

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**Financial Statements**  
**With Schedule of Expenditures of Federal Awards**  
**June 30, 2012**  
**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, 2012**

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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, 2012, 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 of Rochester, New Hampshire as of June 30, 2012, 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 15, 2013, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress for other post-employment benefits on pages i-vii and 34-36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the

information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester, New Hampshire's financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Vachon Clukey & Company PC

February 15, 2013

# **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, 2012. Please read this analysis in conjunction with the financial statements presented in this report.

These financial reports represent more than eight 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, 2012, the City is complying for the fourth 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, \$233.4 million, exceeded total liabilities of \$111.3 million, by \$122.1 million. This amount is the Total Net Assets on Exhibit A, Statement of Net Assets for Governmental and Business-Type Activities. The \$122.1 million is reported as \$106 million invested in capital assets, net of related debt, \$3 million restricted and \$13.1 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 \$5 million or 4.3% in fiscal year 2012.
- The City's Total Assets on Exhibit A increased by \$5.5 million or 2.4% and Total Liabilities increased by \$.5 million or .45%.

#### **Fund Balance Highlights**

The Fund Balance for all governmental funds increased by \$4.8 million to \$14.5 million for the fiscal year ending June 30, 2012. This amount is the Fund Balance at the end of the year on Exhibit D, Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds. The General Fund Balance increased by \$1.2 million to \$13.9 million; the fund balance for all other funds increased by \$3.6 million, to a balance of \$635,086.

### **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 for the Governmental Funds are presented in Exhibits C and D. The Proprietary Funds are presented 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 are 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. Fund 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* is reconciled 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 separately in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on Exhibits H and I. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## THE CITY AS A WHOLE

The City's *combined* total net assets are \$122.1 million. Separating the net assets of Governmental and Business-type Activities, this represents \$72 million for Governmental Activities and \$50.1 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>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Current and other assets	40.8	37.7	8.7	9.2	49.5	46.9
Capital assets, net	<u>104.6</u>	<u>103.0</u>	<u>79.3</u>	<u>78.0</u>	<u>183.9</u>	<u>181.0</u>
<b>Total assets</b>	<b>145.4</b>	<b>140.7</b>	<b>88.0</b>	<b>87.2</b>	<b>233.4</b>	<b>227.9</b>
Long-term liabilities	48.4	40.3	36.4	34.1	84.8	74.4
Other liabilities	<u>25.0</u>	<u>31.8</u>	<u>1.5</u>	<u>4.6</u>	<u>26.5</u>	<u>36.4</u>
<b>Total liabilities</b>	<b>73.4</b>	<b>72.1</b>	<b>37.9</b>	<b>38.7</b>	<b>111.3</b>	<b>110.8</b>
Invested in capital assets, net of debt	60.0	61.3	46.0	44.7	106.0	106.0
Restricted	3.0	0.2	-	-	3.0	0.2
Unrestricted	<u>9.0</u>	<u>7.1</u>	<u>4.1</u>	<u>3.8</u>	<u>13.1</u>	<u>10.9</u>
<b>Total net assets</b>	<b>72.0</b>	<b>68.6</b>	<b>50.1</b>	<b>48.5</b>	<b>122.1</b>	<b>117.1</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 \$1.9 million to \$9.0 million. This increase represents an increase in the amount of funds available to meet the City's general fund obligations due largely to the cash expended on capital projects. The issuance of bonded debt in early 2012 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 \$5.0 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>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenues</b>						
<b>Program revenues:</b>						
Charges for services	2.1	2.3	8.8	8.7	10.9	11.0
Operating grants	30.6	33.4	-	-	30.6	33.4
Capital grants and contributions	1.2	3.4	0.2	0.7	1.4	4.1
<b>General Revenues:</b>						
Property taxes	50.5	48.5	-	-	50.5	48.5
Licenses and permits	4.3	4.0	-	-	4.3	4.0
Other general revenues	<u>5.5</u>	<u>5.4</u>	<u>0.1</u>	<u>0.1</u>	<u>5.6</u>	<u>5.5</u>
<b>Total revenues</b>	<b>94.2</b>	<b>97.0</b>	<b>9.1</b>	<b>9.5</b>	<b>103.3</b>	<b>106.5</b>
<b>Program Expenses:</b>						
General government	4.1	3.9	-	-	4.1	3.9
Public safety	12.1	12.1	-	-	12.1	12.1
Public works	5.9	5.8	-	-	5.9	5.8
Health and welfare	0.4	0.4	-	-	0.4	0.4
Culture and recreation	1.8	1.8	-	-	1.8	1.8
Community development	0.7	2.6	-	-	0.7	2.6
Community services	0.7	0.8	-	-	0.7	0.8
Education	56.1	57.3	-	-	56.1	57.3
Food services	1.9	1.8	-	-	1.9	1.8
Debt Service	1.6	1.8	-	-	1.6	1.8
Intergovernmental	5.5	5.6	-	-	5.5	5.6
Water	-	-	3.2	3.2	3.2	3.2
Sewer	-	-	3.9	3.8	3.9	3.8
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>90.8</b>	<b>93.9</b>	<b>7.5</b>	<b>7.4</b>	<b>98.3</b>	<b>101.3</b>
<b>Excess (deficiency) before contributions and transfers</b>	<b>3.4</b>	<b>3.1</b>	<b>1.6</b>	<b>2.1</b>	<b>5.0</b>	<b>5.2</b>
Transfers	<u>-</u>	<u>0.2</u>	<u>-</u>	<u>(0.2)</u>	<u>-</u>	<u>-</u>
<b>Increase (decrease) in net assets</b>	<b><u>3.4</u></b>	<b><u>3.3</u></b>	<b><u>1.6</u></b>	<b><u>1.9</u></b>	<b><u>5.0</u></b>	<b><u>5.2</u></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 2012 (tax year 2011) decreased \$16.9 million or 0.8% as of April 1, 2011. The tax rate increased to \$24.86, which is 4% over the previous year.
- The City is committed to regular infrastructure and capital improvements. The capital budget for fiscal year 2012 was \$8.5 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 three preceding years; however, this increase in FY2012 reflects the City Council's recognition for the need to maintain and invest in the City's capital infrastructure.

The major areas where revenues exceeded projections are taxes of \$1.4 million and licenses & permits of \$363 thousand. Additional budget to actual variances can be found on Schedule 1, Schedule of Revenues, Expenditures and Changes in Fund Balance.

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 at the state and national levels, 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. We are already beginning to see the positive results of this strategy.

### **Business-type Activities**

Operating revenues for the City's business-type activities exceeded expenses by nearly \$1.6 million as presented in Exhibit F of the attached statements.

- The City's sewer system posted a positive change in net assets of \$1.3 million. This fund is showing strong contributions to Net Assets for a third straight year. Exhibit G, Statement of Cash Flows Proprietary Funds, reports an increase of \$739 thousand in the cash balance from the beginning of the year; however, 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's water system posted a change in net assets of \$321 thousand. Exhibit G, Statement of Cash Flows Proprietary Funds, reports a decrease of \$812 thousand 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's ice arena has a reported minimal net asset decrease of \$2,303.

## **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 Balance on Schedule 1, reported a budgetary fund balance of nearly \$14.5 million, which is ahead of last year's total of nearly \$12.8 million.

