

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**Financial Statements**  
**With Schedule of Expenditures of Federal Awards**  
**June 30, 2010**  
**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 That Could  
Have a Direct and Material Effect on 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, 2010**

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**FINANCIAL STATEMENTS**  
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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, 2010, 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, 2010, 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 9, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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-viii and 32-35, 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.

*Jackson Chukay & Company PC*

February 9, 2011

# **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, 2010. Please read this analysis in conjunction with the financial statements presented in this report.

These financial reports represent more than six 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, 2010, the City is complying for the second year with the requirements of GASB 45 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, \$ 227.6 million, exceeded total liabilities, \$115.4 million, by \$112.2 million. This amount is the Total Net Assets on Exhibit A, Statement of Net Assets for Governmental and Business-Type Activities. The \$112.2 million is reported as \$94.7 million invested in capital assets, net of related debt, \$.8 million restricted and \$16.7 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 (Governmental and Business Type) on Exhibit A increased by \$6.3 million or 5.9% in fiscal year 2010.
- The City's Total Assets on Exhibit A increased by \$12 million or 5.6% and Total Liabilities increased by \$12.9 million or 6%.

#### **Fund Balance Highlights**

The Fund Balance for all governmental funds increased by \$3.1 million to \$11.6 million for the fiscal year ending June 30, 2010. 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 \$.8 million to \$10.5 million; the fund balance for all other funds increased by \$2.3m to \$1.2 million.

### **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 C, Balance Sheet. 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* of 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 \$112.2 million. Separating the net assets and net expenses of Governmental and Business-type Activities, this represents \$65.6 million for Governmental Activities and \$46.6 million for Business-type Activities.

**Table 1**  
**Net Assets**  
**(in Millions)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Current and other assets	39.5	35.6	7.0	2.2	46.5	37.8
Capital assets	<u>102.6</u>	<u>101.2</u>	<u>78.5</u>	<u>75.8</u>	<u>181.1</u>	<u>177.0</u>
<b>Total Assets</b>	<b>142.1</b>	<b>136.8</b>	<b>85.5</b>	<b>78.0</b>	<b>227.6</b>	<b>214.8</b>
Noncurrent liabilities	43.6	43.4	33.9	29.2	77.5	72.6
Other liabilities	<u>32.9</u>	<u>32.2</u>	<u>5.0</u>	<u>4.0</u>	<u>37.9</u>	<u>36.2</u>
<b>Total liabilities</b>	<b>76.5</b>	<b>75.6</b>	<b>38.9</b>	<b>33.2</b>	<b>115.4</b>	<b>108.8</b>
Invested in capital assets, net of debt	55.5	53.6	39.2	41.0	94.7	94.6
Restricted	0.8	0.9	-	-	0.8	0.9
Unrestricted (deficit)	<u>9.3</u>	<u>6.7</u>	<u>7.4</u>	<u>3.7</u>	<u>16.7</u>	<u>10.4</u>
<b>Total net assets</b>	<b>65.6</b>	<b>61.2</b>	<b>46.6</b>	<b>44.7</b>	<b>112.2</b>	<b>105.9</b>

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

The City's unrestricted governmental net assets increased by \$2.6 million to \$9.3 million. This increase represents an increase in the amount of funds available to meet the City's general fund obligations due largely to the issuance of bonded debt that replaced cash previously expended on capital projects. 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. 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 "enterprise" 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 \$6.3 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)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Activities</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues</b>						
<b>Program revenues:</b>						
Charges for services	2.2	2.3	8.9	8.3	11.1	10.6
Operating grants	32.5	29.4	-	-	32.5	29.4
Capital grants and contributions	3.2	1.7	0.3	0.4	3.5	2.1
<b>General Revenues:</b>						
Property taxes	47.3	47.0	-	-	47.3	47.0
Licenses and permits	4.0	4.2	-	-	4.0	4.2
Other general revenues	<u>5.5</u>	<u>6.0</u>	<u>0.3</u>	<u>0.1</u>	<u>5.8</u>	<u>6.1</u>
<b>Total revenues</b>	<b>94.7</b>	<b>90.6</b>	<b>9.5</b>	<b>8.8</b>	<b>104.2</b>	<b>99.4</b>
<b>Program Expenses:</b>						
General government	3.8	3.8	-	-	3.8	3.8
Public safety	11.7	11.5	-	-	11.7	11.5
Public works	5.8	6.1	-	-	5.8	6.1
Health and welfare	0.4	0.4	-	-	0.4	0.4
Culture and recreation	1.7	1.8	-	-	1.7	1.8
Community development	1.4	0.8	-	-	1.4	0.8
Community services	0.7	0.7	-	-	0.7	0.7
Education	55.5	52.5	-	-	55.5	52.5
Food services	1.7	1.7	-	-	1.7	1.7
Debt Service	2.0	2.3	-	-	2.0	2.3
Intergovernmental	5.6	5.4	-	-	5.6	5.4
Water	-	-	3.2	3.1	3.2	3.1
Sewer	-	-	4.0	4.1	4.0	4.1
Arena	<u>-</u>	<u>-</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
<b>Total Expenses</b>	<b>90.3</b>	<b>87.0</b>	<b>7.6</b>	<b>7.6</b>	<b>97.9</b>	<b>94.6</b>
<b>Excess (deficiency) before special items and transfers</b>	<b>4.4</b>	<b>3.6</b>	<b>1.9</b>	<b>1.2</b>	<b>6.3</b>	<b>4.8</b>
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Increase (decrease) in net assets</b>	<b>4.4</b>	<b>3.6</b>	<b>1.9</b>	<b>1.2</b>	<b>6.3</b>	<b>4.8</b>

#### **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 as well as the needs for services must both be taken into

consideration with all financial decisions. The major fiscal challenges facing the City continue to be 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 for fiscal year 2010 (tax year 2009) decreased \$306 million or 12.9% as of April 1, 2009. The tax rate increased to \$22.94 or by nearly 15% over the previous year. This increase due entirely to the decrease in assessed property value.
- The City is committed to regular infrastructure and capital improvements. The capital budget for fiscal year 2010 was \$6 million. 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 were scaled back considerably for the second year and it is expected that this trend will continue for the foreseeable future. For Fiscal Year 2011 the total capital budget is \$4.3 million; less than 30% 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: \$295 thousand; intergovernmental \$155 thousand and interest income \$120 thousand. 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 struggle during fiscal year 2010, the New Hampshire economy, although soft, has remained stronger than the nation as a whole. During fiscal year 2010 key economic sectors showed little or no improvement, such as employment, the housing market (construction of new and sales of existing homes), property values and foreclosure rates. However, 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. In addition, during this period of economic downturn, the City's 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 nearly \$1.9 million as presented in Exhibit F of the attached statements.

- The City sewer system posted a change in net assets of \$1.4 million. Although this fund is showing strong contributions to Net Assets for a second year and Exhibit G, Statement of Cash Flows Proprietary Funds, reports an increase of \$1.3 million in cash balance from the beginning of the year cash, flow continues to be a major concern for this fund with respect to servicing the debt for a contemplated new treatment plant. Continued evaluation of the cash flow needs and expected rate changes are essential to the sound management of this fund.
- The City water system posted a change in net assets of nearly \$432 thousand. Exhibit G, Statement of Cash Flows Proprietary Funds, reports an increase of \$2.6 million in cash balance from the beginning of the year. In conjunction with the Sewer Fund, rate reviews and increases in the water rate will be necessary to maintain positive operations.
- The City ice arena has a reported net asset change of \$33 thousand.

## 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 \$11.9 million, which is ahead of last year's total of \$10.9 million. Included in this year's total change in Fund Balance, however, is the budgeted use of \$1.4 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, net of depreciation, for its Governmental and Business-type Activities as of June 30, 2010 is \$177.8 million (see Table 3 below). 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 to be reported in the Government Wide Financial Statements.

