

CITY OF ROCHESTER, NEW HAMPSHIRE
Financial Statements
With Schedule of Expenditures of Federal Awards
June 30, 2009
and
Independent Auditor's Report

**Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
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, 2009

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**CITY OF ROCHESTER, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2009**

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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, 2009, 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, 2009, 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 8, 2010 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. 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, budgetary comparison information, and the schedule of funding progress for other post-employment benefits on pages i-ix and 33-36, 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 required 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, New Hampshire'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 stated in all material respects, in relation to the basic financial statements taken as a whole.

Vachon Clerkay & Company PC

February 8, 2010

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, 2009. Please read this analysis in conjunction with the 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. For Fiscal Year Ending June 30, 2009, the City is complying with the requirements of GASB45 for recording Other Post Employment Benefits (OPEB). Note 9 of these audited financial statements reflect the City's actuarial liability and annual costs.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

- The City's total assets, \$ 214.7 million, exceeded total liabilities, \$108.8 million, by \$105.9 million. This amount is the Total Net Assets on Exhibit A, Statement of Net Assets for Governmental and Business-Type Activities. The \$105.9 million is reported as \$94.6 million invested in capital assets, net of related debt, \$.9 million restricted and \$10.4 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 Total Net Assets on Exhibit A increased by \$4.7 million or 4.7% in fiscal year 2009.
- The City's Total Assets on Exhibit A increased by \$.2 million or less than .1% and Business-type Activities decreased by \$.8 million or less than 1%.

Fund Highlights

- The Fund Balance for all governmental funds decreased by \$2.9 million to \$8.5 million for the fiscal year ending June 30, 2009. This amount is 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 \$.9 million to \$9.6 million. The fund balance for all other funds decreased by \$3.8 million to \$(1.1) million. The primary reason for the decrease and negative balance in all other funds is due to the City paying for capital projects before bonds have been sold and proceeds received. Subsequent to Fiscal Year Ending June 30, 2009, the City issued \$9.3 million in bonds to reimburse itself for capital projects expended.
- Total cost of all of the City's programs, not including grants, donations and capital projects, increased by \$2.3 million or 3.0%.

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. 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

The 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 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. Other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, are needed 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 B, Statement of Activities. These financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants., The City Council, however, establishes many other funds to help it control and manage money for particular purposes, (e.g. capital improvements, school food service programs, 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 three kinds of funds- *governmental, proprietary and fiduciary* - 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. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation is described 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* 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 in separate 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 \$105.9 million. Separating the net assets and net expenses of Governmental and Business-type Activities, this represents \$61.2 million for Governmental Activities and \$44.7 million for Business-type Activities.

Table 1
Net Assets
(in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current and other assets	35.6	37.6	2.2	8.2	37.8	45.8
Capital assets	<u>101.2</u>	<u>99.1</u>	<u>75.8</u>	<u>70.5</u>	<u>177.0</u>	<u>169.6</u>
Total Assets	136.8	136.7	78.0	78.7	214.8	215.4
Noncurrent liabilities	(43.4)	(47.3)	(29.2)	(30.7)	(72.6)	(78.0)
Other liabilities	<u>(32.2)</u>	<u>(30.8)</u>	<u>(4.0)</u>	<u>(4.5)</u>	<u>(36.2)</u>	<u>(35.3)</u>
Total liabilities	(75.6)	(78.1)	(33.2)	(35.2)	(108.8)	(113.3)
Invested in capital assets, net of debt	(53.6)	(46.6)	(41.0)	(37.3)	(94.6)	(83.9)
Restricted	(0.9)	(1.8)	-	-	(0.9)	(1.8)
Unrestricted (deficit)	<u>(6.7)</u>	<u>(10.1)</u>	<u>(3.7)</u>	<u>(6.2)</u>	<u>(10.4)</u>	<u>(16.3)</u>
Total net assets	(61.2)	(58.5)	(44.7)	(43.5)	(105.9)	(102.0)

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

The City's unrestricted governmental net assets decreased by \$3.3 million to \$6.8 million. This decrease represents a decrease in the amount of funds available to meet the City's general fund obligations due to a drawdown of cash to expend on capital projects before bonds are sold. 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. It is anticipated, however, that the City will bond annually or at least more frequently than the eighteen to 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 are 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.

The City's net assets increased by \$4.7 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	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for services	2.3	2.5	8.3	8.1	10.6	10.6
Operating grants	29.4	29.2	-	-	29.4	29.2
Capital grants and contributions	1.7	3.2	0.4	-	2.1	3.2
General Revenues:						
Property taxes	47.0	43.7	-	-	47.0	43.7
Licenses and permits	4.2	4.5	-	-	4.2	4.5
Other general revenues	<u>6.0</u>	<u>5.8</u>	<u>0.1</u>	<u>0.3</u>	<u>6.1</u>	<u>6.1</u>
Total revenues	90.6	88.9	8.8	8.4	99.4	97.3
Program Expenses:						
General government	3.9	3.9	-	-	3.9	3.9
Public safety	11.5	10.9	-	-	11.5	10.9
Public works	6.1	6.3	-	-	6.1	6.3
Health and welfare	0.4	0.6	-	-	0.4	0.6
Culture and recreation	1.8	2.4	-	-	1.8	2.4
Community development	0.8	0.8	-	-	0.8	0.8
Community services	0.7	0.7	-	-	0.7	0.7
Education	52.5	50.5	-	-	52.5	50.5
Food services	1.7	1.7	-	-	1.7	1.7
Capital outlay	-	0.2	-	-	-	0.2
Interest and fiscal charges	2.3	1.8	-	-	2.3	1.8
Intergovernmental	5.4	4.9	-	-	5.4	4.9
Water	-	-	3.1	2.7	3.1	2.7
Sewer	-	-	4.1	3.6	4.1	3.6
Arena	<u>-</u>	<u>-</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
Total Expenses	87.1	84.7	7.6	6.7	94.7	91.4
Excess (deficiency) before special items and transfers	3.5	4.2	1.2	1.7	4.7	5.9
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	3.5	4.2	1.2	1.7	4.7	5.9

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 \$2.36 billion or 3.5% increase as of April 1, 2008. The tax rate increased to \$19.99 or 6.2% over the previous year.
- The City is committed to regular infrastructure and capital improvements. The capital budget for fiscal year 2009 was \$7.4 million. With 29.8% earmarked for Highway projects, 18.5% earmarked for Water projects and 28.7% 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 2010 the total capital budget is \$4.6 million; less than 50% of the budgeted capital projects in Fiscal year 2008. 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: \$212 thousand; charges for services, \$154 thousand, intergovernmental \$214 thousand and miscellaneous revenues, \$145 thousand. An indication of the slowing economy is the shortfall in revenue collection of licenses and permits of \$84 thousand for building permits and vehicle registrations. Additional budget to actual variances can be found on Schedule 1, Statement of Revenues, Expenditures and Changes in Fund Balances.

While the national economy continued to weaken during fiscal year 2009, the New Hampshire economy, although soft, has remained stronger than the nation as a whole. Employment has weakened at this time and unemployment has increased since June 2008. The housing market and sales of existing homes in New Hampshire and nationally has decreased substantially. Property values are falling and foreclosure rates have increased. According to a recent report by the New Hampshire Housing Finance Authority, however, 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.

Even though the City of Rochester is recognizing a slowdown in vehicle registrations, this 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 considerably. 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. During this period of economic downturn, the Economic Development Department continues to court prospective businesses and plan for future development so that the City is prepared to take advantage of the next economic improvement cycle in the national, regional and local economy.

Business-type Activities

Operating revenues for the City's business-type activities exceeded expenses by \$1.2 million as presented in Exhibit F of the attached statements.