### **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, 2012 is \$183.9 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>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Land	7.6	7.5	3.5	3.5	11.1	11.0
Easements	1.1	1.1	-	-	1.1	1.1
Land improvements	2.3	2.5	-	-	2.3	2.5
Buildings and improvements	41.9	42.5	28.7	29.6	70.6	72.1
Vehicles and equipment	5.7	5.6	3.2	2.8	8.9	8.4
Infrastructure	41.5	36.7	31.5	30.1	73.0	66.8
Construction in progress	<u>4.5</u>	<u>7.1</u>	<u>12.4</u>	<u>12.0</u>	<u>16.9</u>	<u>19.1</u>
<b>Totals</b>	<b>104.6</b>	<b>103.0</b>	<b>79.3</b>	<b>78.0</b>	<b>183.9</b>	<b>181.0</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, 2012, the total debt outstanding for all funds is \$80.6 million (See Table 4 below).

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
General obligation bonds (backed by the City) and State revolving notes	<u>44.6</u>	<u>41.7</u>	<u>36.0</u>	<u>36.3</u>	<u>80.6</u>	<u>78.0</u>
<b>Totals</b>	<b>44.6</b>	<b>41.7</b>	<b>36.0</b>	<b>36.3</b>	<b>80.6</b>	<b>78.0</b>

The City's overall debt limitations and available debt margin are listed in Note 10 – General Debt Obligations, of the Notes to the Basic Financial Statements.

The General Obligation bond rating process conducted in February - March of 2012 returned a bond rating from Moody's of A1 and a rating of AA- was received from Standard and Poors. While financial steadfastness is only one of the criteria that bond rating agencies use in assessing overall risk, continued positive performance in this area will help the City to 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 2013 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 directing capital expenditures in an effort to minimize bonded debt. It is also important to note that in November 2008 voters of 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 four 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 development and retention is a priority and is especially critical at this time of economic challenge. Albany International Corporation announced in October of 2010 that it would be moving its corporate headquarters to Rochester and that its aerospace composites subsidiary, Albany Engineered Composites, Inc., will be expanding its operations in Rochester. In December 2011, Safran USA announced plans to construct a new 275,000-square-foot advanced manufacturing plant adjacent to Albany's Rochester operations and to begin initial production in 2013. The new plant will support both firms' activities associated with leading edge aerospace research, design and manufacturing. At peak production, the plant will employ 400-500 people. The City has now successfully completed the construction of a new bridge and road project to support this project and private manufacturing facility is under construction. This is just one of several high profile developments that have opened for business in the past five 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, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 31,038,031		\$ 31,038,031
Investments	8,098,153		8,098,153
Taxes receivable, net	1,977,315		1,977,315
Accounts receivable	709,854	\$ 2,754,200	3,464,054
Due from other governments	1,479,400	341,333	1,820,733
Internal balances	(2,895,958)	2,895,958	-
Deferred debt financing costs	33,827	6,683	40,510
Prepaid expenses	51,603	351	51,954
Inventory	16,963	276,733	293,696
Total Current Assets	<u>40,509,188</u>	<u>6,275,258</u>	<u>46,784,446</u>
Noncurrent Assets:			
Due from other governments		2,397,519	2,397,519
Deferred debt financing costs	222,636	35,241	257,877
Capital assets:			
Non-depreciable capital assets	13,218,288	15,917,312	29,135,600
Depreciable capital assets, net	91,415,561	63,404,669	154,820,230
Total Noncurrent Assets	<u>104,856,485</u>	<u>81,754,741</u>	<u>186,611,226</u>
Total Assets	<u>\$ 145,365,673</u>	<u>\$ 88,029,999</u>	<u>\$ 233,395,672</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 2,340,959	\$ 219,404	\$ 2,560,363
Accrued expenses	5,145,354	849,792	5,995,146
Retainage payable	99,891	99,473	199,364
Deferred revenue	16,859,055	379,182	17,238,237
Deposits	484,139		484,139
Current portion of deferred bond premiums	27,036	2,578	29,614
Current portion of bonds payable	4,602,642	2,540,906	7,143,548
Current portion of compensated absences payable	267,298		267,298
Total Current Liabilities	<u>29,826,374</u>	<u>4,091,335</u>	<u>33,917,709</u>
Noncurrent Liabilities:			
Deferred bond premiums	250,930	27,823	278,753
Bonds payable	39,556,624	27,293,651	66,850,275
Other long-term obligations	475,983	6,186,844	6,662,827
Other post-employment benefits payable	2,536,152	289,939	2,826,091
Compensated absences payable	730,891	15,755	746,646
Total Noncurrent Liabilities	<u>43,550,580</u>	<u>33,814,012</u>	<u>77,364,592</u>
Total Liabilities	<u>73,376,954</u>	<u>37,905,347</u>	<u>111,282,301</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	59,977,097	46,003,900	105,980,997
Restricted	3,030,212		3,030,212
Unrestricted	8,981,410	4,120,752	13,102,162
Total Net Assets	<u>71,988,719</u>	<u>50,124,652</u>	<u>122,113,371</u>
Total Net Assets and Liabilities	<u>\$ 145,365,673</u>	<u>\$ 88,029,999</u>	<u>\$ 233,395,672</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, 2012

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Primary Government Business-type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 4,124,254	\$ 42,815			\$ (4,081,439)		\$ (4,081,439)
Public safety	12,097,787	333,734	\$ 371,015	\$ 59,666	(11,333,372)		(11,333,372)
Highways and streets	5,883,171	46,725	619,511	202,786	(5,014,149)		(5,014,149)
Health and welfare	360,554				(360,554)		(360,554)
Culture and recreation	1,768,494	147,448			(1,621,046)		(1,621,046)
Community development	753,784		344,082		(409,702)		(409,702)
Community services	689,466	710,990			21,524		21,524
Education	56,075,396	40,807	28,200,702	18,370	(27,815,517)		(27,815,517)
Food service	1,885,735	752,993	1,070,320		(62,422)		(62,422)
Debt service	1,624,751			898,638	(726,113)		(726,113)
Intergovernmental	5,526,142				(5,526,142)		(5,526,142)
Total governmental activities	<u>90,789,534</u>	<u>2,075,512</u>	<u>30,605,630</u>	<u>1,179,460</u>	<u>(56,928,932)</u>	<u>\$ -</u>	<u>(56,928,932)</u>
Business-type activities:							
Sewer	3,842,744	4,878,314		205,203		1,240,773	1,240,773
Water	3,301,690	3,533,207		35,234		266,751	266,751
Nonmajor enterprise fund	410,403	361,099				(49,304)	(49,304)
Total business-type activities	<u>7,554,837</u>	<u>8,772,620</u>	<u>-</u>	<u>240,437</u>	<u>-</u>	<u>1,458,220</u>	<u>1,458,220</u>
Total primary government	<u>\$ 98,344,371</u>	<u>\$ 10,848,132</u>	<u>\$ 30,605,630</u>	<u>\$ 1,419,897</u>	<u>(56,928,932)</u>	<u>1,458,220</u>	<u>(55,470,712)</u>
General revenues:							
Property and other taxes					50,522,344		50,522,344
Licenses and permits					4,272,721		4,272,721
Grants and contributions:							
Rooms and meals tax distribution					1,329,043		1,329,043
Interest and investment earnings					94,028	5,500	99,528
Miscellaneous					4,060,073	127,010	4,187,083
Transfers					3,618	(3,618)	-
Total general revenues and transfers					<u>60,281,827</u>	<u>128,892</u>	<u>60,410,719</u>
Change in net assets					3,352,895	1,587,112	4,940,007
Net assets - beginning, as restated					<u>68,635,824</u>	<u>48,537,540</u>	<u>117,173,364</u>
Net assets - ending					<u>\$ 71,988,719</u>	<u>\$ 50,124,652</u>	<u>\$ 122,113,371</u>