**Table 3**  
**Capital Assets at Year-end**  
**(net of Depreciation, in Millions)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Land	7.0	6.9	3.1	2.7	10.1	9.6
Easement	0.8	-	-	-	0.8	-
Land improvements	2.4	2.5	0.0	0.0	2.4	2.5
Buildings & improvements	42.6	32.0	29.7	29.9	72.3	61.9
Vehicles & equipment	5.5	5.5	2.6	2.1	8.1	7.6
Infrastructure	38.6	33.3	30.6	28.3	69.2	61.6
Construction in progress	<u>5.4</u>	<u>20.6</u>	<u>9.5</u>	<u>9.4</u>	<u>14.9</u>	<u>30.0</u>
<b>Totals</b>	<b>102.3</b>	<b>100.8</b>	<b>75.5</b>	<b>72.4</b>	<b>177.8</b>	<b>173.2</b>

## 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. As of June 30, 2010, the total debt outstanding for all funds is \$78.3 million (See Table 4 below).

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds (backed by the City) and State revolving notes	<u>46.8</u>	<u>47.2</u>	<u>31.5</u>	<u>27.7</u>	<u>78.3</u>	<u>74.9</u>
<b>Totals</b>	<b>46.8</b>	<b>47.2</b>	<b>31.5</b>	<b>27.7</b>	<b>78.3</b>	<b>74.9</b>

The City's overall debt limitations and available debt margin are listed in Note 11 – 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 Pours. 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 achieve continued increases in bond ratings which in turn mean lower rates and savings to taxpayers.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

It is important to the City Council and the community it serves to provide appropriate levels of service to taxpayers, diversify the tax base, and create new investment in the City. The City's elected and appointed officials considered many factors when setting the fiscal year 2011 budget and the resulting impact on tax rates and the service fees that will be charged for business-type activities. The City continues its long standing tradition of fiscal restraint – forecasting realistic anticipated revenues, keeping expenditures in check and reducing capital expenditures in an effort to minimize bonded debt. 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. The City Council has not overridden the tax cap in the two budget cycles since passage of this charter amendment.

While at the same time, the City's leadership 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 challenge. The Economic Development Manager has produced excellent results in business retention and new development initiatives, and continues to position Rochester to maximize development. Albany International Corp. announced in October of 2010 that its aerospace composites subsidiary, Albany Engineered Composites, Inc., will be further expanding its operations in Rochester! Albany expects to break ground on a new plant adjacent to its current Rochester operations in 2012, and to begin initial production in 2014. The plant will support the Company's activities associated with Safran's aerospace programs. At peak production, the plant will employ up to 300 people. This is just one of several high profile developments that have opened for business in the past three years.

## **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 or visit us on the web at [www.rochesternh.net](http://www.rochesternh.net).

EXHIBIT A  
**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**Statement of Net Assets**  
June 30, 2010

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 23,232,600		\$ 23,232,600
Investments	12,385,216		12,385,216
Taxes receivable, net	1,480,930		1,480,930
Accounts receivable	897,403	\$ 2,835,169	3,732,572
Due from other governments	2,957,318	2,378,402	5,335,720
Internal balances	(1,532,365)	1,532,365	-
Deferred debt financing expense	40,909	9,025	49,934
Prepaid expenses	28,560	359	28,919
Inventory	21,315	265,134	286,449
Total Current Assets	<u>39,511,886</u>	<u>7,020,454</u>	<u>46,532,340</u>
Noncurrent Assets:			
Due from other governments		2,986,075	2,986,075
Tax deeded property	122,279		122,279
Deferred debt financing expense	156,794	34,589	191,383
Capital assets:			
Non-depreciable capital assets	13,251,220	12,581,836	25,833,056
Depreciable capital assets, net	89,057,889	62,896,123	151,954,012
Total Noncurrent Assets	<u>102,588,182</u>	<u>78,498,623</u>	<u>181,086,805</u>
Total Assets	<u>\$ 142,100,068</u>	<u>\$ 85,519,077</u>	<u>\$ 227,619,145</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 2,598,033	\$ 933,501	\$ 3,531,534
Accrued expenses	5,361,145	930,899	6,292,044
Retainage payable	317,266	195,821	513,087
Deferred revenue	18,282,868	428,311	18,711,179
Deposits	714,609		714,609
Due to other governments	66,363	19,466	85,829
Deferred bond premium	14,286		14,286
Current portion of bonds payable	5,515,980	2,480,623	7,996,603
Total Current Liabilities	<u>32,870,550</u>	<u>4,988,621</u>	<u>37,859,171</u>
Noncurrent Liabilities:			
Deferred bond premium	139,906		139,906
Bonds payable	41,314,737	29,032,238	70,346,975
Other long-term obligations		4,738,271	4,738,271
Other post-employment benefits payable	1,271,450	148,341	1,419,791
Compensated absences payable	869,214		869,214
Total Noncurrent Liabilities	<u>43,595,307</u>	<u>33,918,850</u>	<u>77,514,157</u>
Total Liabilities	<u>76,465,857</u>	<u>38,907,471</u>	<u>115,373,328</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	55,478,392	39,226,827	94,705,219
Restricted	841,800		841,800
Unrestricted	9,314,019	7,384,779	16,698,798
Total Net Assets	<u>65,634,211</u>	<u>46,611,606</u>	<u>112,245,817</u>
Total Net Assets and Liabilities	<u>\$ 142,100,068</u>	<u>\$ 85,519,077</u>	<u>\$ 227,619,145</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, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 3,751,030	\$ 22,484	\$ 20,827		\$ (3,707,719)		\$ (3,707,719)
Public safety	11,667,923	417,820	783,982		(10,466,121)		(10,466,121)
Highways and streets	5,821,523	85,388	529,807	\$ 1,060,657	(4,145,671)		(4,145,671)
Health and welfare	382,543				(382,543)		(382,543)
Culture and recreation	1,741,908	183,047			(1,558,861)		(1,558,861)
Conservation				843,130	843,130		843,130
Community development	1,345,903		1,017,505		(328,398)		(328,398)
Community services	771,010	651,043			(119,967)		(119,967)
Education	55,496,059	24,791	29,213,775		(26,257,493)		(26,257,493)
Food service	1,710,178	826,793	935,406		52,021		52,021
Debt service	1,998,883			1,285,886	(712,997)		(712,997)
Intergovernmental	5,567,792				(5,567,792)		(5,567,792)
Total governmental activities	<u>90,254,752</u>	<u>2,211,366</u>	<u>32,501,302</u>	<u>3,189,673</u>	<u>(52,352,411)</u>	<u>\$ -</u>	<u>(52,352,411)</u>
Business-type activities:							
Sewer	4,002,559	5,073,144		158,745		1,229,330	1,229,330
Water	3,171,953	3,409,036		133,965		371,048	371,048
Nonmajor enterprise fund	379,130	405,737				26,607	26,607
Total business-type activities	<u>7,553,642</u>	<u>8,887,917</u>	<u>-</u>	<u>292,710</u>	<u>-</u>	<u>1,626,985</u>	<u>1,626,985</u>
Total primary government	<u>\$ 97,808,394</u>	<u>\$ 11,099,283</u>	<u>\$ 32,501,302</u>	<u>\$ 3,482,383</u>	<u>(52,352,411)</u>	<u>1,626,985</u>	<u>(50,725,426)</u>
General revenues:							
Property and other taxes					47,341,698		47,341,698
Licenses and permits					3,946,068		3,946,068
Grants and contributions:							
Rooms and meals tax distribution					1,376,931		1,376,931
Interest and investment earnings					425,302	21,250	446,552
Miscellaneous					3,670,314	229,150	3,899,464
Transfers					3,828	(3,828)	-
Total general revenues and transfers					<u>56,764,141</u>	<u>246,572</u>	<u>57,010,713</u>
Change in net assets					4,411,730	1,873,557	6,285,287
Net assets - beginning					61,222,481	44,738,049	105,960,530
Net assets - ending					<u>\$ 65,634,211</u>	<u>\$ 46,611,606</u>	<u>\$ 112,245,817</u>