- The City sewer system posted a change in net assets of \$.9 million. This fund is now starting to show

contributions to Net Assets instead of reductions due to the City's systematic annual increase of the sewer rate structure,. 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 \$.8 million decrease in cash balance from the beginning of the year. This is a negative change from the previous year's increase of \$1.3 million. 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 change of \$40 thousand. Expected additional environmental cleanup costs were incurred during fiscal year 2009 which finalized the expenses associated with this cleanup issue. 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 closely monitor 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 Governmental Funds as presented in the Statement of Revenues, Expenditures and Changes in Fund Balances on Schedule 1, reported a budgetary fund balance of \$10.9 million, which is ahead of last year's total of \$9.7 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 revenues and expenditures.

General Fund Budgetary Highlights

Supplemental appropriations were approved by the City Council at various 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, 2009 is \$320.4 million (see Table 3 below). Accumulated depreciation amounts to \$147.0 million, leaving a Total Capital Assets net balance of \$173.4 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
(net of Depreciation, in Millions)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	6.9	6.8	2.7	2.7	9.6	9.5
Land improvements	2.5	2.4	0.1	0.1	2.6	2.5
Buildings & improvements	32.0	32.2	29.9	30.1	61.9	62.3
Vehicles & equipment	5.5	3.9	2.1	1.6	7.6	5.5
Infrastructure	33.3	32.4	28.2	25.7	61.5	58.1
Construction in progress	<u>20.6</u>	<u>21.1</u>	<u>9.4</u>	<u>10.2</u>	<u>30.0</u>	<u>31.3</u>
Totals	100.8	98.8	72.4	70.4	173.2	169.2

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. Even though 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. In November 2009, subsequent to the June 30 fiscal year end, the City did issue a \$5 million line of credit tax anticipation note. This was done to allow the City to maintain \$12 million certificate of deposit investments earning 3.25% and not withdraw any of these funds. Less than \$2 million was actually drawn from the line of credit and full repayment was made on January 8, 2010. As of June 30, 2009, the total debt outstanding for all funds is \$74.9 million. See Table 4 below.

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds (backed by the City) and State revolving notes	<u>47.2</u>	<u>44.4</u>	<u>27.7</u>	<u>22.0</u>	<u>74.9</u>	<u>66.4</u>
Totals	47.2	44.4	27.7	22.0	74.9	66.4

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

As of January 20, 2010, the City's general obligation bond rating from Moody's remained at A3 and a new rating of AA- was received from Standard and Poors. 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 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 2010 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, 2009, the New Hampshire Employment Security Economic and Labor Market Information Bureau reported that Local Area Unemployment (LAUS) in the City stands at 8.3 % versus 4.2% a year ago. This is slightly higher than the State's unemployment rate of 6.8 % but considerably less than the national rate of 9.7 %. During the same period requests for financial and other assistance by working families to City programs remains steady.

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. Several high profile developments have opened for business in the past two years, however, 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 2010 in both the operating and capital budgets, the City has taken a very conservative approach to budgeting and is 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 \$4.6 million approved for capital improvements, approximately \$2.3 million will focus on infrastructure items; namely road improvements and upgrades to water and sewer delivery/collection systems. Approximately \$1.1 million is designated for School improvements and upgrades. The balance, approximately \$.85 million, is being invested in various other programs.

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 investment in the City and 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. 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, an airport and it is centrally located near the region's most attractive natural resources. It is anticipated that new commercial/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, 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 which is celebrating its Centennial this year. It is one of the oldest, restored opera houses, in the United States and the only one remaining with a functioning moving floor.. These factors, altogether, 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 demonstrate 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, 2009

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 15,949,446		\$ 15,949,446
Investments	12,980,413		12,980,413
Taxes receivable, net	1,499,197		1,499,197
Accounts receivable	832,030	\$ 2,655,565	3,487,595
Due from other governments	2,001,307	1,522,748	3,524,055
Internal balances	2,256,907	(2,256,907)	-
Deferred debt financing expense	53,670	11,840	65,510
Prepaid expenses	26,524	11,597	38,121
Inventory	16,034	248,539	264,573
Total Current Assets	<u>35,615,528</u>	<u>2,193,382</u>	<u>37,808,910</u>
Noncurrent Assets:			
Due from other governments		3,280,353	3,280,353
Tax deeded property	122,279		122,279
Deferred debt financing expense	226,711	50,013	276,724
Capital assets:			
Non-depreciable capital assets	27,531,554	12,089,643	39,621,197
Depreciable capital assets, net	<u>73,289,599</u>	<u>60,342,470</u>	<u>133,632,069</u>
Total Noncurrent Assets	<u>101,170,143</u>	<u>75,762,479</u>	<u>176,932,622</u>
Total Assets	<u>\$ 136,785,671</u>	<u>\$ 77,955,861</u>	<u>\$ 214,741,532</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 1,805,389	\$ 225,003	\$ 2,030,392
Accrued expenses	5,128,937	936,567	6,065,504
Retainage payable	361,183	132,833	494,016
Deferred revenue	18,462,745	438,484	18,901,229
Deposits	948,011		948,011
Deferred bond premium	13,473		13,473
Current portion of bonds payable	<u>5,418,622</u>	<u>2,226,470</u>	<u>7,645,092</u>
Total Current Liabilities	<u>32,138,360</u>	<u>3,959,357</u>	<u>36,097,717</u>
Noncurrent Liabilities:			
Deferred bond premium	156,204		156,204
Bonds payable	41,762,705	25,466,855	67,229,560
Other long-term obligations		3,720,141	3,720,141
Other post-employment benefits payable	624,431	71,459	695,890
Compensated absences payable	<u>881,490</u>		<u>881,490</u>
Total Noncurrent Liabilities	<u>43,424,830</u>	<u>29,258,455</u>	<u>72,683,285</u>
Total Liabilities	<u>75,563,190</u>	<u>33,217,812</u>	<u>108,781,002</u>
NET ASSETS			
Invested in capital assets, net of related debt	53,639,826	41,018,647	94,658,473
Restricted	891,157		891,157
Unrestricted	<u>6,691,498</u>	<u>3,719,402</u>	<u>10,410,900</u>
Total Net Assets	<u>61,222,481</u>	<u>44,738,049</u>	<u>105,960,530</u>
Total Net Assets and Liabilities	<u>\$ 136,785,671</u>	<u>\$ 77,955,861</u>	<u>\$ 214,741,532</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, 2009

Functions/Programs	<u>Expenses</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for <u>Services</u>	Operating Grants and <u>Contributions</u>	Capital Grants and <u>Contributions</u>	Governmental <u>Activities</u>	Primary Government Business-type <u>Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 3,844,309	\$ 24,185	\$ 2,950	\$ 110,434	\$ (3,706,740)		\$ (3,706,740)
Public safety	11,527,641	454,435	767,886	1,547,589	(8,757,731)		(8,757,731)
Highways and streets	6,090,218	110,916	542,690		(5,436,612)		(5,436,612)
Health and welfare	420,857				(420,857)		(420,857)
Culture and recreation	1,771,170	188,918			(1,582,252)		(1,582,252)
Community development	800,426		411,068		(389,358)		(389,358)
Community services	726,976	646,919			(80,057)		(80,057)
Education	52,469,529	2,470	26,847,270		(25,619,789)		(25,619,789)
Food service	1,664,234	866,638	820,669		23,073		23,073
Interest and fiscal charges	2,334,481				(2,334,481)		(2,334,481)
Intergovernmental	5,416,767				(5,416,767)		(5,416,767)
Total governmental activities	<u>87,066,608</u>	<u>2,294,481</u>	<u>29,392,533</u>	<u>1,658,023</u>	<u>(53,721,571)</u>	<u>\$ -</u>	<u>(53,721,571)</u>
Business-type activities:							
Sewer	4,075,383	4,562,046		375,436		862,099	862,099
Water	3,079,555	3,309,495		25,015		254,955	254,955
Nonmajor enterprise fund	416,616	455,896				39,280	39,280
Total business-type activities	<u>7,571,554</u>	<u>8,327,437</u>	<u>-</u>	<u>400,451</u>	<u>-</u>	<u>1,156,334</u>	<u>1,156,334</u>
Total primary government	<u>\$ 94,638,162</u>	<u>\$ 10,621,918</u>	<u>\$ 29,392,533</u>	<u>\$ 2,058,474</u>	<u>(53,721,571)</u>	<u>1,156,334</u>	<u>(52,565,237)</u>
General revenues:							
Property and other taxes					47,039,310		47,039,310
Licenses and permits					4,158,834		4,158,834
Grants and contributions:							
State shared revenues					530,950		530,950
Rooms and meals tax distribution					1,378,129		1,378,129
Interest and investment earnings					473,100	11,250	484,350
Miscellaneous					3,635,519	61,033	3,696,552
Total general revenues					<u>57,215,842</u>	<u>72,283</u>	<u>57,288,125</u>
Change in net assets					3,494,271	1,228,617	4,722,888
Net assets - beginning, as restated					<u>57,728,210</u>	<u>43,509,432</u>	<u>101,237,642</u>
Net assets - ending					<u>\$ 61,222,481</u>	<u>\$ 44,738,049</u>	<u>\$ 105,960,530</u>

