1,100,099	141,827
Interest income	450,000	450,000	520,989	70,989
Miscellaneous	2,664,700	2,664,700	2,815,454	150,754
Total Revenues	<u>76,232,350</u>	<u>76,232,350</u>	<u>77,198,092</u>	<u>965,742</u>
Expenditures:				
Current:				
General government	3,854,678	3,854,678	3,566,588	288,090
Public safety	10,155,914	10,155,914	10,112,796	43,118
Highways and streets	2,663,382	2,663,382	1,945,011	718,371
Health and welfare	727,064	727,064	568,609	158,455
Culture and recreation	1,704,073	1,704,073	1,624,375	79,698
Community development	168,127	168,127	159,604	8,523
Education	45,915,517	45,915,517	46,157,347	(241,830)
Debt service:				
Principal retirement	5,280,761	5,280,761	5,128,197	152,564
Interest and fiscal charges	2,182,459	2,182,459	1,879,691	302,768
Intergovernmental	4,919,375	4,919,375	4,919,375	-
Total Expenditures	<u>77,571,350</u>	<u>77,571,350</u>	<u>76,061,593</u>	<u>1,509,757</u>
Excess of revenues over (under) expenditures	<u>(1,339,000)</u>	<u>(1,339,000)</u>	<u>1,136,499</u>	<u>2,475,499</u>
Other financing sources (uses):				
Transfers in	221,500	221,500	262,093	(40,593)
Transfers out	(469,174)	(469,174)	(679,543)	(210,369)
Total other financing sources (uses)	<u>(247,674)</u>	<u>(247,674)</u>	<u>(417,450)</u>	<u>(250,962)</u>
Net change in fund balance	(1,586,674)	(1,586,674)	719,049	2,224,537
Fund balances at beginning of year				
- Budgetary Basis	<u>9,004,277</u>	<u>9,004,277</u>	<u>9,004,277</u>	<u>-</u>
Fund balances at end of year				
- Budgetary Basis	<u>\$ 7,417,603</u>	<u>\$ 7,417,603</u>	<u>\$ 9,723,326</u>	<u>\$ 2,224,537</u>

See accompanying notes to the required supplementary information

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2008

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

General Fund

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) are reported on the basis budgeted by the City. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). Budgetary information in these financial statements has been presented only for the General Fund as it is neither practical nor meaningful for other funds. Property tax budgetary revenues are recognized when levied rather than when susceptible to accrual. Budgetary revenues and expenditures were adjusted for on-behalf payments for fringe benefits.

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 78,546,376	\$ 77,876,540
Difference in property taxes meeting susceptible to accrual criteria	49,213	
On-behalf fringe benefits	<u>(1,135,404)</u>	<u>(1,135,404)</u>
Per Schedule 1	<u>\$ 77,460,185</u>	<u>\$ 76,741,136</u>

NOTE 2—BUDGETARY FUND BALANCES

The components of the budgetary fund balance for the General Fund are as follows:

Reserved for tax deeded property	\$ 122,279
Reserved for prepaid expenses	29,885
Reserved for inventory	5,417
Reserved for special purposes	20,000
Unreserved:	
Undesignated	<u>9,545,745</u>
	<u>\$ 9,723,326</u>

NOTE 3—RESERVED FOR SPECIAL PURPOSES

The balance reserved for special purposes at June 30, 2008 is as follows:

Computer purchases	<u>\$ 20,000</u>
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SCHEDULE I
CITY OF ROCHESTER, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF AGRICULTURE		
Pass Through Payments from New Hampshire Department of Education		
Food Donation	10.550	\$ 76,563
School Breakfast Program	10.553	122,051
National School Lunch Program	10.555	601,932
Special Milk Program for Children	10.556	2,470
Summer Food Service Program for Children	10.559	26,567
		<u>829,583</u>
Received directly from the Natural Resources Conservation Service		
Farm and Ranch Lands Protection Program	10.913	<u>500,000</u>
Total Department of Agriculture		<u>1,329,583</u>
DEPARTMENT OF EDUCATION		
Pass Through Payments from New Hampshire Department of Education		
Adult Education - State Grant Program	84.002	
#87318		3,929
#87618		1,087
		<u>5,016</u>
Title I Grants to Local Educational Agencies	84.010	
#70118		177,205
#70195		13,935
#70236		11,099
#70700		9,890
#80119		1,155,437
#80223		10,636
#80224		4,839
#80249		2,065
#80276		16,948
#80702		18,479
		<u>1,420,533</u>
Special Education - Grants to States	84.027	
#72563		113,845
#82593		1,026,643
#82784		49,312
		<u>1,189,800</u>
Vocational Education - Basic Grants to States	84.048A	
#75032		6,206
#85036		129,393
		<u>135,599</u>
Safe and Drug-Free Schools and Communities	84.186	
#76596		32,817
#86628		29,933
		<u>62,750</u>
Innovated Education Program Strategies	84.298A	
#76127		2,596
#86127		2,182
		<u>4,778</u>
Education Technology State Grants	84.318X	
#74547		<u>28,084</u>