See accompanying notes to the basic financial statements

EXHIBIT C  
**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2010

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 23,148,096	\$ 84,504	\$ 23,232,600
Investments	12,323,825	61,391	12,385,216
Taxes receivable, net	1,480,930		1,480,930
Accounts receivable	393,969	503,434	897,403
Due from other governments		2,957,318	2,957,318
Due from other funds	2,563,835	1,889,254	4,453,089
Prepaid expenses	28,560		28,560
Inventory	9,606	11,709	21,315
Tax deeded property	122,279		122,279
Total Assets	<u>\$ 40,071,100</u>	<u>\$ 5,507,610</u>	<u>\$ 45,578,710</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,383,288	\$ 1,214,745	\$ 2,598,033
Accrued expenses	4,560,742	15,012	4,575,754
Retainage payable		317,266	317,266
Deferred revenue	19,331,057	356,967	19,688,024
Deposits	714,609		714,609
Due to other governments	66,363		66,363
Due to other funds	3,559,096	2,426,358	5,985,454
Total Liabilities	<u>29,615,155</u>	<u>4,330,348</u>	<u>33,945,503</u>
<b>FUND BALANCES</b>			
Reserved for endowments		45,501	45,501
Reserved for prepaid expenses	28,560		28,560
Reserved for inventory	9,606	11,709	21,315
Reserved for tax deeded property	122,279		122,279
Reserved for special purposes	20,000		20,000
Unreserved (deficit) reported in:			
General fund	10,275,500		10,275,500
Special revenue funds		1,930,245	1,930,245
Capital projects funds		(826,083)	(826,083)
Permanent funds		15,890	15,890
Total Fund Balances	<u>10,455,945</u>	<u>1,177,262</u>	<u>11,633,207</u>
Total Liabilities and Fund Balances	<u>\$ 40,071,100</u>	<u>\$ 5,507,610</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			102,309,109
Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis			1,405,156
Deferred debt expense is recognized on an accrual basis in the statement of net assets, not the modified accrual basis			197,703
Deferred bond premiums are recognized on an accrual basis in the statement of net assets, not the modified accrual basis			(154,192)
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			(46,830,717)
Other post-employment benefits			(1,271,450)
Compensated absences			(869,214)
Accrued interest on long-term obligations			(785,391)
Net assets of governmental activities			<u>\$ 65,634,211</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, 2010

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 47,233,306		\$ 47,233,306
Licenses and permits	3,946,068		3,946,068
Intergovernmental	28,054,786	\$ 8,169,990	36,224,776
Charges for services	708,739	1,502,627	2,211,366
Investment income	420,078	5,224	425,302
Miscellaneous	2,917,664	752,650	3,670,314
Total Revenues	<u>83,280,641</u>	<u>10,430,491</u>	<u>93,711,132</u>
Expenditures:			
Current operations:			
General government	3,443,161	40	3,443,201
Public safety	10,583,529	440,849	11,024,378
Highways and streets	2,428,890		2,428,890
Health and welfare	380,075	278	380,353
Culture and recreation	1,663,456	3,976	1,667,432
Community development	173,470	1,241,668	1,415,138
Community services		691,739	691,739
Education	49,377,989	4,863,116	54,241,105
Food service		1,704,353	1,704,353
Capital outlay		5,701,572	5,701,572
Debt service:			
Principal retirement	5,418,622		5,418,622
Interest and fiscal charges	1,954,859		1,954,859
Intergovernmental	5,567,792		5,567,792
Total Expenditures	<u>80,991,843</u>	<u>14,647,591</u>	<u>95,639,434</u>
Excess of revenues over (under) expenditures	<u>2,288,798</u>	<u>(4,217,100)</u>	<u>(1,928,302)</u>
Other financing sources (uses):			
Proceeds from bond issuances		5,068,012	5,068,012
Transfers in	394,131	1,910,757	2,304,888
Transfers out	(1,859,424)	(441,636)	(2,301,060)
Total other financing sources (uses)	<u>(1,465,293)</u>	<u>6,537,133</u>	<u>5,071,840</u>
Net change in fund balances	823,505	2,320,033	3,143,538
Fund balances (deficit) at beginning of year	<u>9,632,440</u>	<u>(1,142,771)</u>	<u>8,489,669</u>
Fund balances (deficit) at end of year	<u>\$ 10,455,945</u>	<u>\$ 1,177,262</u>	<u>\$ 11,633,207</u>

See accompanying notes to the basic financial statements

## CITY OF ROCHESTER, NEW HAMPSHIRE

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities

For the Year Ended June 30, 2010

New Change in Fund Balances--Total Governmental Funds	\$ 3,143,538
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.	644,827
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	951,522
Proceeds from bond issues are other financing sources in the funds, but bond issues increase long-term liabilities in the statement of net assets.	(5,068,012)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	5,418,622
In the statement of activities, deferred debt financing expense and deferred debt bond premiums are amortized and included with interest expense.	(67,194)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	23,170
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.	(634,743)
Change in Net Assets of Governmental Activities	<u>\$ 4,411,730</u>

EXHIBIT E  
**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**Statement of Net Assets**  
**Proprietary Funds**  
June 30, 2010

	Business-type Activities			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	Totals
<b>ASSETS</b>				
Current Assets:				
Accounts receivable	\$ 1,766,532	\$ 1,064,724	\$ 3,913	\$ 2,835,169
Due from other governments	1,303,873	1,074,529		2,378,402
Due from other funds	1,066,957	622,112		1,689,069
Deferred debt financing expense	4,915	4,110		9,025
Prepaid expenses		359		359
Inventory		265,134		265,134
Total Current Assets	<u>4,142,277</u>	<u>3,030,968</u>	<u>3,913</u>	<u>7,177,158</u>
Noncurrent Assets:				
Due from other governments	2,986,075			2,986,075
Deferred debt financing expense	18,836	15,753		34,589
Capital assets:				
Non-depreciable capital assets	4,187,701	8,091,375	302,760	12,581,836
Depreciable capital assets, net	<u>40,269,371</u>	<u>21,649,590</u>	<u>977,162</u>	<u>62,896,123</u>
Total Noncurrent Assets	<u>47,461,983</u>	<u>29,756,718</u>	<u>1,279,922</u>	<u>78,498,623</u>
Total Assets	<u>\$ 51,604,260</u>	<u>\$ 32,787,686</u>	<u>\$ 1,283,835</u>	<u>\$ 85,675,781</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	\$ 161,335	\$ 692,309	\$ 79,857	\$ 933,501
Accrued expenses	664,706	240,632	25,561	930,899
Retainage payable	54,091	141,730		195,821
Deferred revenue	426,579		1,732	428,311
Due to other governments	5,231	14,235		19,466
Due to other funds		19,227	137,477	156,704
Current portion of bonds payable	<u>1,574,510</u>	<u>836,614</u>	<u>69,499</u>	<u>2,480,623</u>
Total Current Liabilities	<u>2,886,452</u>	<u>1,944,747</u>	<u>314,126</u>	<u>5,145,325</u>
Noncurrent Liabilities:				
Bonds payable	17,690,137	10,630,357	711,744	29,032,238
Other long-term obligations	1,063,421	3,674,850		4,738,271
Other post-employment benefits payable	<u>71,917</u>	<u>69,068</u>	<u>7,356</u>	<u>148,341</u>
Total Noncurrent Liabilities	<u>18,825,475</u>	<u>14,374,275</u>	<u>719,100</u>	<u>33,918,850</u>
Total Liabilities	<u>21,711,927</u>	<u>16,319,022</u>	<u>1,033,226</u>	<u>39,064,175</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	24,129,004	14,599,144	498,679	39,226,827
Unrestricted (deficit)	<u>5,763,329</u>	<u>1,869,520</u>	<u>(248,070)</u>	<u>7,384,779</u>
Total Net Assets	<u>29,892,333</u>	<u>16,468,664</u>	<u>250,609</u>	<u>46,611,606</u>
Total Liabilities and Net Assets	<u>\$ 51,604,260</u>	<u>\$ 32,787,686</u>	<u>\$ 1,283,835</u>	<u>\$ 85,675,781</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, 2010