See accompanying notes to the basic financial statements

EXHIBIT C
CITY OF ROCHESTER, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 15,610,501		\$ 338,945	\$ 15,949,446
Investments	12,924,010		56,403	12,980,413
Taxes receivable, net	1,499,197			1,499,197
Accounts receivable	390,768		441,262	832,030
Due from other governments		\$ 673,168	1,328,139	2,001,307
Due from other funds	6,988,892		1,993,420	8,982,312
Prepaid expenses	26,524			26,524
Inventory	5,332		10,702	16,034
Tax deeded property	122,279			122,279
Total Assets	<u>\$ 37,567,503</u>	<u>\$ 673,168</u>	<u>\$ 4,168,871</u>	<u>\$ 42,409,542</u>
LIABILITIES				
Accounts payable	\$ 1,279,952	\$ 214,539	\$ 310,898	\$ 1,805,389
Accrued expenses	4,300,148		20,228	4,320,376
Retainage payable		361,183		361,183
Deferred revenue	19,413,532		345,977	19,759,509
Deposits	948,011			948,011
Due to other funds	1,993,420	3,331,496	1,400,489	6,725,405
Total Liabilities	<u>27,935,063</u>	<u>3,907,218</u>	<u>2,077,592</u>	<u>33,919,873</u>
FUND BALANCES				
Reserved for endowments			41,737	41,737
Reserved for prepaid expenses	26,524			26,524
Reserved for inventory	5,332		10,702	16,034
Reserved for special purposes	20,000			20,000
Unreserved (deficit) reported in:				
General fund	9,580,584			9,580,584
Special revenue funds			2,024,174	2,024,174
Capital projects funds		(3,234,050)		(3,234,050)
Permanent funds			14,666	14,666
Total Fund Balances	<u>9,632,440</u>	<u>(3,234,050)</u>	<u>2,091,279</u>	<u>8,489,669</u>
Total Liabilities and Fund Balances	<u>\$ 37,567,503</u>	<u>\$ 673,168</u>	<u>\$ 4,168,871</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				100,821,153
Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis				1,296,764
Deferred debt expense is recognized on an accrual basis in the statement of net assets, not the modified accrual basis				280,381
Deferred bond premiums are recognized on an accrual basis in the statement of net assets, not the modified accrual basis				(169,677)
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				(47,181,327)
Other post-employment benefits				(624,431)
Compensated absences				(881,490)
Accrued interest on long-term obligations				(808,561)
Net assets of governmental activities				<u>\$ 61,222,481</u>

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, 2009

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 46,788,255			\$ 46,788,255
Licenses and permits	4,158,834			4,158,834
Intergovernmental	25,708,291	\$ 1,604,847	\$ 5,593,321	32,906,459
Charges for services	778,454		1,516,027	2,294,481
Investment income (loss)	475,263		(2,163)	473,100
Miscellaneous	2,898,950	570,526	166,043	3,635,519
Total Revenues	<u>80,808,047</u>	<u>2,175,373</u>	<u>7,273,228</u>	<u>90,256,648</u>
Expenditures:				
Current operations:				
General government	3,448,862		1,489	3,450,351
Public safety	10,565,908		359,542	10,925,450
Highways and streets	2,613,477			2,613,477
Health and welfare	418,797			418,797
Culture and recreation	1,644,557		53,839	1,698,396
Community development	159,937		640,089	800,026
Community services			696,038	696,038
Education	47,361,088		4,159,600	51,520,688
Food service			1,658,797	1,658,797
Capital outlay		6,830,935	2,300	6,833,235
Debt service:				
Principal retirement	5,682,107			5,682,107
Interest and fiscal charges	2,195,046			2,195,046
Intergovernmental	5,416,767			5,416,767
Total Expenditures	<u>79,506,546</u>	<u>6,830,935</u>	<u>7,571,694</u>	<u>93,909,175</u>
Excess of revenues over (under) expenditures	<u>1,301,501</u>	<u>(4,655,562)</u>	<u>(298,466)</u>	<u>(3,652,527)</u>
Other financing sources (uses):				
Proceeds from bond issuances		692,995		692,995
Bond premium		20,005		20,005
Transfers in	349,380	753,002	392,191	1,494,573
Transfers out	(696,058)	(382,135)	(416,380)	(1,494,573)
Total other financing sources (uses)	<u>(346,678)</u>	<u>1,083,867</u>	<u>(24,189)</u>	<u>713,000</u>
Net change in fund balances	954,823	(3,571,695)	(322,655)	(2,939,527)
Fund balances at beginning of year, as restated	<u>8,677,617</u>	<u>337,645</u>	<u>2,413,934</u>	<u>11,429,196</u>
Fund balances (deficit) at end of year	<u>\$ 9,632,440</u>	<u>\$ (3,234,050)</u>	<u>\$ 2,091,279</u>	<u>\$ 8,489,669</u>

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, 2009

New Change in Fund Balances--Total Governmental Funds	\$ (2,939,527)
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.	1,928,060
Donations of capital assets are not reported in the funds, but the in-kind donations increase net assets.	53,176
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	251,055
Proceeds from bond issues are other financing sources in the funds, but bond issues increase long-term liabilities in the statement of net assets.	(692,995)
Repayment of capital lease and bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	5,710,307
In the statement of activities, deferred debt financing expense and deferred debt bond premiums are amortized and included with interest expense.	(61,203)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(96,376)
Some expenses reported in the statement of activities, such as compensated absences and other post-employment benefits do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(658,226)
Change in Net Assets of Governmental Activities	<u>\$ 3,494,271</u>