See accompanying notes to the basic financial statements

EXHIBIT C  
**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2012

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 30,857,135	\$ 180,896	\$ 31,038,031
Investments	8,026,954	71,199	8,098,153
Taxes receivable, net	1,977,315		1,977,315
Accounts receivable	470,507	239,347	709,854
Due from other governments		1,479,400	1,479,400
Due from other funds	3,921,918	3,701,158	7,623,076
Prepaid expenses	51,603		51,603
Inventory		16,963	16,963
Total Assets	<u>\$ 45,305,432</u>	<u>\$ 5,688,963</u>	<u>\$ 50,994,395</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,491,423	\$ 849,536	\$ 2,340,959
Accrued expenses	4,304,422	168,595	4,473,017
Retainage payable		99,891	99,891
Deferred revenue	18,265,115	264,095	18,529,210
Deposits	484,139		484,139
Due to other funds	6,847,274	3,671,760	10,519,034
Total Liabilities	<u>31,392,373</u>	<u>5,053,877</u>	<u>36,446,250</u>
<b>FUND BALANCES</b>			
Nonspendable	51,603	70,727	122,330
Restricted		2,976,448	2,976,448
Committed	1,018,680	165,365	1,184,045
Assigned	86,725	112,280	199,005
Unassigned (deficit)	<u>12,756,051</u>	<u>(2,689,734)</u>	<u>10,066,317</u>
Total Fund Balances	<u>13,913,059</u>	<u>635,086</u>	<u>14,548,145</u>
Total Liabilities and Fund Balances	<u>\$ 45,305,432</u>	<u>\$ 5,688,963</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			104,633,849
Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis			1,670,155
Deferred debt financing costs are recognized on an accrual basis in the statement of net assets, not the modified accrual basis			256,463
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:			
Deferred bond premiums			(277,966)
Bonds payable			(44,159,266)
Other long-term obligations			(475,983)
Other post-employment benefits payable			(2,536,152)
Compensated absences payable			(998,189)
Accrued interest on long-term obligations			(672,337)
Net assets of governmental activities			<u>\$ 71,988,719</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, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 50,055,931		\$ 50,055,931
Licenses and permits	4,272,721		4,272,721
Intergovernmental	26,606,770	\$ 6,507,363	33,114,133
Charges for services	570,722	1,504,790	2,075,512
Investment income	92,251	1,777	94,028
Miscellaneous	3,242,923	817,150	4,060,073
Total Revenues	<u>84,841,318</u>	<u>8,831,080</u>	<u>93,672,398</u>
Expenditures:			
Current operations:			
General government	3,772,033	1,298	3,773,331
Public safety	10,938,739	423,855	11,362,594
Highways and streets	2,422,695		2,422,695
Health and welfare	359,334		359,334
Culture and recreation	1,684,178	3,393	1,687,571
Community development	328,642	2,597,547	2,926,189
Community services		653,587	653,587
Education	50,663,914	4,502,900	55,166,814
Food service		2,054,308	2,054,308
Capital outlay		4,252,627	4,252,627
Debt service:			
Principal retirement	4,473,950		4,473,950
Interest and fiscal charges	1,758,103		1,758,103
Intergovernmental	5,526,142		5,526,142
Total Expenditures	<u>81,927,730</u>	<u>14,489,515</u>	<u>96,417,245</u>
Excess of revenues over (under) expenditures	<u>2,913,588</u>	<u>(5,658,435)</u>	<u>(2,744,847)</u>
Other financing sources (uses):			
Proceeds from bonds issued		7,358,288	7,358,288
Bond premiums	123,710	28,543	152,253
Proceeds from other long-term obligations		29,347	29,347
Transfers in	471,129	2,361,554	2,832,683
Transfers out	(2,291,554)	(537,511)	(2,829,065)
Total other financing sources (uses)	<u>(1,696,715)</u>	<u>9,240,221</u>	<u>7,543,506</u>
Net change in fund balances	1,216,873	3,581,786	4,798,659
Fund balances (deficit) at beginning of year, as restated	<u>12,696,186</u>	<u>(2,946,700)</u>	<u>9,749,486</u>
Fund balances at end of year	<u>\$ 13,913,059</u>	<u>\$ 635,086</u>	<u>\$ 14,548,145</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, 2012

New Change in Fund Balances--Total Governmental Funds	\$ 4,798,659
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 expense in the current period.	1,673,897
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss of disposed capital assets reduced by the actual proceeds received from the sale of capital assets.	(2,682)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	466,413
Proceeds from bond issuance are other financing sources in the funds, but bond issuance increases long-term liabilities in the statement of net assets.	(7,358,288)
Proceeds from other long-term obligations are other financing sources in the funds, but other long-term obligations increase long-term liabilities in the statement of net assets.	(29,347)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	4,473,950
Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(138,061)
Governmental funds report the effect of deferred debt financing cost when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	99,670
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	19,490
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 the governmental funds.	(650,806)
Change in Net Assets of Governmental Activities	<u>\$ 3,352,895</u>



EXHIBIT E  
**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**Statement of Net Assets**  
**Proprietary Funds**  
June 30, 2012

	Business-type Activities			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	Totals
<b>ASSETS</b>				
Current Assets:				
Accounts receivable	\$ 1,682,551	\$ 1,071,649		\$ 2,754,200
Due from other governments	326,257	15,076		341,333
Due from other funds	3,178,744		\$ 18,586	3,197,330
Deferred debt financing costs	3,256	3,200	227	6,683
Prepaid expenses		351		351
Inventory		276,733		276,733
Total Current Assets	<u>5,190,808</u>	<u>1,367,009</u>	<u>18,813</u>	<u>6,576,630</u>
Noncurrent Assets:				
Due from other governments	2,397,519			2,397,519
Deferred debt financing costs	11,913	19,016	4,312	35,241
Capital assets:				
Non-depreciable capital assets	5,956,468	9,888,871	71,973	15,917,312
Depreciable capital assets, net	<u>39,498,385</u>	<u>22,687,024</u>	<u>1,219,260</u>	<u>63,404,669</u>
Total Noncurrent Assets	<u>47,864,285</u>	<u>32,594,911</u>	<u>1,295,545</u>	<u>81,754,741</u>
Total Assets	<u>\$ 53,055,093</u>	<u>\$ 33,961,920</u>	<u>\$ 1,314,358</u>	<u>\$ 88,331,371</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	\$ 134,018	\$ 81,654	\$ 3,732	\$ 219,404
Accrued expenses	564,025	258,416	27,351	849,792
Retainage payable	19,595	79,878		99,473
Deferred revenue	379,182			379,182
Due to other funds		301,372		301,372
Current portion of deferred bond premium		1,763	815	2,578
Current portion of bonds payable	<u>1,554,765</u>	<u>908,687</u>	<u>77,454</u>	<u>2,540,906</u>
Total Current Liabilities	<u>2,651,585</u>	<u>1,631,770</u>	<u>109,352</u>	<u>4,392,707</u>
Noncurrent Liabilities:				
Deferred bond premium		18,831	8,992	27,823
Bonds payable	14,666,012	11,784,893	842,746	27,293,651
Other long-term obligations	2,657,046	3,529,798		6,186,844
Other post-employment benefits payable	137,241	136,258	16,440	289,939
Compensated absences payable	<u>10,065</u>	<u>4,798</u>	<u>892</u>	<u>15,755</u>
Total Noncurrent Liabilities	<u>17,470,364</u>	<u>15,474,578</u>	<u>869,070</u>	<u>33,814,012</u>
Total Liabilities	<u>20,121,949</u>	<u>17,106,348</u>	<u>978,422</u>	<u>38,206,719</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	29,283,996	16,354,139	365,765	46,003,900
Unrestricted (deficit)	<u>3,649,148</u>	<u>501,433</u>	<u>(29,829)</u>	<u>4,120,752</u>
Total Net Assets	<u>32,933,144</u>	<u>16,855,572</u>	<u>335,936</u>	<u>50,124,652</u>
Total Liabilities and Net Assets	<u>\$ 53,055,093</u>	<u>\$ 33,961,920</u>	<u>\$ 1,314,358</u>	<u>\$ 88,331,371</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, 2012