	Business-type Activities			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	Totals
Operating revenues:				
Charges for services	\$ 5,073,144	\$ 3,409,036	\$ 405,737	\$ 8,887,917
Miscellaneous	171,285	52,865	5,000	229,150
Total operating revenues	<u>5,244,429</u>	<u>3,461,901</u>	<u>410,737</u>	<u>9,117,067</u>
Operating expenses:				
Personnel services	1,115,474	1,186,626	174,481	2,476,581
Materials and supplies	394,785	374,377	10,678	779,840
Utilities	429,746	154,517	84,087	668,350
Depreciation	1,005,710	891,506	44,609	1,941,825
Miscellaneous	269,639	210,376	29,574	509,589
Total operating expenses	<u>3,215,354</u>	<u>2,817,402</u>	<u>343,429</u>	<u>6,376,185</u>
Operating income	<u>2,029,075</u>	<u>644,499</u>	<u>67,308</u>	<u>2,740,882</u>
Non-operating revenues (expenses):				
Interest revenue	10,000	10,000	1,250	21,250
Interest expense	(787,205)	(354,551)	(35,701)	(1,177,457)
Net non-operating revenues (expenses)	<u>(777,205)</u>	<u>(344,551)</u>	<u>(34,451)</u>	<u>(1,156,207)</u>
Income before capital contributions and transfers	1,251,870	299,948	32,857	1,584,675
Capital contributions	158,745	133,965		292,710
Transfers out	<u>(1,914)</u>	<u>(1,914)</u>		<u>(3,828)</u>
Change in net assets	1,408,701	431,999	32,857	1,873,557
Total net assets at beginning of year	<u>28,483,632</u>	<u>16,036,665</u>	<u>217,752</u>	<u>44,738,049</u>
Total net assets at end of year	<u>\$ 29,892,333</u>	<u>\$ 16,468,664</u>	<u>\$ 250,609</u>	<u>\$ 46,611,606</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, 2010

	Business-type Activities			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 5,084,005	\$ 3,395,321	\$ 418,718	\$ 8,898,044
Other operating cash receipts	14,623	80		14,703
Cash paid to suppliers	(1,391,680)	(995,407)	(174,490)	(2,561,577)
Cash paid to employees	(770,067)	(819,094)	(124,865)	(1,714,026)
Net cash provided by operating activities	<u>2,936,881</u>	<u>1,580,900</u>	<u>119,363</u>	<u>4,637,144</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	(1,914)	(1,914)		(3,828)
Net cash (used) for noncapital financing activities	<u>(1,914)</u>	<u>(1,914)</u>	<u>-</u>	<u>(3,828)</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(987,891)	(3,108,306)	(171,920)	(4,268,117)
Proceeds from long-term debt	1,308,380	4,988,541	33,361	6,330,282
Principal paid on long-term debt	(1,605,136)	(645,205)	(67,765)	(2,318,106)
Interest paid on long-term debt	(795,516)	(345,015)	(36,345)	(1,176,876)
Capital contributions	453,023	114,500		567,523
Net cash provided (used) for capital and related financing activities	<u>(1,627,140)</u>	<u>1,004,515</u>	<u>(242,669)</u>	<u>(865,294)</u>
Cash flows from investing activities:				
Interest on investments	10,000	10,000	1,250	21,250
Net cash provided by investing activities	<u>10,000</u>	<u>10,000</u>	<u>1,250</u>	<u>21,250</u>
Net increase (decrease) in cash and cash equivalents	1,317,827	2,593,501	(122,056)	3,789,272
Cash and cash equivalents (deficiency) at beginning of year	(250,870)	(1,990,616)	(15,421)	(2,256,907)
Cash and cash equivalents (deficiency) at end of year	<u>\$ 1,066,957</u>	<u>\$ 602,885</u>	<u>\$ (137,477)</u>	<u>\$ 1,532,365</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 2,029,075	\$ 644,499	\$ 67,308	\$ 2,740,882
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	1,005,710	891,506	44,609	1,941,825
Changes in assets and liabilities:				
Accounts receivable	(121,005)	(66,580)	7,981	(179,604)
Due from other governments	(14,623)	80		(14,543)
Prepaid expenses		11,238		11,238
Inventory		(16,595)		(16,595)
Accounts payable	(261)	61,798	(5,761)	55,776
Accrued expenses	5,673	4,907	1,410	11,990
Deferred revenue	(10,173)			(10,173)
Due to other governments	5,231	14,235		19,466
Other post-employment benefits payable	37,254	35,812	3,816	76,882
Net cash provided by operating activities	<u>\$ 2,936,881</u>	<u>\$ 1,580,900</u>	<u>\$ 119,363</u>	<u>\$ 4,637,144</u>
Non-cash transactions affecting financial position:				
Capital asset additions included in year end liabilities	\$ 183,094	\$ 715,834	\$ 78,867	\$ 977,795
Capitalized construction interest	3,844			3,844
Principal forgiveness on debt		19,465		19,465
Amortization on deferred debt financing	9,933	8,306		18,239
	<u>\$ 196,871</u>	<u>\$ 743,605</u>	<u>\$ 78,867</u>	<u>\$ 1,019,343</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, 2010

	Private- Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 40,966	\$ 173,678
Investments	<u>1,563,120</u>	
Total Assets	<u>\$ 1,604,086</u>	<u>\$ 173,678</u>
LIABILITIES		
Due to student groups		\$ 173,678
Total Liabilities	<u>\$ -</u>	<u>\$ 173,678</u>
NET ASSETS		
Held in trust	<u>1,604,086</u>	
Total Net Assets	<u>\$ 1,604,086</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, 2010

	<u>Private- Purpose Trust Funds</u>
ADDITIONS:	
Contributions:	
Private donations	\$ 7,922
Total Contributions	<u>7,922</u>
Investment earnings:	
Investment income	28,576
Net increase in the fair value of investments	<u>98,571</u>
Total Investment Earnings	<u>127,147</u>
Less: Investment expense	<u>-</u>
Net Investment Earnings	<u>127,147</u>
Total Additions	<u>135,069</u>
DEDUCTIONS:	
Benefits	<u>36,192</u>
Total Deductions	<u>36,192</u>
Change in Net Assets	98,877
Net assets - beginning of year	<u>1,505,209</u>
Net assets - end of year	<u>\$ 1,604,086</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, 2010**

**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, 2010**

***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 is the City's major governmental fund:

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.

Other nonmajor governmental funds consist of the Capital Projects Fund, 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, Rochester Community Center Fund, and Neighborhood Stabilization 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 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 OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

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, 2010**

**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 3). 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, 2010**

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, 2010, the City applied \$1,411,512 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	\$ 1,066,957		\$ 1,066,957
Water Fund	622,112	\$ 19,227	602,885
Nonmajor Enterprise Fund	-	137,477	(137,477)
	<u>\$ 1,689,069</u>	<u>\$ 156,704</u>	<u>\$ 1,532,365</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, 2010 are recorded as receivables net of reserves for estimated uncollectible taxes of \$2,589,023.

***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, 2010 is \$197,703, \$23,751, and \$19,863 in the governmental activities, sewer fund, and water fund, respectively.

***Prepaid Expenses***

Payments made to vendors for services that will benefit periods beyond June 30, 2010 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, 2010**

***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 capital 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. During the year ended June 30, 2010, the City implemented the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

All reported capital assets except for land, easements with an indefinite life 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, 2010 is \$154,192.

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

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

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

***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. A fund balance reserve has been established for endowments, prepaid expenses, inventory, tax deeded property and special purposes.

***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, sewer fund and arena fund, these revenues are charges to customers for sales and services. Operating expenses, which include depreciation on capital assets, are

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

necessary costs incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. Significant estimates include depreciation expense, the allowance for uncollectible taxes and the liability for other post-employment benefits.

**NOTE 2—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

***Deficit Fund Balance – Nonmajor Funds***

***Capital Projects Fund***

At June 30, 2010, the Capital Projects Fund, a nonmajor governmental fund, had an unreserved, deficit fund balance of (\$826,083). The deficit fund balance is due to a timing issue related to the issuance of general obligation bonds.

**NOTE 3—PROPERTY TAXES**

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$2,071,475,412 as of April 1, 2009) and are due in two installments on July 1, 2009 and December 16, 2009. 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, 2010 were \$5,567,792. The City bears responsibility for uncollected taxes.

**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, 2010, 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.

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

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, 2010.

***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, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 23,232,600
Investments	12,385,216
Statement of fiduciary net assets:	
Cash and cash equivalents	214,644
Investments	1,563,120
Total deposits and investments	<u>\$ 37,395,580</u>

Deposits and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 5,275
Deposits with financial institutions	35,754,652
Investments	1,635,653
Total deposits and investments	<u>\$ 37,395,580</u>

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

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

***Interest Rate Risk***

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

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

		Remaining Maturity (in Years)		
		0-1 Years	1-5 Years	> 5 Years
Federal agency securities	\$ 289,299	\$ 51,273	\$ 114,590	\$ 123,436
State investment pool	11,142	11,142		
Corporate bonds	294,690		175,944	118,746
	<u>\$ 595,131</u>	<u>\$ 62,415</u>	<u>\$ 290,534</u>	<u>\$ 242,182</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.