See accompanying notes to the basic financial statements

EXHIBIT E
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Business-type Activities			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	Totals
ASSETS				
Current Assets:				
Accounts receivable	\$ 1,645,527	\$ 998,144	\$ 11,894	\$ 2,655,565
Due from other governments	1,522,668	80		1,522,748
Due from other funds		4,493		4,493
Deferred debt financing expense	6,448	5,392		11,840
Prepaid expenses		11,597		11,597
Inventory		248,539		248,539
Total Current Assets	<u>3,174,643</u>	<u>1,268,245</u>	<u>11,894</u>	<u>4,454,782</u>
Noncurrent Assets:				
Due from other governments	3,280,353			3,280,353
Deferred debt financing expense	27,236	22,777		50,013
Capital assets:				
Non-depreciable capital assets	4,832,581	7,185,089	71,973	12,089,643
Depreciable capital assets, net	<u>39,582,320</u>	<u>19,758,379</u>	<u>1,001,771</u>	<u>60,342,470</u>
Total Noncurrent Assets	<u>47,722,490</u>	<u>26,966,245</u>	<u>1,073,744</u>	<u>75,762,479</u>
Total Assets	<u>\$ 50,897,133</u>	<u>\$ 28,234,490</u>	<u>\$ 1,085,638</u>	<u>\$ 80,217,261</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 109,203	\$ 109,049	\$ 6,751	\$ 225,003
Accrued expenses	677,277	234,495	24,795	936,567
Retainage payable	50,338	82,495		132,833
Deferred revenue	436,752		1,732	438,484
Due to other funds	250,870	1,995,109	15,421	2,261,400
Current portion of bonds payable	<u>1,538,380</u>	<u>620,325</u>	<u>67,765</u>	<u>2,226,470</u>
Total Current Liabilities	<u>3,062,820</u>	<u>3,041,473</u>	<u>116,464</u>	<u>6,220,757</u>
Noncurrent Liabilities:				
Bonds payable	17,352,941	7,366,032	747,882	25,466,855
Other long-term obligations	1,963,077	1,757,064	-	3,720,141
Other post-employment benefits payable	<u>34,663</u>	<u>33,256</u>	<u>3,540</u>	<u>71,459</u>
Total Noncurrent Liabilities	<u>19,350,681</u>	<u>9,156,352</u>	<u>751,422</u>	<u>29,258,455</u>
Total Liabilities	<u>22,413,501</u>	<u>12,197,825</u>	<u>867,886</u>	<u>35,479,212</u>
NET ASSETS				
Invested in capital assets, net of related debt	23,560,503	17,200,047	258,097	41,018,647
Unrestricted (deficit)	<u>4,923,129</u>	<u>(1,163,382)</u>	<u>(40,345)</u>	<u>3,719,402</u>
Total Net Assets	<u>28,483,632</u>	<u>16,036,665</u>	<u>217,752</u>	<u>44,738,049</u>
Total Liabilities and Net Assets	<u>\$ 50,897,133</u>	<u>\$ 28,234,490</u>	<u>\$ 1,085,638</u>	<u>\$ 80,217,261</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, 2009

	Business-type Activities			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	Totals
Operating revenues:				
Charges for services	\$ 4,562,046	\$ 3,309,495	\$ 455,896	\$ 8,327,437
Miscellaneous	25,627	35,406	-	61,033
Total operating revenues	<u>4,587,673</u>	<u>3,344,901</u>	<u>455,896</u>	<u>8,388,470</u>
Operating expenses:				
Personnel services	1,058,689	1,096,780	191,277	2,346,746
Materials and supplies	400,454	350,283	13,951	764,688
Utilities	460,775	143,256	95,013	699,044
Depreciation	968,840	829,763	41,797	1,840,400
Miscellaneous	309,077	327,852	36,406	673,335
Total operating expenses	<u>3,197,835</u>	<u>2,747,934</u>	<u>378,444</u>	<u>6,324,213</u>
Operating income	<u>1,389,838</u>	<u>596,967</u>	<u>77,452</u>	<u>2,064,257</u>
Non-operating revenues (expenses):				
Interest revenue	-	10,000	1,250	11,250
Interest expense	(877,548)	(331,621)	(38,172)	(1,247,341)
Net non-operating revenues (expenses)	<u>(877,548)</u>	<u>(321,621)</u>	<u>(36,922)</u>	<u>(1,236,091)</u>
Income before contributions	512,290	275,346	40,530	828,166
Capital contributions	<u>375,436</u>	<u>25,015</u>		<u>400,451</u>
Change in net assets	887,726	300,361	40,530	1,228,617
Total net assets at beginning of year	<u>27,595,906</u>	<u>15,736,304</u>	<u>177,222</u>	<u>43,509,432</u>
Total net assets at end of year	<u>\$ 28,483,632</u>	<u>\$ 16,036,665</u>	<u>\$ 217,752</u>	<u>\$ 44,738,049</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, 2009

	Business-type Activities			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 4,505,737	\$ 3,284,087	\$ 449,583	\$ 8,239,407
Cash paid to suppliers	(1,564,049)	(1,227,708)	(224,252)	(3,016,009)
Cash paid to employees	(775,255)	(751,438)	(127,192)	(1,653,885)
Net cash provided by operating activities	<u>2,166,433</u>	<u>1,304,941</u>	<u>98,139</u>	<u>3,569,513</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(1,184,140)	(2,720,748)	(33,361)	(3,938,249)
Proceeds from long-term debt	296,902	703,595		1,000,497
Principal paid on long-term debt	(1,823,544)	(755,699)	(57,235)	(2,636,478)
Interest paid on long-term debt	(826,045)	(352,443)	(39,114)	(1,217,602)
Capital contributions	<u>521,826</u>	<u>10,506</u>		<u>532,332</u>
Net cash (used) for capital and related financing activities	<u>(3,015,001)</u>	<u>(3,114,789)</u>	<u>(129,710)</u>	<u>(6,259,500)</u>
Cash flows from investing activities:				
Interest on investments	-	10,000	1,250	11,250
Net cash provided by investing activities	<u>-</u>	<u>10,000</u>	<u>1,250</u>	<u>11,250</u>
Net (decrease) in cash and cash equivalents	(848,568)	(1,799,848)	(30,321)	(2,678,737)
Cash and cash equivalents (deficiency) at beginning of year	<u>597,698</u>	<u>(190,768)</u>	<u>14,900</u>	<u>421,830</u>
Cash and cash equivalents (deficiency) at end of year	<u>\$ (250,870)</u>	<u>\$ (1,990,616)</u>	<u>\$ (15,421)</u>	<u>\$ (2,256,907)</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 1,389,838	\$ 596,967	\$ 77,452	\$ 2,064,257
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	968,840	829,763	41,797	1,840,400
Changes in assets and liabilities:				
Accounts receivable	(52,655)	(60,814)	(6,313)	(119,782)
Prepaid expenses		4,900		4,900
Inventory		(17,158)		(17,158)
Accounts payable	(146,336)	(95,011)	(19,576)	(260,923)
Accrued expenses	1,364	13,038	1,239	15,641
Deferred revenue	(29,281)			(29,281)
Other post-employment benefits payable	<u>34,663</u>	<u>33,256</u>	<u>3,540</u>	<u>71,459</u>
Net cash provided by operating activities	<u>\$ 2,166,433</u>	<u>\$ 1,304,941</u>	<u>\$ 98,139</u>	<u>\$ 3,569,513</u>
Non-cash transactions affecting financial position:				
Capital asset additions included in year end liabilities	\$ 50,338	\$ 82,495	\$ -	\$ 132,833
Capitalized construction interest	24,264			24,264
Principal forgiveness on debt		14,515		14,515
Amortization on deferred debt financing	<u>6,448</u>	<u>5,392</u>		<u>11,840</u>
	<u>\$ 81,050</u>	<u>\$ 102,402</u>	<u>\$ -</u>	<u>\$ 183,452</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, 2009

	Private- Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 35,364	\$ 180,975
Investments	<u>1,469,845</u>	
Total Assets	<u>\$ 1,505,209</u>	<u>\$ 180,975</u>
LIABILITIES		
Due to student groups		<u>\$ 180,975</u>
Total Liabilities	<u>\$ -</u>	<u>\$ 180,975</u>
NET ASSETS		
Held in trust	<u>1,505,209</u>	
Total Net Assets	<u>\$ 1,505,209</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, 2009

	Private- Purpose <u>Trust Funds</u>
ADDITIONS:	
Contributions:	
Private donations	\$ 186,118
Total Contributions	<u>186,118</u>
Investment earnings:	
Investment income	21,606
Net decrease in the fair value of investments	<u>(79,574)</u>
Total Investment Earnings	<u>(57,968)</u>
Less: Investment expense	-
Net Investment Earnings	<u>(57,968)</u>
Total Additions	<u>128,150</u>
DEDUCTIONS:	
Benefits	<u>46,233</u>
Total Deductions	<u>46,233</u>
Change in Net Assets	81,917
Net assets - beginning of year	<u>1,423,292</u>
Net assets - end of year	<u>\$ 1,505,209</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, 2009

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, 2009

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 main 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, 2009

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 revenues, expenses and changes in 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. The City has elected not to follow the FASB pronouncements issued subsequent to November 30, 1989.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

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, 2009

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, 2009, the City applied \$1,211,512 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		\$ 250,870	\$ (250,870)
Water Fund	\$ 4,493	1,995,109	(1,990,616)
Nonmajor Enterprise Fund	-	15,421	(15,421)
	<u>\$ 4,493</u>	<u>\$ 2,261,400</u>	<u>\$(2,256,907)</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, 2009 are recorded as receivables net of reserves for estimated uncollectibles of \$2,070,651.