	Business-type Activities			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	Totals
Operating revenues:				
Charges for services	\$ 4,878,314	\$ 3,533,207	\$ 361,099	\$ 8,772,620
Miscellaneous	26,048	54,461	46,501	127,010
Total operating revenues	<u>4,904,362</u>	<u>3,587,668</u>	<u>407,600</u>	<u>8,899,630</u>
Operating expenses:				
Personnel services	1,116,886	1,163,373	195,794	2,476,053
Materials and supplies	310,161	259,049	8,277	577,487
Utilities	409,751	156,208	69,063	635,022
Depreciation	1,047,157	997,226	65,609	2,109,992
Bad debt expense			2,413	2,413
Miscellaneous	291,179	292,742	37,085	621,006
Total operating expenses	<u>3,175,134</u>	<u>2,868,598</u>	<u>378,241</u>	<u>6,421,973</u>
Operating income	<u>1,729,228</u>	<u>719,070</u>	<u>29,359</u>	<u>2,477,657</u>
Non-operating revenues (expenses):				
Interest revenue	2,500	2,500	500	5,500
Interest expense	(667,610)	(433,092)	(32,162)	(1,132,864)
Net non-operating revenues (expenses)	<u>(665,110)</u>	<u>(430,592)</u>	<u>(31,662)</u>	<u>(1,127,364)</u>
Income (Loss) before capital contributions and transfers	1,064,118	288,478	(2,303)	1,350,293
Capital contributions	205,203	35,234		240,437
Transfers out	<u>(1,809)</u>	<u>(1,809)</u>		<u>(3,618)</u>
Change in net assets	1,267,512	321,903	(2,303)	1,587,112
Total net assets at beginning of year	<u>31,665,632</u>	<u>16,533,669</u>	<u>338,239</u>	<u>48,537,540</u>
Total net assets at end of year	<u>\$ 32,933,144</u>	<u>\$ 16,855,572</u>	<u>\$ 335,936</u>	<u>\$ 50,124,652</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, 2012

	Business-type Activities			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 4,814,916	\$ 3,430,403	\$ 361,099	\$ 8,606,418
Other operating cash receipts	26,048	54,461	46,501	127,010
Cash paid to suppliers	(1,336,103)	(1,128,895)	(168,704)	(2,633,702)
Cash paid to employees	(746,829)	(767,954)	(131,508)	(1,646,291)
Net cash provided by operating activities	<u>2,758,032</u>	<u>1,588,015</u>	<u>107,388</u>	<u>4,453,435</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	(1,809)	(1,809)		(3,618)
Net cash (used) for noncapital financing activities	<u>(1,809)</u>	<u>(1,809)</u>	<u>-</u>	<u>(3,618)</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(1,986,052)	(1,870,836)		(3,856,888)
Proceeds from bonds issued	84,971	594,849	283,223	963,043
Proceeds from other long-term obligations	1,482,237	212,834		1,695,071
Principal paid on long-term debt	(1,554,332)	(840,696)	(69,499)	(2,464,527)
Interest paid on long-term debt	(711,812)	(497,687)	(31,233)	(1,240,732)
Capital contributions	665,627			665,627
Net cash provided (used) for capital and related financing activities	<u>(2,019,361)</u>	<u>(2,401,536)</u>	<u>182,491</u>	<u>(4,238,406)</u>
Cash flows from investing activities:				
Interest on investments	2,500	2,500	500	5,500
Net cash provided by investing activities	<u>2,500</u>	<u>2,500</u>	<u>500</u>	<u>5,500</u>
Net increase (decrease) in cash and cash equivalents	739,362	(812,830)	290,379	216,911
Cash and cash equivalents (deficiency) at beginning of year	2,439,382	511,458	(271,793)	2,679,047
Cash and cash equivalents (deficiency) at end of year	<u>\$ 3,178,744</u>	<u>\$ (301,372)</u>	<u>\$ 18,586</u>	<u>\$ 2,895,958</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 1,729,228	\$ 719,070	\$ 29,359	\$ 2,477,657
Adjustments to reconcile operating income to net cash provided by operating activities:				
Bad debt expense			2,413	2,413
Depreciation expense	1,047,157	997,226	65,609	2,109,992
Changes in assets and liabilities:				
Accounts receivable	(63,398)	(102,804)	1,500	(164,702)
Prepaid expenses		33		33
Inventory		(29,543)		(29,543)
Accounts payable	(334)	(30,385)	1,701	(29,018)
Accrued expenses	6,357	(10)	3,353	9,700
Deferred revenue			(1,500)	(1,500)
Other post-employment benefits payable	28,957	29,630	4,061	62,648
Compensated absences payable	10,065	4,798	892	15,755
Net cash provided by operating activities	<u>\$ 2,758,032</u>	<u>\$ 1,588,015</u>	<u>\$ 107,388</u>	<u>\$ 4,453,435</u>
Non-cash transactions affecting financial position:				
Capital asset additions included in year end liabilities	\$ 117,647	\$ 119,548		\$ 237,195
Principal forgiveness on debt		35,234		35,234
Amortization on deferred debt financing expense	3,667	3,067		6,734
	<u>\$ 121,314</u>	<u>\$ 157,849</u>	<u>\$ -</u>	<u>\$ 279,163</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, 2012

	Private- Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 36,926	\$ 170,550
Investments	<u>1,783,805</u>	
Total Assets	<u>\$ 1,820,731</u>	<u>\$ 170,550</u>
LIABILITIES		
Due to student groups		\$ 170,550
Total Liabilities	<u>\$ -</u>	<u>\$ 170,550</u>
NET ASSETS		
Held in trust	<u>1,820,731</u>	
Total Net Assets	<u>\$ 1,820,731</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, 2012

	Private- Purpose <u>Trust Funds</u>
ADDITIONS:	
Contributions:	
Private donations	\$ 43,751
Total Contributions	<u>43,751</u>
Investment earnings:	
Investment income	51,692
Net decrease in the fair value of investments	<u>(584)</u>
Total Investment Earnings	<u>51,108</u>
Total Additions	<u>94,859</u>
DEDUCTIONS:	
Benefits	<u>67,393</u>
Total Deductions	<u>67,393</u>
Change in Net Assets	27,466
Net assets - beginning of year	<u>1,793,265</u>
Net assets - end of year	<u>\$ 1,820,731</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, 2012**

**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 conditions of the governmental and business-type 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 and business-type 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 and proprietary fund financial statements is on major funds. Each major fund is

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

***Fund Accounting***

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

**1. Governmental Funds:**

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

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

The 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, Food Service Fund, Federal Projects Fund, Planning Fund, Granite State Business Park TIF District 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 wastewater 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.