		Rating as of Year End			
Investment Type		A	Aa	Baa	Not Rated
Corporate bonds	\$ 294,690	\$ 180,424	\$ 61,174	\$ 33,390	\$ 19,702
State investment pool	11,142				11,142
Mutual funds	218,958				218,958
Money market mutual funds	230,007				230,007
	<u>\$ 754,797</u>	<u>\$ 180,424</u>	<u>\$ 61,174</u>	<u>\$ 33,390</u>	<u>\$479,809</u>



**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

***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.

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 \$35,672,759 was collateralized by securities held by the bank in the bank's name. As of June 30, 2010, 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	\$ 173,389
U.S. Treasury notes	115,910
Corporate bonds	294,690
Equity securities	591,556
Mutual funds	218,958
Money market mutual funds	230,007
	<u>\$ 1,624,510</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, 2010 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:

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

Police grants	\$ 94,500
Federal food service reimbursement	76,882
State and federal school grant reimbursements	1,358,548
State revolving loan funds - Water	1,074,529
Industrial pre-treatment	4,569
Disaster assistance	10,054
State revolving loan funds - Sewer	994,972
Sewer state aid grant reimbursement	3,280,353
Capital projects fund - State reimbursements	1,182,210
CDBG grant funds - State	245,178
	<u>\$ 8,321,795</u>

**NOTE 7—CAPITAL ASSETS AND DEPRECIATION**

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

	<u>Balance</u> <u>7/1/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2010</u>
Governmental activities:				
Capital asset not depreciated:				
Land	\$ 6,891,841	\$ 130,000		\$ 7,021,841
Easements		843,130		843,130
Construction in process	20,639,713	2,172,708	\$ (17,426,172)	5,386,249
Total capital assets not being depreciated	<u>27,531,554</u>	<u>3,145,838</u>	<u>(17,426,172)</u>	<u>13,251,220</u>
Other capital assets:				
Infrastructure	122,882,328	8,360,320		131,242,648
Land improvements	5,030,384	69,570		5,099,954
Buildings and improvements	50,981,795	11,753,370		62,735,165
Vehicles and equipment	13,158,060	909,305	(415,900)	13,651,465
Total other capital assets at historical cost	<u>192,052,567</u>	<u>21,092,565</u>	<u>(415,900)</u>	<u>212,729,232</u>
Less accumulated depreciation for:				
Infrastructure	(89,533,009)	(3,114,391)		(92,647,400)
Land improvements	(2,504,360)	(206,489)		(2,710,849)
Buildings and improvements	(18,988,496)	(1,096,822)		(20,085,318)
Vehicles and equipment	(7,737,103)	(906,573)	415,900	(8,227,776)
Total accumulated depreciation	<u>(118,762,968)</u>	<u>(5,324,275)</u>	<u>415,900</u>	<u>(123,671,343)</u>
Total other capital assets, net	<u>73,289,599</u>	<u>15,768,290</u>	<u>-</u>	<u>89,057,889</u>
Total capital assets, net	<u>\$ 100,821,153</u>	<u>\$ 18,914,128</u>	<u>\$ (17,426,172)</u>	<u>\$ 102,309,109</u>

Depreciation was charged to functions as follows:

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

General government	\$ 264,993
Public safety	467,703
Highways and streets	3,369,457
Culture and recreation	52,871
Community services	25,948
Education	1,138,045
Food service	5,258
Total governmental activities depreciation expense	<u>\$ 5,324,275</u>

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

	Balance 7/1/2009	Additions	Reductions	Balance 6/30/2010
Business-type activities:				
Capital asset not depreciated:				
Land	\$ 2,653,830	\$ 452,159		\$ 3,105,989
Construction in process	9,435,813	4,920,520	\$ (4,880,486)	9,475,847
Total capital assets not being depreciated	<u>12,089,643</u>	<u>5,372,679</u>	<u>(4,880,486)</u>	<u>12,581,836</u>
Other capital assets:				
Land improvements	53,600			53,600
Infrastructure	39,600,829	3,039,568		42,640,397
Buildings and improvements	44,292,411	747,872		45,040,283
Vehicles and equipment	4,712,282	708,038		5,420,320
Total other capital assets at historical cost	<u>88,659,122</u>	<u>4,495,478</u>	<u>-</u>	<u>93,154,600</u>
Less accumulated depreciation for:				
Land improvements	(38,600)	(2,000)		(40,600)
Infrastructure	(11,302,866)	(763,027)		(12,065,893)
Buildings and improvements	(14,386,276)	(912,191)		(15,298,467)
Vehicles and equipment	(2,588,910)	(264,607)		(2,853,517)
Total accumulated depreciation	<u>(28,316,652)</u>	<u>(1,941,825)</u>	<u>-</u>	<u>(30,258,477)</u>
Total other capital assets, net	<u>60,342,470</u>	<u>2,553,653</u>	<u>-</u>	<u>62,896,123</u>
Total capital assets, net	<u>\$ 72,432,113</u>	<u>\$ 7,926,332</u>	<u>\$ (4,880,486)</u>	<u>\$ 75,477,959</u>

Depreciation was charged to proprietary funds as follows:

Sewer fund	\$ 1,005,710
Water fund	891,506
Nonmajor enterprise fund	44,609
Total business-type activities depreciation expense	<u>\$ 1,941,825</u>

**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

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

***Funding Policy***

Covered public safety employees are required to contribute 9.3% of their covered salary, whereas teachers and general employees are required to contribute 5.0% of their covered salary. The City is required to contribute at an actuarially determined rate. The City's contribution rates for the covered payroll of police officers, fire employees, teachers, and general employees were 13.66%, 17.28%, 7.49%, and 9.16%, respectively. The City contributes 70% of the employer cost for police officers, fire employees, and teachers, and the State contributes the remaining 30% 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 \$1,159,276 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, 2010, 2009 and 2008 were \$3,609,554, \$2,985,884, and \$2,948,973, 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. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of July 1, 2008, the actuarial valuation date, approximately 75 retirees and 799 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

***Annual OPEB Costs***

The City's fiscal 2010 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, 2010 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, 2010**

Annual Required Contribution (ARC)	\$ 1,185,767
Interest on Net OPEB obligation (NOO)	31,315
NOO amortization adjustment to ARC	<u>(29,661)</u>
Annual OPEB cost	1,187,421
Contributions made	<u>(463,520)</u>
Increase in Net OPEB obligation	723,901
Net OPEB obligation - beginning of year	<u>695,890</u>
Net OPEB obligation - end of year	<u>\$ 1,419,791</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for years ending June 30, 2010 and 2009 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation	Covered Payroll	OPEB Cost % of Pay
6/30/2009	\$ 1,125,076	38.1%	\$ 695,890	\$ 36,062,682	3.1%
6/30/2010	\$ 1,187,421	39.1%	\$1,419,791	\$ 37,144,562	3.2%

The City's net OPEB obligation as of June 30, 2010 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, 2009, the date of the most recent actuarial valuation update is as follows:

Actuarial Accrued Liability (AAL)	\$ 11,275,423
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 11,275,423</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 37,144,562
UAAL as a percentage of covered payroll	30.4%

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 current claim cost, turnover, mortality, 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, when available.

***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

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

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 and an initial annual healthcare cost trend of 8.0% which decreases to a 5.0% long-term rate for all healthcare benefits after seven years. 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—SHORT-TERM OBLIGATIONS**

During the year ended June 30, 2010, the City secured a tax anticipation note line of credit up to \$5,000,000 at 3.50%. The balance of the borrowed tax anticipation notes were paid in full during January 2010. These borrowings were to assist in the payment of operating expenses and are guaranteed to be repaid from property tax revenue.