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, 2009 is \$280,381, \$28,169, and \$33,684 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, 2009 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, 2009

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

Deferred Bond Premium

The issuance of general obligation bonds resulted in a difference between the bond proceeds and the actual principal to be repaid. This difference, reported in the accompanying financial statements as deferred bond premium, is being amortized as a component of interest expense over the remaining life of the debt. The balance of the deferred bond premium as of June 30, 2009 is \$169,677.

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,

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

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.

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.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

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.

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$2,357,398,865 as of April 1, 2008) and are due in two installments on July 7, 2008 and December 10, 2008. 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, 2009 were \$5,416,767. The City bears responsibility for uncollected taxes.

NOTE 3—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At June 30, 2009, the Capital Projects Fund was in a deficit position of \$3,234,050. This is due to a timing issue related to the issuance of general obligation bonds.

NOTE 4—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, 2009, 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 "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, 2009.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

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 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 5—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, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 15,949,446
Investments	12,980,413
Statement of fiduciary net assets:	
Cash and cash equivalents	216,339
Investments	<u>1,469,845</u>
Total deposits and investments	<u>\$ 30,616,043</u>

Deposits and investments as of June 30, 2009 consist of the following:

Cash on hand	\$ 5,275
Deposits with financial institutions	29,073,405
Investments	<u>1,537,363</u>
Total deposits and investments	<u>\$ 30,616,043</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.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

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:

		Remaining Maturity (in Years)		
		0-1 Years	1-5 Years	> 5 Years
Federal agency securities	\$ 227,172	\$ 25,367	\$ 107,376	\$ 94,429
State investment pool	11,114	11,114		
Corporate bonds	217,886	30,977	76,776	110,133
	<u>\$ 456,172</u>	<u>\$ 67,458</u>	<u>\$ 184,152</u>	<u>\$ 204,562</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 City's investment policy addresses credit risk by limiting investments to the safest types of securities and diversifying the investment portfolio. With the exception of U.S. Treasury securities, U.S. Government agencies, and the New Hampshire Public Deposit Investment Pool, no more than 75% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

The following is the actual rating as of year end for each investment type.

Investment Type		Rating as of Year End			
		A	Baa	Ba1	Not Rated
Corporate bonds	\$ 217,886	\$ 170,832	\$ 29,947	\$ 17,107	
State investment pool	11,114				\$ 11,114
Mutual funds	135,814				135,814
Money market mutual funds	339,897				339,897
	<u>\$ 704,711</u>	<u>\$ 170,832</u>	<u>\$ 29,947</u>	<u>\$ 17,107</u>	<u>\$486,825</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.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

In accordance with the City's investment policy, all security transactions must be secured by collateral having a value at least equal to the amount of such funds. The collateral shall only consist of securities in which Cities may invest, as provided in New Hampshire State law (RSA 368:57).

Of the City's deposits with financial institutions at year end \$28,046,264 was collateralized by securities held by the bank in the bank's name. As of June 30, 2009, City 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	\$ 227,172
U.S. Treasury notes	26,296
Certificates of deposits	30,018
Corporate bonds	217,886
Equity securities	549,166
Mutual funds	135,814
Money market mutual funds	339,897
	<u>\$ 1,526,249</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.

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 6—DUE FROM OTHER GOVERNMENTS

Receivables from other governments at June 30, 2009 consist of various federal and state reimbursement receivables. All receivables are considered collectible in full. The sewer state aid grant reimbursements are received over the life of the debt and as such, are classified as current and noncurrent. A summary of the principal items of intergovernmental receivables is as follows:

Police grants	\$ 167,648
Federal food service reimbursement	63,981
Community Development Block Grant	17,793
State and federal school grant reimbursements	1,078,717
State filtration grant	80
State revolving loan funds - Sewer	1,228,390
Sewer state aid grant reimbursement	3,574,631
Capital projects fund - State reimbursements	673,168
	<u>\$ 6,804,408</u>

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

NOTE 7—CAPITAL ASSETS AND DEPRECIATION

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

	Balance 7/1/2008	Additions	Reductions	Balance 6/30/2009
Governmental activities:				
Capital asset not depreciated:				
Land	\$ 6,891,841			\$ 6,891,841
Construction in process	21,073,662	\$ 6,582,379	\$(7,016,328)	20,639,713
Total capital assets not being depreciated	27,965,503	6,582,379	(7,016,328)	27,531,554
Other capital assets:				
Infrastructure	118,672,052	4,210,276		122,882,328
Land improvements	4,667,360	363,024		5,030,384
Buildings and improvements	50,232,882	748,913		50,981,795
Vehicles and equipment	10,884,108	2,273,952		13,158,060
Total other capital assets at historical cost	184,456,402	7,596,165	-	192,052,567
Less accumulated depreciation for:				
Infrastructure	(86,392,951)	(3,140,058)		(89,533,009)
Land improvements	(2,279,335)	(225,025)		(2,504,360)
Buildings and improvements	(18,013,197)	(975,299)		(18,988,496)
Vehicles and equipment	(6,896,505)	(840,598)		(7,737,103)
Total accumulated depreciation	(113,581,988)	(5,180,980)	-	(118,762,968)
Total other capital assets, net	70,874,414	2,415,185	-	73,289,599
Total capital assets, net	\$ 98,839,917	\$ 8,997,564	\$(7,016,328)	\$ 100,821,153

Depreciation was charged to functions as follows:

General government	\$ 274,793
Public safety	436,360
Highways and streets	3,406,264
Culture and recreation	51,801
Community services	25,948
Education	981,386
Food service	4,428
Total governmental activities depreciation expense	\$ 5,180,980

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

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

	Balance 7/1/2008	Additions	Reductions	Balance 6/30/2009
Business-type activities:				
Capital asset not depreciated:				
Land	\$ 2,653,830			\$ 2,653,830
Construction in process	10,275,823	\$ 3,376,637	\$ (4,216,647)	9,435,813
Total capital assets not being depreciated	12,929,653	3,376,637	(4,216,647)	12,089,643
Other capital assets:				
Land improvements	53,600			53,600
Infrastructure	36,338,715	3,262,114		39,600,829
Buildings and improvements	43,640,181	652,230		44,292,411
Vehicles and equipment	3,992,378	719,904		4,712,282
Total other capital assets at historical cost	84,024,874	4,634,248	-	88,659,122
Less accumulated depreciation for:				
Land improvements	(36,600)	(2,000)		(38,600)
Infrastructure	(10,595,165)	(707,701)		(11,302,866)
Buildings and improvements	(13,492,625)	(893,651)		(14,386,276)
Vehicles and equipment	(2,351,862)	(237,048)		(2,588,910)
Total accumulated depreciation	(26,476,252)	(1,840,400)	-	(28,316,652)
Total other capital assets, net	57,548,622	2,793,848	-	60,342,470
Total capital assets, net	\$ 70,478,275	\$ 6,170,485	\$ (4,216,647)	\$ 72,432,113

Depreciation was charged to proprietary funds as follows:

Sewer fund	\$ 968,840
Water fund	829,763
Nonmajor enterprise fund	41,797
Total business-type activities depreciation expense	\$ 1,840,400

During the year ending June 30, 2009, the City received donated capital assets. These assets have been recorded at their fair value as of the date received and are included in the government-wide financial statements. The total value received and capitalized during the year is as follows:

Land Improvements	\$ 53,176
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NOTE 8—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.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

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 \$1,144,723 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, 2009, 2008 and 2007 were \$2,985,884, \$2,948,973, and \$2,039,729, respectively, equal to the required contributions for each year.