The City's sole Nonmajor Enterprise Fund is the Arena Fund.

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

**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 various private-purpose trusts which account for monies designated to benefit individuals within the City. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The City's agency funds account for the Student Activities Funds of the schools.

***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 reconciliations 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 funds are 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.



**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

In the 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.

**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.

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

***Budgetary Data***

The City's budget represents functional appropriations as authorized by annual or special City Council meetings. The City 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 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, 2012, the City applied \$1,458,418 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>Due from other funds</u>	<u>Due to other funds</u>	<u>Totals</u>
Proprietary Funds:			
Sewer Fund	\$ 3,178,744		\$ 3,178,744
Water Fund		\$ (301,372)	(301,372)
Nonmajor Enterprise Fund	18,586		18,586
	<u>\$ 3,197,330</u>	<u>\$ (301,372)</u>	<u>\$ 2,895,958</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, 2012 are recorded as receivables net of reserves for estimated uncollectible taxes of \$2,139,606.

***Deferred Debt Financing Costs***

Underwriter's fees and other related costs incurred by the City resulting from the issuance of general obligation bonds, as well as refinancing of general obligation bonds that result in a difference between the reacquisition price and the net carrying value of the old debt have been reported in the accompanying financial statements as deferred debt financing costs. Deferred debt financing costs are amortized as a component of interest expense over the remaining life of the related debt. The balances of the deferred debt financing costs as of June 30, 2012 are \$256,463 and \$41,924 in the governmental and business-type activities, respectively.

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

***Prepaid Expenses***

Payments made to vendors for services that will benefit periods beyond June 30, 2012 are recorded as prepaid items.

***Inventory***

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

Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as expenditures in the governmental fund types when purchased.

***Capital Assets***

General capital assets result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net assets, but are not reported in the 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. Intangible assets of the City consist of land easements which are reported as non-depreciable capital assets. 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 phase of capital assets of the business-type activities is also capitalized.

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
Machinery, Vehicles and Equipment	3 - 100
Waster Water Treatment Plant	50
Furniture and Fixtures	7

***Compensated Absences***

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

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

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 that result in a difference between the acquisition price and the carrying value of the debt have been reported in the accompanying financial statements as deferred bond premiums. Deferred bond premiums are amortized as a component of interest expense over the lives of the related bonds. The balances of the deferred bond premiums as of June 30, 2012 are \$277,966 and \$30,401 in the governmental and business-type activities, respectively.

***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 Policy***

The City has implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 established new fund balance classifications and changed the definition of governmental fund types. Under Statement 54, the City has segregated fund balance into five classifications: Non-spendable, Restricted, Committed, Assigned, and Unassigned. The components of fund balance are defined as follows:

- *Non-spendable Fund Balance*: Amounts that are not in a spendable form or are required to be maintained intact.
- *Restricted Fund Balance*: Amounts that can only be spent for specific purposes stipulated by external resource providers or by enabling legislation. Restrictions may be changed or lifted only with the consent of the external resource providers or the enabling legislation.

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

- *Committed Fund Balance:* Amounts that can be used only for specific purposes determined by a formal action of the City's highest level of decision making authority. Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.
- *Assigned Fund Balance:* Amounts the City intends to use for a specific purpose. For all Governmental Funds other than the General Fund, any positive balances are to be classified as "Assigned".
- *Unassigned Fund Balance:* Amounts that are not obligated or specifically designated and is available for any purpose. The residual classification of any General Fund balance is to be reported here. Any deficit fund balance of another governmental fund is also classified as "Unassigned".

The fund balance of the City may only be committed for specific purposes pursuant to formal action of the City Manager. The City Council delegates to the City's Finance Director the authority to assign amounts to be used for specific purposes. The City's School Board delegates the authority to assign amounts to be used for specific purposes to the Business Administrator.

Spending Prioritizations

The City's policy is to first apply restricted resources when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications may be applied, committed resources are to be applied first, followed by assigned and unassigned.

Deficit Fund Balance

At fiscal year end, if any of the City's governmental special revenue funds has a deficit unassigned fund balance, the City Manager is authorized to transfer funds from the General Fund to offset the deficit; providing the General Fund has the resources to do so.

Minimum Level of Unassigned Fund Balance

As recommended by the New Hampshire Department of Revenue Administration, the City will strive to maintain an unassigned fund balance in its General Fund equal to 8-15% of total annual appropriations of the City (includes City, School Department and County). The City Council has the authority to apply the City's beginning unassigned fund balance in order to balance the budget and to reduce the subsequent fiscal year property tax rate.

***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

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

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 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**

At June 30, 2012, the Capital Projects Fund, a Nonmajor Governmental Fund, had an unassigned deficit fund balance of (\$2,689,734).

**NOTE 3—PROPERTY TAXES**

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$1,988,975,970 as of April 1, 2011) and are due in two installments on July 1, 2011 and December 21, 2011. 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 may be 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, 2012 were \$5,526,142. 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, 2012, the City was a member of the Local Government Center (LGC) and the New Hampshire Public Risk Management Exchange (PRIMEX). The City currently reports all of its risk management activities

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

in its General Fund. These Trusts are classified as "Risk Pools" in accordance with accounting principles generally accepted in the United States of America.

The Trust agreements permit the Trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trusts foresee no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2012.

***Property and Liability Insurance***

The LGC 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, 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, up to an aggregate of \$5,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

***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 and proprietary fund types. 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, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 31,038,031
Investments	8,098,153
Statement of fiduciary net assets:	
Cash and cash equivalents	207,476
Investments	1,783,805
Total deposits and investments	<u>\$ 41,127,465</u>

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

Deposits and investments as of June 30, 2012 consist of the following:

Cash on hand	\$ 5,275
Deposits with financial institutions	39,267,186
Investments	<u>1,855,004</u>
Total deposits and investments	<u>\$ 41,127,465</u>

The City's investment policy for governmental and business-type funds 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. Investments of the Student Activities Agency Funds are at the discretion of the School Principals.

***Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy for its governmental and proprietary funds regarding interest rate risk indicates that investments shall be limited to those with maturity dates that meet projected cash flow needs or one year, whichever is shorter. The Trustees of Trust Funds do not have a policy regarding interest rate risk.

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
US Treasury notes	\$ 64,617		\$ 64,617	
US Government Agency obligations	97,866	\$ 25,155	56,086	\$ 16,625
Municipal obligations	44,324			44,324
Corporate bonds	<u>376,612</u>	<u>60,835</u>	<u>247,151</u>	<u>68,626</u>
	<u>\$ 583,419</u>	<u>\$ 85,990</u>	<u>\$ 367,854</u>	<u>\$ 129,575</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 notes, U.S. Government Agency obligations, 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 solitary financial institution. The Trustees of Trust Funds do not have a policy regarding credit risk.