The changes in the City's short-term obligations for the year ended June 30, 2010 are as follows:

Balance - July 1, 2009	\$ -
Additions	1,950,000
Reductions	<u>(1,950,000)</u>
Balance - June 30, 2010	<u>\$ -</u>

**NOTE 11—GENERAL DEBT OBLIGATIONS**

***General Long-term Obligations***

The changes in the City's long-term debt obligations for the year ended June 30, 2010 are as follows:

	Balance 7/1/2009	Additions	Reductions	Balance 6/30/2010	Due Within One Year
Governmental activities:					
Bonds payable	\$ 47,181,327	\$ 5,068,012	\$ (5,418,622)	\$ 46,830,717	\$ 5,515,980
Other post-employment benefits	624,431	1,105,322	(458,303)	1,271,450	
Compensated absences	881,490	104,138	(116,414)	869,214	-
Total governmental activities	<u>\$ 48,687,248</u>	<u>\$ 6,277,472</u>	<u>\$ (5,993,339)</u>	<u>\$ 48,971,381</u>	<u>\$ 5,515,980</u>
Business-type activities:					
Bonds payable	\$ 27,693,325	\$ 6,157,108	\$ (2,337,572)	\$ 31,512,861	\$ 2,480,623
Other post-employment benefits	71,459	80,445	(3,563)	148,341	
Other long-term obligations	3,720,141	2,976,406	(1,958,276)	4,738,271	-
Total business-type activities	<u>\$ 31,484,925</u>	<u>\$ 9,213,959</u>	<u>\$ (4,299,411)</u>	<u>\$ 36,399,473</u>	<u>\$ 2,480,623</u>

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

Payments on the general obligation bonds of the governmental activities are paid out of the General Fund. Payments on the general obligation bonds and other long-term obligations of the business-type activities are paid out of the Sewer, Water and Arena Funds. Compensated absences 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, 2010 are comprised of the following individual issues:

	Original Issue <u>Amount</u>	Interest <u>Rate</u>	Final Maturity <u>Date</u>	Balance at <u>6/30/10</u>
1991 NHMBB	\$ 5,484,100	6.80%	December 2010	\$ 274,205
1991 NHMBB	13,031,515	6.80%	January 2011	570,000
1992 Series D bonds	1,194,500	5.0-6.10%	January 2013	180,000
1995 Series bond issue	2,440,000	5.25-5.625%	August 2015	720,000
1996 Series bond issue	1,197,000	5.625-5.75%	August 2016	407,000
1997 Series bond issue	1,320,000	4.70-5.30%	August 2017	520,000
1998 Series A	1,779,000	3.90-4.75%	August 2018	686,341
2002 Series bond issue	6,383,000	4.25-4.70%	August 2022	4,108,000
2004 Series bond issue	11,169,735	3.10-4.75%	July 2024	7,410,000
2005 Series bond issue - 20 year	3,724,700	4.0-4.40%	January 2026	2,955,000
2005 Series bond issue - 15 year	285,000	4.0-4.25%	January 2021	205,000
2005 Series bond issue - 10 year	2,144,568	4.0-4.25%	January 2016	1,260,000
2005 Series bond issue - Honeywell	9,611,575	4.0-4.25%	January 2016	5,760,000
2005 QZAB	1,382,910	0%	December 2020	1,014,134
Refinancing bonds 2007 - 3 year	1,409,139	5.50-5.60%	August 2010	466,982
Refinancing bonds 2007 - 13 year	3,670,314	5.50-5.80%	August 2020	3,580,195
2008 Series bond issue - 20 year	9,593,958	3.0-5.0%	February 2028	8,623,782
2008 Series bond issue - 10 year	315,380	5.25-6.50%	February 2018	252,078
2008 Series bond issue - 10 year	2,631,970	3.0-5.0%	February 2018	2,109,988
2008 Series A NHMBB - 20 year	692,995	4.0-5.25%	August 2028	660,000
2010 Series bond issue - 5 year	171,291	2.0-2.25%	January 2015	171,291
2010 Series bond issue - 10 year	1,990,997	2.0-3.25%	January 2020	1,990,997
2010 Series bond issue - 20 year	2,905,724	2.0-4.0%	January 2030	2,905,724
Totals	<u>\$ 84,529,371</u>			<u>\$ 46,830,717</u>

Debt service requirements to retire general obligation bonds outstanding at June 30, 2010 are as follows:

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

Year Ending June 30,	Principal	Interest	Total
2011	\$ 5,515,980	\$ 1,849,183	\$ 7,365,163
2012	4,475,983	1,629,218	6,105,201
2013	4,471,886	1,459,905	5,931,791
2014	4,392,790	1,289,858	5,682,648
2015	4,381,342	1,108,555	5,489,897
2016-2020	13,671,512	3,473,283	17,144,795
2021-2025	7,433,743	1,362,361	8,796,104
2026-2030	2,487,481	235,331	2,722,812
Total	<u>\$ 46,830,717</u>	<u>\$ 12,407,694</u>	<u>\$ 59,238,411</u>

As included on the Statement of Activities (Exhibit B), interest for the year ended June 30, 2010 was \$1,998,883 on general obligation debt for governmental activities.

Business-type Activities

Bonds payable at June 30, 2010 are comprised of the following individual issues:

	Issue Amount	Interest Rate	Maturity Date	Balance at 6/30/10
1991 NHMBB	\$ 615,900	6.80%	January 2011	\$ 30,795
1992 Series D bonds	405,500	5.0-6.10%	January 2013	60,000
1996 Series bond issue	280,000	5.625-5.75%	August 2016	98,000
1998 Series A	871,000	3.90-4.75%	August 2018	483,659
2002 Series bond issue	2,253,000	4.25-4.70%	August 2022	1,423,000
2002 State Revolving loan fund	19,036,378	4.185%	August 2020	10,577,909
2004 Series bond issue	2,181,000	3.10-4.75%	July 2024	1,625,000
2005 Series bond issue	261,015	4.0-4.40%	January 2026	200,000
2005 State Revolving loan fund	716,020	3.18%	January 2015	358,010
2006 State Revolving loan fund	879,685	3.488%	August 2025	703,748
2007 State Revolving loan fund	341,373	3.352%	July 2027	316,450
2007 State Revolving loan fund	483,988	3.352%	September 2026	416,644
Refinancing bonds 2007 - 3 year	310,862	5.50-5.60%	August 2010	103,018
Refinancing bonds 2007 - 13 year	809,685	5.50-5.80%	August 2020	789,805
2008 Series bond issue - 20 year	5,536,042	3.0-5.0%	February 2028	4,976,218
2008 Series bond issue - 10 year	1,079,620	5.25-6.50%	February 2018	862,922
2008 Series bond issue - 10 year	948,029	3.0-5.0%	February 2018	760,013
2009 State Revolving loan fund	1,852,387	3.688%	December 2027	1,667,148
2009 State Revolving loan fund	1,335,120	3.488%	August 2028	1,268,364
2010 State Revolving loan fund	627,000	2.952%	February 2029	597,170
2010 Series bond issue - 5 year	101,663	2.0-2.25%	January 2015	101,663
2010 Series bond issue - 10 year	852,568	2.0-3.25%	January 2020	852,568
2010 Series bond issue - 20 year	3,240,757	2.0-4.0%	January 2030	3,240,757
Totals	<u>\$ 45,018,592</u>			<u>\$ 31,512,861</u>



**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

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 \$203,189 at June 30, 2010 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,480,623	\$ 1,271,339	\$ 3,751,962
2012	2,408,993	1,178,474	3,587,467
2013	2,409,473	1,087,697	3,497,170
2014	2,389,963	996,673	3,386,636
2015	2,382,808	899,575	3,282,383
2016-2020	10,960,428	3,108,872	14,069,300
2021-2025	5,676,227	1,262,462	6,938,689
2026-2030	<u>2,601,157</u>	<u>358,598</u>	<u>2,959,755</u>
Total	31,309,672	10,163,690	41,473,362
Principal forgiveness	<u>203,189</u>	<u>-</u>	<u>203,189</u>
	<u>\$ 31,512,861</u>	<u>\$ 10,163,690</u>	<u>\$ 41,676,551</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, 2010, the reimbursement was \$442,850.

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, 2010 was \$1,177,457 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 2010, the City borrowed an additional \$2,976,406 through the New Hampshire Water Pollution Control Revolving Fund Program. During the year \$1,962,120 was converted into general obligation bonds, which includes capitalized construction interest of \$3,844. Total funding to date is \$4,738,271, which is reported as “other long-term obligations” in the Proprietary Funds.

As authorized by the American Recovery and Reinvestment Act, the City shall be provided federal financial assistance for a Water Treatment Facility Project and Sewer Upgrade Project, whereby a portion of the principal sums, not to exceed \$2,075,000 and \$1,102,500, respectively, or 50% of aggregate disbursements, whichever is less, will be forgiven. The principal forgiveness will be applied at the time of each loan repayment over a period not to exceed 20 years.