SCHEDULE I
CITY OF ROCHESTER, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2008

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
Reading First State Grants	84.357A	
#70758		13,160
#70759		932
#70760		4,524
#80758		137,006
#80759		89,468
#80760		<u>160,830</u>
		<u>405,920</u>
Improving Teacher Quality Grants	84.367A	
#74913		160,315
#80810		82
#84913		<u>247,052</u>
		<u>407,449</u>
Total Department of Education		<u>3,659,929</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Received directly from U.S. Treasury Department		
Community Development Block Grants -		
Entitlement Grants	14.218	
#B-05-MC33-0004		192,532
#B-06-MC33-0004		<u>306,809</u>
		<u>499,341</u>
Pass Through Payments from the Rochester Housing Authority		
Public Housing Capital Fund	14.872	
#50100		<u>60,000</u>
Total Department of Housing and Urban Development		<u>559,341</u>
DEPARTMENT OF JUSTICE		
Pass Through Payments from the New Hampshire Office of the Governor and Attorney General		
Local Law Enforcement Block Grants Program	16.592	
#2007-DJ-BX-0690		<u>22,548</u>
Total Department of Justice		<u>22,548</u>
DEPARTMENT OF HOMELAND SECURITY		
Pass Through Payments from New Hampshire Office of Emergency Management		
Disaster Grants - Presidentially Declared Disasters	97.036	<u>749,086</u>
Emergency Management Performance Grants	97.042	<u>43,549</u>
State Homeland Security Program	97.073	<u>47,368</u>
Total Department of Homeland Security		<u>840,003</u>
DEPARTMENT OF TRANSPORTATION		
Pass Through Payments from New Hampshire Department of Transportation		
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	
#308-08A-032		1,040
#308-08A-109		<u>502</u>
		<u>1,542</u>
Total Department of Transportation		<u>1,542</u>
Total Expenditures of Federal Awards		<u>\$ 6,412,946</u>

See notes to schedule of expenditures of federal awards

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2008

NOTE 1—GENERAL

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

NOTE 2—BASIS OF ACCOUNTING

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

NOTE 3—NON-CASH TRANSACTIONS

The Food Donation Program (CFDA #10.550) is a non-cash program. Dollar values reported on the Schedule of Expenditures of Federal Awards (\$76,563) represent the value of commodities used by the City from this program.

NOTE 4—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The recognition of expenditures of federal awards has been reported in the City's basic financial statements as intergovernmental revenues in the Major and Nonmajor Funds as follows:

Major Funds:	
Capital Projects Fund	\$ 749,086
Nonmajor Funds:	
CDBG Fund	499,341
Federal Projects Fund	3,659,929
Food Service Fund	753,020
Land Protection Fund	500,000
Homeland Security Grants Fund	90,917
Police Grants Fund	84,090
	<u>\$ 6,336,383</u>

Vachon, Clukay & Co., PC

Certified Public Accountants

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

To the Honorable Mayor, City Council and Manager
City of Rochester, New Hampshire

We have audited the financial statements of the City of Rochester, New Hampshire as of and for the year ended June 30, 2008, and have issued our report thereon dated February 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

Vachon, Clark & Co. PC

February 10, 2009

Vachon, Clukay & Co., PC

Certified Public Accountants

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

To the Honorable Mayor, City Council and Manager
City of Rochester, New Hampshire

Compliance

We have audited the compliance of the City of Rochester, New Hampshire (a nonprofit organization) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2008. The City of Rochester, New Hampshire's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Rochester, New Hampshire's management. Our responsibility is to express an opinion on the City of Rochester, New Hampshire's compliance based on our audit.

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

In our opinion, the City of Rochester, New Hampshire complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

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

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

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

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

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

A handwritten signature in black ink, reading "Jackson, Cluckey & Co., PC". The signature is written in a cursive, flowing style.

February 10, 2009

**City of Rochester, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008**

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

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

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.357	Reading First State Grants
84.367	Improving Teacher Quality State Grants
10.913	Farm and Ranch Lands Protection Program
14.218	Community Development Block Grants
97.036	Disaster Grants – Public Assistance

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

Auditee qualified as low-risk auditee? X yes _____ no

Section II--Financial Statement Findings

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

Section III--Federal Award Findings and Questioned Costs

There were no findings and questioned costs as defined under OMB Circular A-133 .510(a).