NOTE 9—OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the City provides medical benefits to its eligible retirees. General employees are required to reach age 50 with 10 years of service or age 60 with no service requirement to qualify for this benefit. Police officers and firefighters are required to reach age 45 with 20 years of service or age 60 with no service requirement to qualify for this benefit. Retirees pay the full cost of the health care coverage.

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

Annual OPEB Costs

The City's fiscal 2009 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid, on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of thirty years. The City's annual OPEB cost for the year ending June 30, 2009 including the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2008 is as follows:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

Annual Required Contribution (ARC)	\$ 1,125,076
Interest on net OPEB obligation	-
Annual OPEB cost	1,125,076
Contributions made	(429,186)
Increase in net OPEB obligation	695,890
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u>\$ 695,890</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for year ended June 30, 2009 are as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	\$ 1,125,076	38.1%	\$ 695,890

The City's net OPEB obligation as of June 30, 2009 is recognized as a liability in these financial statements.

Funded Status and Funding Progress for OPEB

The funded status of the plan as of July 1, 2008, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 10,563,975
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 10,563,975</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 36,062,682
UAAL as a percentage of covered payroll	29.3%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. The total cost of providing post-employment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

Actuarial Methods and Assumptions for OPEB

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2008 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4.5% investment rate of return. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level percentage of payroll for a period of thirty years on an open group basis. This has been calculated assuming the amortization payment increases at a rate of 3.0% per year.

NOTE 10—GENERAL DEBT OBLIGATIONS

General Long-term Obligations

The changes in the City's long-term debt obligations for the year ended June 30, 2009 are as follows:

	Balance 7/1/2008	Additions	Reductions	Balance 6/30/2009	Due Within One Year
Governmental activities:					
Bonds payable	\$ 52,170,439	\$ 692,995	\$ (5,682,107)	\$ 47,181,327	\$ 5,418,622
Capital leases payable	28,200		(28,200)	-	
Other post-employment benefits		1,050,159	(425,728)	624,431	
Compensated absences	847,695	237,859	(204,064)	881,490	-
Total governmental activities	<u>\$ 53,046,334</u>	<u>\$ 1,981,013</u>	<u>\$ (6,340,099)</u>	<u>\$ 48,687,248</u>	<u>\$ 5,418,622</u>
Business-type activities:					
Bonds payable	\$ 28,354,604	\$ 1,852,378	\$ (2,513,657)	\$ 27,693,325	\$ 2,226,470
Other post-employment benefits		76,917	(5,458)	71,459	
Other long-term obligations	4,739,371	946,229	(1,965,459)	3,720,141	-
Total business-type activities	<u>\$ 33,093,975</u>	<u>\$ 2,875,524</u>	<u>\$ (4,484,574)</u>	<u>\$ 31,484,925</u>	<u>\$ 2,226,470</u>

Payments on the general obligation bonds and capital lease obligations 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 and other post-employment benefits will be paid from the fund where the employee's salary is paid.

Governmental Activities

Bonds payable at June 30, 2009 are comprised of the following individual issues:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

	Original Issue Amount	Interest Rate	Final Maturity Date	Balance at 6/30/09
1991 NHMBB	\$ 5,484,100	6.80%	December 2010	\$ 548,410
1991 NHMBB	13,031,515	6.80%	January 2011	1,140,000
1992 Series D bonds	1,194,500	5.0-6.10%	January 2013	240,000
Refinancing bonds 1994	6,259,500	2.90-5.20%	November 2009	308,100
1995 Series bond issue	2,440,000	5.25-5.625%	August 2015	840,000
1996 Series bond issue	1,197,000	5.625-5.75%	August 2016	468,000
1997 Series bond issue	1,320,000	4.70-5.30%	August 2017	585,000
1998 Series A	1,779,000	3.90-4.75%	August 2018	762,601
2002 Series bond issue	6,383,000	4.25-4.70%	August 2022	4,433,000
2004 Series bond issue	11,169,735	3.10-4.75%	July 2024	8,160,000
2005 Series bond issue - 20 year	3,724,700	4.0-4.40%	January 2026	3,145,000
2005 Series bond issue - 15 year	285,000	4.0-4.25%	January 2021	225,000
2005 Series bond issue - 10 year	2,144,568	4.0-4.25%	January 2016	1,480,000
2005 Series bond issue - Honeywell	9,611,575	4.0-4.25%	January 2016	6,720,000
2005 QZAB	1,382,910	0%	December 2020	1,106,328
Refinancing bonds 2007 - 3 year	1,409,139	5.50-5.60%	August 2010	938,060
Refinancing bonds 2007 - 13 year	3,670,314	5.50-5.80%	August 2020	3,625,255
2008 Series bond issue - 20 year	9,593,958	3.0-5.0%	February 2028	9,108,870
2008 Series bond issue - 10 year	315,380	5.25-6.50%	February 2018	283,729
2008 Series bond issue - 10 year	2,631,970	3.0-5.0%	February 2018	2,370,979
2009 Series bond issue - 20 year	692,995	4.0-5.25%	August 2028	692,995
Totals	<u>\$ 85,720,859</u>			<u>\$ 47,181,327</u>

Debt service requirements to retire general obligation bonds outstanding at June 30, 2009 are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 5,418,622	\$ 1,935,437	\$ 7,354,059
2011	5,098,431	1,701,088	6,799,519
2012	4,110,058	1,489,474	5,599,532
2013	4,105,962	1,327,479	5,433,441
2014	4,026,865	1,164,751	5,191,616
2015-2019	14,169,867	3,597,640	17,767,507
2020-2024	7,441,535	1,431,495	8,873,030
2025-2028	2,809,987	266,321	3,076,308
Total	<u>\$ 47,181,327</u>	<u>\$ 12,913,685</u>	<u>\$ 60,095,012</u>

As included on the Statement of Activities (Exhibit B), interest for the year ended June 30, 2009 was \$2,334,481 on general obligation debt for governmental activities.

Business-type Activities

Bonds payable at June 30, 2009 are comprised of the following individual issues:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

	Issue <u>Amount</u>	Interest <u>Rate</u>	Maturity <u>Date</u>	Balance at <u>6/30/09</u>
1991 NHMBB	\$ 615,900	6.80%	January 2011	\$ 61,590
1992 Series D bonds	405,500	5.0-6.10%	January 2013	80,000
Refinancing bonds 1994	13,240,500	2.90-5.20%	November 2009	81,900
1996 Series bond issue	280,000	5.625-5.75%	August 2016	112,000
1998 Series A	871,000	3.90-4.75%	August 2018	537,399
2002 Series bond issue	2,253,000	4.25-4.70%	August 2022	1,538,000
2002 State Revolving loan fund	19,036,378	4.185%	August 2020	11,539,538
2004 Series bond issue	2,181,000	3.10-4.75%	July 2024	1,735,000
2005 Series bond issue	261,015	4.0-4.40%	January 2026	215,000
2005 State Revolving loan fund	716,020	3.18%	January 2015	429,612
2006 State Revolving loan fund	879,685	3.488%	August 2025	747,733
2007 State Revolving loan fund	341,373	3.352%	July 2027	329,117
2007 State Revolving loan fund	483,988	3.352%	September 2026	438,561
Refinancing bonds 2007 - 3 year	310,862	5.50-5.60%	August 2010	206,940
Refinancing bonds 2007 - 13 year	809,685	5.50-5.80%	August 2020	799,745
2008 Series bond issue - 20 year	5,536,042	3.0-5.0%	February 2028	5,256,130
2008 Series bond issue - 10 year	1,079,620	5.25-6.50%	February 2018	971,271
2008 Series bond issue - 10 year	948,029	3.0-5.0%	February 2018	854,021
2009 State Revolving loan fund	1,852,387	3.688%	December 2027	1,759,768
Totals	<u>\$ 52,101,984</u>			<u>\$ 27,693,325</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 \$128,604 at June 30, 2009 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,226,470	\$ 1,130,570	\$ 3,357,040
2011	2,144,531	1,041,664	3,186,195
2012	2,083,784	956,973	3,040,757
2013	2,083,774	874,165	2,957,939
2014	2,063,775	791,140	2,854,915
2015-2019	9,778,670	2,671,220	12,449,890
2020-2024	5,341,897	896,031	6,237,928
2025-2028	1,841,820	178,777	2,020,597
Total	27,564,721	8,540,540	36,105,261
Principal forgiveness	128,604	-	128,604
	<u>\$ 27,693,325</u>	<u>\$ 8,540,540</u>	<u>\$ 36,233,865</u>

The State of New Hampshire annually reimburses the City for its share of Sewer related debt service payments. For the year ended June 30, 2009, the reimbursement was \$492,545.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

As included on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds (Exhibit F), interest expense for the year ended June 30, 2009 was \$1,247,341 on general obligation debt for business-type activities.