***Authorized and Unissued Debt***

The following debt was authorized and unissued as of June 30, 2010:

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

<u>Purpose</u>	<u>Amount</u>	<u>Total</u>
Governmental Funds:		
FY 2005 Authorized	\$ 301,496	
FY 2006 Authorized	326,795	
FY 2007 Authorized	2,073,800	
FY 2008 Authorized	567,500	
FY 2009 Authorized	1,950,000	
FY 2010 Authorized	1,952,000	
School FY 2006 Authorized	18,186	
School FY 2007 Authorized	362,340	
School FY 2008 Authorized	432,734	
School FY 2009 Authorized	475,162	
School FY 2010 Authorized	743,031	
Total Governmental Funds		\$ 9,203,044
Business-type Funds:		
Sewer FY 2004 Authorized	\$ 549,926	
Sewer FY 2005 Authorized	933,567	
Sewer FY 2007 Authorized	776,000	
Sewer FY 2008 Authorized	90,000	
Sewer FY 2009 Authorized	3,280,000	
Sewer FY 2010 Authorized	575,000	
Water FY 2003 Authorized	146,000	
Water FY 2004 Authorized	150,000	
Water FY 2005 Authorized	2,000,000	
Water FY 2006 Authorized	300,040	
Water FY 2007 Authorized	1,842,052	
Water FY 2008 Authorized	193,214	
Water FY 2009 Authorized	4,489,047	
Water FY 2010 Authorized	100,000	
Total Business-type Funds		15,424,846
Combining Total		<u>\$ 24,627,890</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, 2010, the City had the following available debt margins:

	<u>Net Debt</u> <u>Outstanding</u>	<u>% of Assessed</u> <u>Valuation</u>	<u>Statutory</u> <u>Limit</u>	<u>Available</u> <u>Debt Limit</u>
School	\$ 15,972,749	7.0%	\$ 153,920,410	\$ 137,947,661
Water	11,466,971	10.0%	219,886,300	208,419,329
All other	31,639,210	3.0%	65,965,890	34,326,680

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

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

***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>	<u>Total Principal</u>	<u>City's Percent</u>	<u>City's Share</u>
Strafford County		<u>\$ 23,269,863</u>	21.0152%	<u>\$ 4,890,208</u>

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

**NOTE 12—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, 2010 are as follows:

		<u>Due from</u>			
		<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Water Fund</u>	<u>Nonmajor Enterprise Fund</u>
<u>Due to</u>	General Fund		\$ 2,426,358		\$ 137,477
	Nonmajor Governmental Funds	\$ 1,889,254			
	Sewer Fund	1,047,730		\$ 19,227	
	Water Fund	622,112			
		<u>\$ 3,559,096</u>	<u>\$ 2,426,358</u>	<u>\$ 19,227</u>	<u>\$ 137,477</u>
					<u>Totals</u>
					\$ 2,563,835
					1,889,254
					1,066,957
					622,112
					<u>\$ 6,142,158</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, 2010 are as follows:

		<u>Transfer out</u>			
		<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Fund</u>	<u>Water Fund</u>
<u>Transfer in</u>	General Fund		\$ 390,303	\$ 1,914	\$ 1,914
	Nonmajor Governmental Funds	\$ 1,859,424	51,333		
		<u>\$ 1,859,424</u>	<u>\$ 441,636</u>	<u>\$ 1,914</u>	<u>\$ 1,914</u>
					<u>Totals</u>
					\$ 394,131
					1,910,757
					<u>\$ 2,304,888</u>

**NOTE 13—RESTRICTED NET ASSETS**

Net assets are restricted for specific purposes as follows:

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2010**

	Governmental
	<u>Activities</u>
Endowments	\$ 45,501
Conservation Commission	796,299
	<u>\$ 841,800</u>

**NOTE 14—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, 2010 are as follows:

	<u>Principal</u>	<u>Income</u>	<u>Total</u>
Cemetery Funds	\$ 45,501	\$ 15,890	\$ 61,391

**NOTE 15—TOP TAXPAYERS**

The following are the five major property owners as they relate to the assessed property valuation of \$2,071,475,412:

<u>Taxpayer</u>	<u>Property</u> <u>Valuation</u>	<u>Percentage</u> <u>of Total</u> <u>Valuation</u>
Waste Management of New Hampshire	\$ 52,215,692	2.52%
Public Service Co. of New Hampshire	28,156,200	1.36%
OCW Retail Rochester, LLC	24,463,264	1.18%
Infinity Rochester Property	14,190,900	0.69%
Next Wave Home Estates, LLC	13,394,635	0.65%

**NOTE 16—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.

SCHEDULE 1  
**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis) - General Fund**  
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Taxes	\$ 47,046,621	\$ 47,046,621	\$ 47,341,698	\$ 295,077
Licenses and permits	3,909,349	3,909,349	3,946,068	36,719
Intergovernmental	26,740,874	26,740,874	26,895,510	154,636
Charges for services	624,475	643,708	708,739	65,031
Interest income	300,000	300,000	420,078	120,078
Miscellaneous	2,872,149	2,872,149	2,917,664	45,515
Total Revenues	<u>81,493,468</u>	<u>81,512,701</u>	<u>82,229,757</u>	<u>717,056</u>
Expenditures:				
Current operations:				
General government	3,669,129	3,665,585	3,443,161	222,424
Public safety	10,323,436	10,350,101	10,221,570	128,531
Highways and streets	2,577,963	2,591,037	2,428,890	162,147
Health and welfare	560,904	543,942	380,075	163,867
Culture and recreation	1,691,218	1,691,218	1,663,456	27,762
Community development	176,012	176,012	173,470	2,542
Education	49,522,000	49,522,000	48,580,672	941,328
Debt service:				
Principal retirement	5,644,622	5,644,622	5,418,622	226,000
Interest and fiscal charges	2,193,754	2,193,754	1,954,859	238,895
Intergovernmental	<u>5,567,792</u>	<u>5,567,792</u>	<u>5,567,792</u>	-
Total Expenditures	<u>81,926,830</u>	<u>81,946,063</u>	<u>79,832,567</u>	<u>2,113,496</u>
Excess of revenues over (under) expenditures	<u>(433,362)</u>	<u>(433,362)</u>	<u>2,397,190</u>	<u>2,830,552</u>
Other financing sources (uses):				
Transfers in	373,100	373,100	394,131	21,031
Transfers out	<u>(1,351,250)</u>	<u>(1,537,606)</u>	<u>(1,859,424)</u>	<u>(321,818)</u>
Total other financing sources (uses)	<u>(978,150)</u>	<u>(1,164,506)</u>	<u>(1,465,293)</u>	<u>(300,787)</u>
Net change in fund balance	(1,411,512)	(1,597,868)	931,897	2,529,765
Fund balances at beginning of year				
- Budgetary Basis	<u>10,929,204</u>	<u>10,929,204</u>	<u>10,929,204</u>	-
Fund balances at end of year				
- Budgetary Basis	<u>\$ 9,517,692</u>	<u>\$ 9,331,336</u>	<u>\$ 11,861,101</u>	<u>\$ 2,529,765</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, 2010

Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued <u>Liability (AAL)</u>	Unfunded AAL <u>(UAAL)</u>	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u>
7/1/2009	\$ -	\$ 11,275,423	\$ 11,275,423	0.0%	\$ 37,144,562	30.4%
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, 2010**

**NOTE 1—BUDGET TO ACTUAL RECONCILIATION**

***General Fund***

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balance – 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	\$ 83,674,772	\$ 82,851,267
Difference in property taxes meeting susceptible to accrual criteria	108,392	
On-behalf fringe benefits	<u>(1,159,276)</u>	<u>(1,159,276)</u>
Per Schedule 1	<u>\$ 82,623,888</u>	<u>\$ 81,691,991</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	28,560
Reserved for inventory	9,606
Reserved for special purposes	20,000
Unreserved:	
Undesignated	<u>11,680,656</u>
	<u>\$ 11,861,101</u>

**NOTE 3—RESERVED FOR SPECIAL PURPOSES**

The balance reserved for special purposes at June 30, 2010 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, 2010**