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



**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

Investment Type	Totals	Rating as of Year End				
		Aaa	Aa	A	Baa	Not Rated
US Government Agency obligations	\$ 97,866	\$ 78,900				\$ 18,966
Municipal obligations	44,324		\$ 44,324			
Corporate bonds	376,612		34,810	\$ 290,436	\$ 31,291	20,075
Mutual funds	259,755					259,755
Money market funds	215,695					215,695
Total Fair Value	<u>\$ 994,252</u>	<u>\$ 78,900</u>	<u>\$ 79,134</u>	<u>\$ 290,436</u>	<u>\$ 31,291</u>	<u>\$ 514,491</u>

***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned. 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). The Trustees of Trust Funds have no policy regarding custodial credit risk.

Of the City's deposits with financial institutions at year end \$21,572,882 was collateralized by securities held by the bank in the bank's name. As of June 30, 2012, City investments in the following investment types were held by the same counterparty that was used to buy the securities.

Investment Type	Reported Amount
US Treasury notes	\$ 64,617
US Government Agency obligations	97,866
Municipal obligations	44,324
Corporate bonds	376,612
Equity securities	796,135
Mutual funds	259,755
Money market funds	215,695
	<u>\$ 1,855,004</u>

**NOTE 6—DUE FROM OTHER GOVERNMENTS**

Receivables from other governments at June 30, 2012 consist of various state and federal funding and reimbursements. All receivables are considered collectible in full. The state aid grant reimbursements of the business-type activities are received over the life of the related debt and as such, are classified as current and noncurrent. A summary of the principal items of intergovernmental receivables is as follows:

<b>Governmental activities:</b>	
Community Development Block Grants	\$ 150,270
State and Federal public safety grants	113,410
Neighborhood Stabilization Grant	49,982
School lunch program	63,933
State and Federal education grants	826,325

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

**Governmental activities (continued):**

State of New Hampshire - Department of Transportation	267,414
State of New Hampshire - State revolving funds	8,066

**Business-type activities:**

State of New Hampshire - State revolving funds	47,055
State of New Hampshire - State Aid Grants	2,691,797
	<u>\$ 4,218,252</u>

**NOTE 7—CAPITAL ASSETS**

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

	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 7,471,745	\$ 147,051		\$ 7,618,796
Easements	1,067,330			1,067,330
Construction in process	7,083,493	3,685,876	\$ (6,237,207)	4,532,162
Total capital assets not being depreciated	<u>15,622,568</u>	<u>3,832,927</u>	<u>(6,237,207)</u>	<u>13,218,288</u>
Other capital assets:				
Infrastructure	132,437,422	8,107,946	(147,051)	140,398,317
Land improvements	5,385,138			5,385,138
Buildings and improvements	63,880,257	524,529		64,404,786
Vehicles and equipment	14,761,863	1,200,715		15,962,578
Total other capital assets at historical cost	<u>216,464,680</u>	<u>9,833,190</u>	<u>(147,051)</u>	<u>226,150,819</u>
Less accumulated depreciation for:				
Infrastructure	(95,740,516)	(3,149,837)		(98,890,353)
Land improvements	(2,896,854)	(190,488)		(3,087,342)
Buildings and improvements	(21,305,014)	(1,243,465)		(22,548,479)
Vehicles and equipment	(9,182,230)	(1,026,854)		(10,209,084)
Total accumulated depreciation	<u>(129,124,614)</u>	<u>(5,610,644)</u>	<u>-</u>	<u>(134,735,258)</u>
Total other capital assets, net	<u>87,340,066</u>	<u>4,222,546</u>	<u>(147,051)</u>	<u>91,415,561</u>
Total capital assets, net	<u>\$ 102,962,634</u>	<u>\$ 8,055,473</u>	<u>\$ (6,384,258)</u>	<u>\$ 104,633,849</u>

Depreciation was charged to functions as follows:

General government	\$ 261,514
Public safety	500,802
Highways and streets	3,383,271
Culture and recreation	53,941
Community services	22,560
Education	1,376,478
Food service	12,078
Total governmental activities depreciation expense	<u>\$ 5,610,644</u>

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**For the Year Ended June 30, 2012**

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

	<u>Balance</u> <u>7/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2012</u>
Business-type activities:				
Capital asset not depreciated:				
Land	\$ 3,480,989			\$ 3,480,989
Construction in process	<u>12,032,778</u>	<u>\$ 3,276,619</u>	<u>\$ (2,873,074)</u>	<u>12,436,323</u>
Total capital assets not being depreciated	<u>15,513,767</u>	<u>3,276,619</u>	<u>(2,873,074)</u>	<u>15,917,312</u>
Other capital assets:				
Infrastructure	42,901,171	2,192,786		45,093,957
Land improvements	53,600			53,600
Buildings and improvements	45,909,405	39,475		45,948,880
Vehicles and equipment	<u>5,950,922</u>	<u>758,349</u>		<u>6,709,271</u>
Total other capital assets at historical cost	<u>94,815,098</u>	<u>2,990,610</u>	<u>-</u>	<u>97,805,708</u>
Less accumulated depreciation for:				
Infrastructure	(12,832,083)	(820,548)		(13,652,631)
Land improvements	(42,600)	(2,000)		(44,600)
Buildings and improvements	(16,263,765)	(972,028)		(17,235,793)
Vehicles and equipment	<u>(3,152,599)</u>	<u>(315,416)</u>		<u>(3,468,015)</u>
Total accumulated depreciation	<u>(32,291,047)</u>	<u>(2,109,992)</u>	<u>-</u>	<u>(34,401,039)</u>
Total other capital assets, net	<u>62,524,051</u>	<u>880,618</u>	<u>-</u>	<u>63,404,669</u>
Total capital assets, net	<u>\$ 78,037,818</u>	<u>\$ 4,157,237</u>	<u>\$ (2,873,074)</u>	<u>\$ 79,321,981</u>

Depreciation was charged to proprietary funds as follows:

Sewer fund	\$ 1,047,157
Water fund	997,226
Nonmajor enterprise fund	65,609
Total business-type activities depreciation expense	<u>\$ 2,109,992</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 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 police officers and fire employees are required to contribute 11.55% and 11.80%, respectively, of their covered salary, whereas teachers and general employees are required to contribute 7.0% of their covered salary. The City is required to contribute at an actuarially determined rate. The City's contribution

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rates for the covered payroll of police officers, fire employees, teachers, and general employees were 25.57%, 30.90%, 13.95%, and 11.09%, respectively, through July 31, 2011 and 19.95%, 22.89%, 11.30% and 8.80%, respectively, thereafter. The City contributes 100% of the employer cost for police officers, fire employees, teachers, and general employees of the City.

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, 2012, 2011 and 2010 were \$4,914,886, \$3,843,369, and \$3,609,554, respectively, equal to the required contributions for each year.