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 2009, the City borrowed an additional \$946,229 through the New Hampshire Water Pollution Control Revolving Fund Program. During the year \$1,852,378 was converted into general obligation bonds, which includes capitalized construction interest of \$24,264. Payments were made totaling \$137,345 and total funding to date is \$3,720,141, 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, 2009:

<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	1,516,496	
FY 2006 Authorized	1,448,896	
FY 2007 Authorized	3,145,440	
FY 2008 Authorized	2,074,938	
FY 2009 Authorized	1,950,000	
School FY 2003 Authorized	5,500	
School FY 2006 Authorized	134,500	
School FY 2007 Authorized	487,000	
School FY 2008 Authorized	980,000	
School FY 2009 Authorized	<u>1,003,000</u>	
Total Governmental Funds		\$ 13,179,520
Business-type Funds:		
Sewer FY 2002 Authorized	\$ 75,000	
Sewer FY 2004 Authorized	823,940	
Sewer FY 2005 Authorized	1,090,000	
Sewer FY 2006 Authorized	489,111	
Sewer FY 2007 Authorized	2,658,000	
Sewer FY 2008 Authorized	450,000	
Sewer FY 2009 Authorized	3,280,000	
Water FY 2001 Authorized	90,000	
Water FY 2003 Authorized	216,932	

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

Water FY 2004 Authorized	520,000	
Water FY 2005 Authorized	2,565,000	
Water FY 2006 Authorized	1,686,551	
Water FY 2007 Authorized	5,682,600	
Water FY 2008 Authorized	583,078	
Water FY 2009 Authorized	<u>5,778,000</u>	
Total Business-type Funds		25,988,212
Combining Total		<u>\$ 39,167,732</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, 2009, 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	\$ 17,580,975	7.0%	\$ 167,908,050	\$ 150,327,075
Water	7,857,753	10.0%	239,868,643	232,010,890
All other	30,415,998	3.0%	71,960,593	41,544,595

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>\$ 21,027,839</u>	21.2060%	<u>\$ 4,459,164</u>

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

NOTE 11—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, 2009 are as follows:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

	Due from						Totals
	General	Capital Projects	Nonmajor Governmental	Sewer	Water	Nonmajor Enterprise	
	Fund	Fund	Funds	Fund	Fund	Fund	
General Fund		\$ 3,331,496	\$ 1,400,489	\$ 246,377	\$ 1,995,109	\$ 15,421	\$ 6,988,892
Nonmajor Governmental							
Funds	\$ 1,993,420						1,993,420
Water Fund				4,493			4,493
	<u>\$ 1,993,420</u>	<u>\$ 3,331,496</u>	<u>\$ 1,400,489</u>	<u>\$ 250,870</u>	<u>\$ 1,995,109</u>	<u>\$ 15,421</u>	<u>\$ 8,986,805</u>

During the year, several interfund transactions occurred between funds. The various transfers were made in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2009 are as follows:

	Transfer from			Totals
	General	Capital Projects	Nonmajor Governmental	
	Fund	Fund	Funds	
General Fund		\$ 328,000	\$ 21,380	\$ 349,380
Capital Projects Fund	\$ 358,002		395,000	753,002
Nonmajor Governmental Funds	338,056	54,135		392,191
	<u>\$ 696,058</u>	<u>\$ 382,135</u>	<u>\$ 416,380</u>	<u>\$ 1,494,573</u>

NOTE 12—RESTRICTED NET ASSETS

Net assets are restricted for specific purposes as follows:

	Governmental Activities
Endowments	\$ 41,737
Conservation Commission	849,420
	<u>\$ 891,157</u>

NOTE 13—PERMANENT FUNDS

Cemetery care funds are accounted for as permanent funds. The principal amounts of all cemetery finds are restricted in that only income earned may be expended. Principal and income balances at June 30, 2009 are as follows:

	Principal	Income	Total
Cemetery Funds	<u>\$ 41,737</u>	<u>\$ 14,666</u>	<u>\$ 56,403</u>

NOTE 14—TOP TAXPAYERS

The following are the five major property owners as they relate to the assessed property valuation of \$2,357,398,865:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

<u>Taxpayer</u>	<u>Property Valuation</u>	<u>Percentage of Total Valuation</u>
Waste Management of New Hampshire	\$ 52,215,692	2.21%
Public Service Co. of New Hampshire	28,156,200	1.19%
OCW Retail Rochester, LLC	24,463,264	1.04%
Infinity Rochester Property	14,190,900	0.60%
Next Wave Home Estates, LLC	13,394,635	0.57%

NOTE 15—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 16—RESTATEMENT OF EQUITY

Correction of an Error

Government-Wide Financial Statements

During the year ended June 30, 2009, it was determined that capital assets were understated by \$42,876 (net) and capital leases payable was understated by \$28,200. It was also determined that the amount due from other governments was overstated by \$763,384. Net assets of the governmental activities as of July 1, 2008 have been restated as follows:

Net Assets, July 1, 2008 (as previously reported)	\$ 58,476,918
Amount of restatement due to:	
Net understatement of capital assets	42,876
Understatement of capital leases payable	(28,200)
Overstatement of due from other governments	(763,384)
Net Assets, July 1, 2008 - as restated	<u>\$ 57,728,210</u>

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

Fund Financial Statements

During the year ended June 30, 2009, it was determined that the amount due from other governments in the Capital Projects Fund was overstated by \$763,384. Fund balance of the Capital Projects Fund as of July 1, 2008 has been restated as follows:

	Capital Projects <u>Fund</u>
Fund Balance, July 1, 2008 (as previously reported)	\$ 1,101,029
Amount of restatement due to:	
Overstatement of due from other governments	<u>(763,384)</u>
Fund Balance, July 1, 2008 - as restated	<u>\$ 337,645</u>

NOTE 17—SUBSEQUENT EVENT

During January, 2010, the City issued general obligation bonds of \$9,263,000. The bonds have a variable interest rate and mature on January 15, 2030.