**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 1  
CITY OF ROCHESTER, NEW HAMPSHIRE  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
<b>DEPARTMENT OF AGRICULTURE</b>		
Pass Through Payments from New Hampshire Department of Education		
School Breakfast Program	10.553	\$ 138,139
National School Lunch Program	10.555	785,862
Special Milk Program for Children	10.556	1,898
Summer Food Service Program for Children	10.559	45,350
Fresh Fruit and Vegetable Program	10.582	24,861
		<u>996,110</u>
<b>Total Department of Agriculture</b>		<u>996,110</u>
<b>DEPARTMENT OF COMMERCE</b>		
Pass Through Payments from the New Hampshire Department of Environmental Services		
Habitat Conservation	11.463	<u>32,408</u>
<b>Total Department of Commerce</b>		<u>32,408</u>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>		
Pass Through Payments from Community Development Finance Authority		
Community Development Block Grants - Entitlement Grants	14.218	
#B-08-MC33-0004		170,175
#B-09-MC33-0004		199,506
#B-09-MY33-0004		82,093
		<u>451,774</u>
Community Development Block Grants - State's Program and Non-Entitlement Grants in Hawaii		
#09-216-NSPH	14.228	<u>565,731</u>
Pass Through Payments from the Rochester Housing Authority		
Public Housing Capital Fund	14.872	<u>70,235</u>
<b>Total Department of Housing and Urban Development</b>		<u>1,087,740</u>
<b>DEPARTMENT OF JUSTICE</b>		
Pass Through Payments from the New Hampshire Office of the Governor and Attorney General		
Missing Children's Assistance	16.543	
#2009-MC-CX-K021		<u>4,388</u>
Received directly from U.S. Treasury Department		
Bulletproof Vest Partnership Program	16.607	
#2010-BU-BX-10052433		3,362
#2009-BU-BX-10052433		160
		<u>3,522</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		221
#2009-CK-WX-0093		89,887
#2009-CK-WX-0715		16,498
#2009-RK-WX-0616		64,755
		<u>171,361</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	
#2007-DJ-BX-0690		3,188
#2008-DJ-BX-0576		1,975
#2009-DJ-BX-0911		9,994
		<u>15,157</u>
Pass Through Payments from the Department of Justice		
Passed Through the County of Strafford, New Hampshire		
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG)	16.804	
Program/Grants to Units of Local Governments		
#2009-SB-B9-2452		<u>133,746</u>
<b>Total Department of Justice</b>		<u>328,174</u>
<b>DEPARTMENT OF TRANSPORTATION</b>		
Pass Through Payments from New Hampshire Department of Transportation		
Highway Planning and Construction	20.205	
#STP-X-5389(009)		241,287
#STP-X-A000(923)		163,867
		<u>405,154</u>

SCHEDULE I  
CITY OF ROCHESTER, NEW HAMPSHIRE  
Schedule of Expenditures of Federal Awards (Continued)  
For the Year Ended June 30, 2010

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
<b>DEPARTMENT OF TRANSPORTATION (CONTINUED)</b>		
Pass Through Payments from New Hampshire Highway Safety Agency State and Community Highway Safety #304-10A-035 #315-09A-107	20.600	914 2,484 <u>3,398</u>
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants #308-10A-107 #308-09A-083 #308-09A-166 #2008-AH-FX-0019 #2009-AH-SX-0066	20.601	572 980 3,731 2,768 3,100 <u>11,151</u>
<b>Total Department of Transportation</b>		<u>419,703</u>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>		
Pass Through Payments from the New Hampshire Department of Environmental Services Capitalization Grants for Clean Water State Revolving Funds #CS-320122-10	66.458	350,017
Capitalization Grants for Drinking Water State Revolving Funds #2001010-07	66.468	979,478
<b>Total Environmental Protection Agency</b>		<u>1,329,495</u>
<b>DEPARTMENT OF ENERGY</b>		
Received directly from U.S. Treasury Department Energy Efficiency and Conservation Block Grant Program (EECBG) #DE-EE0001508	81.128	71,654
<b>Total Department of Energy</b>		<u>71,654</u>
<b>DEPARTMENT OF EDUCATION</b>		
Pass Through Payments from New Hampshire Department of Education Adult Education - Basic Grants to States #07319	84.002	8,719
Title I Grants to Local Educational Agencies #00121 #00235 #00236 #00237 #00252 #00254 #00702 #90135 #90300 #90301 #90303 #90702	84.010	1,400,577 10,648 10,934 17,112 17,981 25,342 42,024 208,914 2,531 11,415 3,126 18,868 <u>1,769,472</u>
Special Education - Grants to States #02588 #02631	84.027	1,031,764 9,247 <u>1,041,011</u>
Career and Technical Education - Basic Grants to States #05032 #95032	84.048	158,602 8,145 <u>166,747</u>
Special Education - Preschool Grants #02777	84.173	47,623
Safe and Drug-Free Schools and Communities - State Grants #06467 #06649 #06691	84.186	9,960 4,857 11,547 <u>26,364</u>
Fund for the Improvement of Education	84.215	<u>148,978</u>

SCHEDULE I  
CITY OF ROCHESTER, NEW HAMPSHIRE  
Schedule of Expenditures of Federal Awards (Continued)  
For the Year Ended June 30, 2010

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
<b>DEPARTMENT OF EDUCATION (CONTINUED)</b>		
Reading First State Grants	84.357	
#00757		122,875
#90757		30,286
#90758		18,358
#90759		<u>30,105</u>
		201,624
English Language Acquisition Grants	84.365	
#00807		841
#90807		<u>10,433</u>
		11,274
Improving Teacher Quality State Grants	84.367	
#04898		240,491
#94919		55,987
#98827		<u>40,658</u>
		337,136
Education for Homeless Children and Youth, Recovery Act	84.387	<u>31,013</u>
Title I Grants to Local Educational Agencies, Recovery Act	84.389	<u>280,320</u>
Special Education Grants to States, Recovery Act	84.391	<u>555,253</u>
Special Education - Preschool Grants, Recovery Act	84.392	<u>1,725</u>
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	<u>6,227,269</u>
<b>Total Department of Education</b>		<u>10,854,528</u>
<b>DEPARTMENT OF HOMELAND SECURITY</b>		
Pass Through Payments from New Hampshire Department of Safety, Homeland Security and Emergency Management		
Disaster Grants - Public Assistance (Presidentially Declared Disasters) #FEMA-1892-DR-NH	97.036	<u>39,890</u>
Hazard Mitigation Grant #FEMA-1695-23-R	97.039	<u>122,053</u>
Emergency Management Performance Grants	97.042	<u>2,801</u>
Assistance to Firefighters Grant	97.044	<u>18,026</u>
<b>Total Department of Homeland Security</b>		<u>182,770</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$15,302,582</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, 2010**

**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 \$84,471 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:	
General Fund	\$ 6,256,770
Sewer Fund	10,054
Nonmajor Funds:	
Federal Projects Fund	4,478,281
Food Service Fund	911,974
Capital Projects Fund	631,269
Neighborhood Stabilization Fund	565,731
CDBG Fund	451,774
Police Grants Fund	412,958
Other School Grants Fund	148,978
Other Grants and Donations Fund	20,827
	<u>\$ 13,888,616</u>

Amounts of \$979,478 and \$350,017 represent fifty percent of the drawdowns from the State Revolving Loan Fund Program related to the Water Treatment Facility and Sewer Upgrade Projects. These are the amounts that will be forgiven on the principal of the loans over the length of the loans.

**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, 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, 2010, which collectively comprise the City of Rochester, New Hampshire's basic financial statements, and have issued our report thereon dated February 9, 2011. 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Honorable Mayor and 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 Clukey & Company PC

February 9, 2011



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON 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

We have audited the City of Rochester, New Hampshire's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Rochester, New Hampshire's major federal programs for the year ended June 30, 2010. 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 each of 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. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

*Internal Control Over Compliance*

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 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 Clukey & Company PC*

February 9, 2011



**City of Rochester, New Hampshire  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010**

**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:

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
14.228	Community Development Block Grants - State's Program and Non-Entitlement Grants in Hawaii
16.804	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program - Grants To Units Of Local Government
66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.010 & 84.389	Title I, Part A Cluster
84.027, 84.173, 84.391 & 84.392	Special Education Cluster (IDEA)
84.394	State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act

Dollar threshold used to distinguish between Type A and B program: \$ 459,077.

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).