**NOTE 9—OTHER POST-EMPLOYMENT BENEFITS**

In addition to providing pension benefits, the City provides postretirement medical benefits to its retired employees and their spouses. The following groups of retirees qualify for this benefit. Group I consists of general employees who are required to reach age 50 with 10 years of service, the rule of 70 with 20 years of service or age 60 with no service requirement to qualify for this benefit. Group II consists of police officers and firefighters who 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, 2010, the most recent full actuarial valuation date, approximately 70 retirees and 973 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

***Annual OPEB Costs***

The City's fiscal year 2012 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, 2012 including the amount actually contributed to the plan, and the change in the City's net OPEB obligation is as follows:

Annual Required Contribution (ARC)	\$ 1,151,749
Interest on Net OPEB obligation (NOO)	99,589
NOO amortization adjustment to ARC	<u>(94,329)</u>
Annual OPEB cost	1,157,009
Contributions made	<u>(543,996)</u>
Increase in Net OPEB obligation	613,013
Net OPEB obligation - beginning of year	<u>2,213,078</u>
Net OPEB obligation - end of year	<u><u>\$ 2,826,091</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ending June 30, 2012, 2011 and 2010 are as follows:

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2012	\$ 1,157,009	47.0%	\$ 2,826,091
6/30/2011	\$ 1,296,988	38.8%	\$ 2,213,078
6/30/2010	\$ 1,187,421	39.0%	\$ 1,419,791

The City's net OPEB obligation as of June 30, 2012 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, 2010, the date of the most recent full actuarial valuation, is as follows:

Actuarial Accrued Liability (AAL)	\$ 10,966,032
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 10,966,032</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 41,460,481
UAAL as a percentage of covered payroll	26.4%

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.

***Actuarial Methods and Assumptions for OPEB***

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

The method used in the July 1, 2010 actuarial valuation was the Projected Unit Credit cost method with linear proration to decrement. 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 rate 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 over 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.

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

**NOTE 10—GENERAL DEBT OBLIGATIONS**

*Changes in Long-Term Obligations*

The changes in the City's long-term debt obligations for the year ended June 30, 2012 are as follows:

	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012	Due Within One Year
Governmental activities:					
Bonds payable	\$ 41,274,928	\$ 7,358,288	\$ (4,473,950)	\$ 44,159,266	\$ 4,602,642
Other long-term obligations	446,636	29,347		475,983	
Compensated absences payable	897,748	251,709	(151,268)	998,189	267,298
Total governmental activities	<u>\$ 42,619,312</u>	<u>\$ 7,639,344</u>	<u>\$ (4,625,218)</u>	<u>\$ 45,633,438</u>	<u>\$ 4,869,940</u>
Business-type activities:					
Bonds payable	\$ 29,390,084	\$ 2,944,234	\$ (2,499,761)	\$ 29,834,557	\$ 2,540,906
Other long-term obligations	6,910,152	1,274,215	(1,997,523)	6,186,844	
Compensated absences payable		15,755		15,755	
Total business-type activities	<u>\$ 36,300,236</u>	<u>\$ 4,234,204</u>	<u>\$ (4,497,284)</u>	<u>\$ 36,037,156</u>	<u>\$ 2,540,906</u>

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

Governmental Activities

Bonds payable at June 30, 2012 are comprised of the following individual issues:

	Original Issue Amount	Interest Rate	Final Maturity Date	Balance at 6/30/12
1992 Series D bonds	\$ 1,194,500	5.0-6.10%	January 2013	\$ 60,000
1995 Series bond issue	2,440,000	5.25-5.625%	August 2015	480,000
1996 Series bond issue	1,197,000	5.625-5.75%	August 2016	285,000
1997 Series bond issue	1,320,000	4.70-5.30%	August 2017	390,000
1998 Series A	1,779,000	3.90-4.75%	August 2018	533,821
2002 Series bond issue	6,383,000	4.25-4.70%	August 2022	3,458,000
2004 Series bond issue	11,169,735	3.10-4.75%	July 2024	5,915,000
2005 Series bond issue - 20 year	3,724,700	4.0-4.40%	January 2026	2,580,000
2005 Series bond issue - 15 year	285,000	4.0-4.25%	January 2021	165,000
2005 Series bond issue - 10 year	2,144,568	4.0-4.25%	January 2016	840,000
2005 Series bond issue - Honeywell	9,611,575	4.0-4.25%	January 2016	3,840,000
2005 QZAB	1,382,910	0%	December 2020	829,746
Refinancing bonds 2007 - 13 year	3,670,314	5.50-5.80%	August 2020	3,158,273
2008 Series bond issue - 20 year	9,593,958	3.0-5.0%	February 2028	7,659,948
2008 Series bond issue - 10 year	315,380	5.25-6.50%	February 2018	188,776
2008 Series bond issue - 10 year	2,631,970	3.0-5.0%	February 2018	1,580,653

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

2008 Series A NHMBB - 20 year	692,995	4.0-5.25%	August 2028	590,000
2010 Series bond issue - 5 year	171,291	2.0-2.25%	January 2015	98,227
2010 Series bond issue - 10 year	1,990,997	2.0-3.25%	January 2020	1,566,370
2010 Series bond issue - 20 year	2,905,724	2.0-4.0%	January 2030	2,582,164
2012 Series B bond issue - 20 year	5,000,000	1.0-3.25%	March 2032	5,000,000
2012 Series A bond issue - 20 year	2,197,541	2.0-3.0%	March 2032	2,197,541
2012 Series A bond issue - 10 year	160,747	2.0-3.0%	March 2022	160,747
Totals	<u>\$ 71,962,905</u>			<u>\$ 44,159,266</u>

Debt service requirements to retire general obligation bonds outstanding at June 30, 2012 are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 4,602,642	\$ 1,637,227	\$ 6,239,869
2014	4,705,258	1,313,480	6,018,738
2015	4,702,310	1,278,813	5,981,123
2016	4,296,268	1,110,061	5,406,329
2017	3,004,172	949,514	3,953,686
2018-2022	12,253,011	3,183,092	15,436,103
2023-2027	7,381,087	1,300,334	8,681,421
2028-2032	3,214,518	267,827	3,482,345
Total	<u>\$ 44,159,266</u>	<u>\$ 11,040,348</u>	<u>\$ 55,199,614</u>

As included on the Statement of Activities (Exhibit B), interest expense for the year ended June 30, 2012 was \$1,624,751 on general obligation debt for the governmental activities.