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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Taxes	\$ 46,608,471	\$ 46,826,794	\$ 47,039,310	\$ 212,516
Licenses and permits	4,242,950	4,242,950	4,158,834	(84,116)
Intergovernmental	24,349,085	24,349,085	24,563,568	214,483
Charges for services	614,484	624,584	778,454	153,870
Interest income	350,000	350,000	475,263	125,263
Miscellaneous	2,753,093	2,753,093	2,898,950	145,857
Total Revenues	<u>78,918,083</u>	<u>79,146,506</u>	<u>79,914,379</u>	<u>767,873</u>
Expenditures:				
Current:				
General government	3,785,682	3,680,712	3,448,862	231,850
Public safety	10,129,307	10,190,877	10,164,590	26,287
Highways and streets	2,621,141	2,681,241	2,613,477	67,764
Health and welfare	678,110	671,510	418,797	252,713
Culture and recreation	1,740,651	1,740,651	1,644,557	96,094
Community development	158,333	158,333	159,937	(1,604)
Education	47,555,464	47,555,464	46,617,683	937,781
Debt service:				
Principal retirement	5,724,729	5,724,729	5,682,107	42,622
Interest and fiscal charges	2,215,492	2,215,492	2,195,046	20,446
Intergovernmental	<u>5,416,767</u>	<u>5,416,767</u>	<u>5,416,767</u>	-
Total Expenditures	<u>80,025,676</u>	<u>80,035,776</u>	<u>78,361,823</u>	<u>1,673,953</u>
Excess of revenues over (under) expenditures	<u>(1,107,593)</u>	<u>(889,270)</u>	<u>1,552,556</u>	<u>2,441,826</u>
Other financing sources (uses):				
Transfers in	254,083	254,083	349,380	95,297
Transfers out	<u>(358,002)</u>	<u>(576,325)</u>	<u>(696,058)</u>	<u>(119,733)</u>
Total other financing sources (uses)	<u>(103,919)</u>	<u>(322,242)</u>	<u>(346,678)</u>	<u>(24,436)</u>
Net change in fund balance	(1,211,512)	(1,211,512)	1,205,878	2,417,390
Fund balances at beginning of year				
- Budgetary Basis	<u>9,723,326</u>	<u>9,723,326</u>	<u>9,723,326</u>	-
Fund balances at end of year				
- Budgetary Basis	<u>\$ 8,511,814</u>	<u>\$ 8,511,814</u>	<u>\$ 10,929,204</u>	<u>\$ 2,417,390</u>

See accompanying notes to the required supplementary information

SCHEDULE 2

CITY OF ROCHESTER, NEW HAMPSHIRE

Schedule of Funding Progress for Other Post-Employment Benefits

For the Year Ended June 30, 2009

Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued Liability (AAL) - <u>Entry Age</u>	Unfunded AAL (<u>UAAL</u>)	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u>
7/1/2008	\$ -	\$ 10,563,975	\$ 10,563,975	0.0%	\$ 36,062,682	29.3%

See accompanying notes to the required supplementary information

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2009

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. 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	\$ 81,157,427	\$ 80,202,604
Difference in property taxes meeting susceptible to accrual criteria	251,055	
On-behalf fringe benefits	<u>(1,144,723)</u>	<u>(1,144,723)</u>
Per Schedule 1	<u>\$ 80,263,759</u>	<u>\$ 79,057,881</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	26,524
Reserved for inventory	5,332
Reserved for special purposes	20,000
Unreserved:	
Undesignated	<u>10,755,069</u>
	<u>\$ 10,929,204</u>

NOTE 3—RESERVED FOR SPECIAL PURPOSES

The balance reserved for special purposes at June 30, 2009 is as follows:

Computer purchases	<u>\$ 20,000</u>
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CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
June 30, 2009

NOTE 4—SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS

In accordance with GASB Statement #45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, the City is required to disclose the schedule of funding progress for each of the three most recent actuarial valuations. The City implemented the provisions of GASB Statement #45 during the year ended June 30, 2009. Accordingly, the funding progress has only been presented for the most recent actuarial valuation report. Additional disclosures will be made as the information becomes available.

SCHEDULE I.
CITY OF ROCHESTER, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

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		
School Breakfast Program	10.553	\$ 123,183
National School Lunch Program	10.555	734,422
Special Milk Program for Children	10.556	2,621
Summer Food Service Program for Children	10.559	40,757
Fresh Fruit and Vegetable Program	10.582	5,572
		<u>906,555</u>
Received directly from the Natural Resources Conservation Service		
Wildlife Habitat Incentive Program	10.914	<u>37,500</u>
Total Department of Agriculture		<u>944,055</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Received directly from U.S. Treasury Department Community Development Block Grants -		
Entitlement Grants	14.218	
#B-06-MC33-0004		21,990
#B-07-MC33-0004		389,078
#B-08-MC33-0004		132,236
		<u>543,304</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>603,304</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>27,187</u>
Received directly from U.S. Treasury Department Bulletproof Vest Partnership Program	16.607	
		369
		<u>375</u>
		<u>744</u>
Pass Through Payments from the New Hampshire Office of the Governor and Attorney General		
Public Safety Partnership and Community Policing Grants	16.710	
#2008-CK-WX-0210		233,597
#2008-DJ-BX-0576		9,805
		<u>243,402</u>
Pass Through Payments from the New Hampshire Highway Safety Agency		
Enforcing Underage Drinking Laws Program	16.727	
		<u>2,188</u>
Total Department of Justice		<u>273,521</u>
DEPARTMENT OF TRANSPORTATION		
Pass Through Payments from New Hampshire Department of Transportation		
Highway Planning and Construction	20.205	
#STP-X-5389(009)		<u>1,320,572</u>

SCHEDULE I
CITY OF ROCHESTER, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF TRANSPORTATION (CONTINUED)		
Pass Through Payments from New Hampshire Highway Safety Agency Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	
#308-08A-032		1,664
#308-08A-109		875
#308-09A-083		489
		<u>3,028</u>
Total Department of Transportation		<u>1,323,600</u>
DEPARTMENT OF EDUCATION		
Pass Through Payments from New Hampshire Department of Education Adult Education - State Grant Program	84.002	
#97304		3,809
#97603		2,244
		<u>6,053</u>
Title I Grants to Local Educational Agencies	84.010	
#80119		172,830
#80223		9,024
#80224		18,163
#80276		2,956
#80702		46,152
#90135		1,188,794
#90300		13,717
#90301		6,979
#90302		3,791
#90303		13,563
#90325		48,319
#90702		32,085
		<u>1,556,373</u>
Special Education - Grants to States	84.027	
#92525		<u>1,050,748</u>
Vocational Education - Basic Grants to States	84.048A	
#85036		21,113
#95032		150,801
		<u>171,914</u>
Special Education - Preschool Grants	84.173	
#92721		<u>67,402</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	
#76596		722
#84384		1,308
#86628		4,548
#96637		24,243
		<u>30,821</u>
State Grants for Innovative Programs	84.298A	
#86127		5,440
#96013		39,292
		<u>44,732</u>

SCHEDULE I
CITY OF ROCHESTER, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2009

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF EDUCATION (CONTINUED)		
Reading First State Grants	84.357A	
#80758		43,230
#80759		16,026
#80760		32,116
#90757		139,040
#90758		75,690
#90759		<u>119,145</u>
		<u>425,247</u>
Mathematics and Science Partnerships	84.366	
#95201		<u>1,701</u>
Improving Teacher Quality State Grants	84.367A	
#80810		26,943
#84913		91,487
#90807		651
#94919		275,786
#98827		<u>7,162</u>
		<u>402,029</u>
Total Department of Education		<u>3,757,020</u>
DEPARTMENT OF HOMELAND SECURITY		
Pass Through Payments from New Hampshire Department of Safety, Homeland Security and Emergency Management		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	<u>2,279</u>
State Homeland Security Program	97.073	<u>12,702</u>
Total Department of Homeland Security		<u>14,981</u>
Total Expenditures of Federal Awards		<u>\$ 6,916,481</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, 2009

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 City participates in the USDA Food Distribution Program which is a non-cash program. The value of commodities received by the City is \$88,808 and has been reported on the Schedule of Expenditures of Federal Awards as part of the National School Lunch 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	\$ 1,358,072
Nonmajor Funds:	
CDBG Fund	543,304
Federal Projects Fund	3,757,020
Food Service Fund	820,026
Homeland Security Grants Fund	12,702
Police Grants Fund	336,549
	<u>\$ 6,827,673</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, New Hampshire, as of and for the year ended June 30, 2009, and have issued our report thereon dated February 8, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rochester, New Hampshire's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City'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 City's internal control.

Our consideration of internal control over financial reporting 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 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 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 the 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 Clarke & Company PC

February 8, 2010

**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 with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 programs 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 each of its major federal programs for the year ended June 30, 2009.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Rochester, New Hampshire's internal control over compliance.

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.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

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 & Company PC

February 8, 2010

**City of Rochester, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009**

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>
10.553, 10.555, 10.556 & 10.559	Nutrition Cluster
20.205	Highway Planning and Construction

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 required to be reported under OMB Circular A-133 .510(a).