Business-type Activities

Bonds payable at June 30, 2012 are comprised of the following individual issues:

	Original Issue Amount	Interest Rate	Maturity Date	Balance at 6/30/12
1992 Series D bonds	\$ 405,500	5.0-6.10%	January 2013	\$ 20,000
1996 Series bond issue	280,000	5.625-5.75%	August 2016	70,000
1998 Series A	871,000	3.90-4.75%	August 2018	376,181
2002 Series bond issue	2,253,000	4.25-4.70%	August 2022	1,193,000
2002 State Revolving loan	19,036,378	4.185%	August 2020	8,654,653
2004 Series bond issue	2,181,000	3.10-4.75%	July 2024	1,405,000
2005 Series bond issue	261,015	4.0-4.40%	January 2026	170,000
2005 State Revolving loan	716,020	3.18%	January 2015	214,806
2006 State Revolving loan	879,685	3.488%	August 2025	615,780
2007 State Revolving loan	341,373	3.352%	July 2027	289,828
2007 State Revolving loan	483,988	3.352%	September 2026	371,488
Refinancing bonds 2007 - 13 year	809,685	5.50-5.80%	August 2020	696,727
2008 Series bond issue - 20 year	5,536,042	3.0-5.0%	February 2028	4,420,052
2008 Series bond issue - 10 year	1,079,620	5.25-6.50%	February 2018	646,225
2008 Series bond issue - 10 year	948,029	3.0-5.0%	February 2018	569,347

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

2009 State Revolving loan	1,852,387	3.688%	December 2027	1,481,910
2009 State Revolving loan	1,335,120	3.488%	August 2028	1,134,852
2010 State Revolving loan	627,000	2.952%	February 2029	539,007
2010 Series bond issue - 5 year	101,663	2.0-2.25%	January 2015	58,299
2010 Series bond issue - 10 year	852,568	2.0-3.25%	January 2020	731,444
2010 Series bond issue - 20 year	3,240,757	2.0-4.0%	January 2030	2,963,495
2011 Round Pond Land Purchase	375,000	0%	January 2030	300,000
2012 State Revolving loan	1,997,523	2.864%	December 2030	1,965,752
2012 Series A bond issue - 20 year	946,711	2.0-3.0%	March 2032	946,711
Totals	<u>\$ 47,411,064</u>			<u>\$ 29,834,557</u>

Debt service requirements to retire general obligation bonds outstanding, net of principal forgiveness from the State of New Hampshire to be forgiven over a period of 10 to 20 years from the start of the individual State Revolving Loan Funds of \$448,118 at June 30, 2012 are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 2,540,906	\$ 1,134,073	\$ 3,674,979
2014	2,522,409	1,040,334	3,562,743
2015	2,529,551	940,492	3,470,043
2016	2,448,996	845,087	3,294,083
2017	2,455,422	749,897	3,205,319
2018-2022	10,112,586	2,353,299	12,465,885
2023-2027	4,914,939	886,475	5,801,414
2028-2032	<u>1,861,630</u>	<u>131,369</u>	<u>1,992,999</u>
Total	29,386,439	8,081,026	37,467,465
Add: Principal forgiveness	448,118	-	448,118
	<u>\$ 29,834,557</u>	<u>\$ 8,081,026</u>	<u>\$ 37,915,583</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, 2012, the reimbursement was \$418,340.

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, 2012 was \$1,132,864 on general obligation debt for business-type activities. Interest incurred for the year ended June 30, 2012 from general obligation debt of the business-type activities in the amount of \$96,693, was capitalized during the construction phase of capital assets.

***Other Long-Term Obligations***

The City has drawn \$6,662,827 of approximately \$9,430,000 in funds under the State of New Hampshire Water Pollution Control and Drinking Water State Revolving Loan Fund Programs for various improvement projects for the Washington Street Phase IV Sewer Upgrade, Groundwater Development and Connection Project, and other Water and Wastewater System Upgrades/Improvements. Payments are not scheduled to commence until the first anniversary of the scheduled completion dates of the related projects or the date of substantial completion, whichever is earliest. Interest is accrued at 1% during the construction period of the project and is to be paid upon completion of the construction project within the



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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

following year. Total funding to date of \$475,983 and \$6,186,844 has been reported as 'Other long-term obligations' in the governmental and business-type activities, respectively.

As authorized by the American Recovery and Reinvestment Act, the City shall be provided federal financial assistance for the Washington Street Phase IV Sewer Upgrade, Groundwater Development and Connection, and Washington Street Water System Upgrade projects, whereby a portion of the principal sum, not to exceed \$1,102,500, \$1,772,500 and \$230,000, 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.

Additionally, as authorized by the Water Pollution Control Revolving Fund Program, the City shall be provided federal financial assistance for the Route 125 Pump Station Upgrade, whereby a portion of the principal sum, not to exceed \$136,250 or 25% 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, 2012:

<u>Purpose</u>	<u>Amount</u>	<u>Total</u>
Governmental Funds:		
FY 2004 Authorized	\$ 41,840	
FY 2005 Authorized	301,496	
FY 2006 Authorized	241,795	
FY 2007 Authorized	1,266,300	
FY 2008 Authorized	200,000	
FY 2009 Authorized	1,950,000	
FY 2010 Authorized	1,460,000	
FY 2011 Authorized	758,616	
FY 2012 Authorized	3,224,058	
School FY 2008 Authorized	275,000	
School FY 2009 Authorized	50,000	
School FY 2011 Authorized	435,000	
School FY 2012 Authorized	368,155	
Total Governmental Funds		<u>\$ 10,572,260</u>
Business-type Funds:		
Sewer FY 2004 Authorized	159,925	
Sewer FY 2005 Authorized	933,567	
Sewer FY 2007 Authorized	690,000	
Sewer FY 2008 Authorized	90,000	
Sewer FY 2009 Authorized	3,280,000	
Sewer FY 2010 Authorized	575,000	
Sewer FY 2011 Authorized	725,000	
Sewer FY 2012 Authorized	1,129,575	

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

Business-type Funds (continued):	
Water FY 2003 Authorized	146,000
Water FY 2004 Authorized	150,000
Water FY 2005 Authorized	2,477
Water FY 2006 Authorized	258,160
Water FY 2007 Authorized	498,052
Water FY 2008 Authorized	193,214
Water FY 2009 Authorized	4,321,047
Water FY 2010 Authorized	100,000
Water FY 2011 Authorized	1,283,762
Water FY 2012 Authorized	<u>2,719,900</u>
Total Business-type Funds	17,255,679
Combining Total	<u>\$ 27,827,939</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, 2012, the City had the following available debt margins:

	Net Debt <u>Outstanding</u>	% of Assessed <u>Valuation</u>	Statutory <u>Limit</u>	Available <u>Debt Limit</u>
School	\$ 12,669,871	7.0%	\$ 140,568,056	\$ 127,898,185
Water	16,223,378	10.0%	200,811,509	184,588,131
All other	27,409,593	3.0%	60,243,453	32,833,860

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

***Overlapping Debt***

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

<u>Related Entity</u>	Total <u>Principal</u>	City's <u>Percent</u>	City's <u>Share</u>
Strafford County	<u>\$ 17,945,000</u>	20.3709%	<u>\$ 3,655,558</u>

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

**NOTE 11—INTERFUND BALANCES AND TRANSFERS**

The City has combined the cash resources of its governmental and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reposted in the specific finds as an interfund balance. Interfund balances at June 30, 2012 are as follows:

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

		Due from			
		General	Nonmajor	Water	
		Fund	Governmental	Fund	Totals
			Funds		
Due to	General Fund		\$ 3,671,760	\$ 250,158	\$ 3,921,918
	Nonmajor Governmental Funds	\$ 3,701,158			3,701,158
	Sewer Fund	3,127,530		51,214	3,178,744
	Nonmajor Enterprise Fund	18,586			18,586
		<u>\$ 6,847,274</u>	<u>\$ 3,671,760</u>	<u>\$ 301,372</u>	<u>\$ 10,820,406</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, 2012 are as follows:

		Transfers out			
		General	Nonmajor	Sewer	Water
		Fund	Governmental	Fund	Fund
			Funds		
Transfers in	General Fund		\$ 467,511	\$ 1,809	\$ 1,809
	Nonmajor Governmental Funds	\$ 2,291,554	70,000		
		<u>\$ 2,291,554</u>	<u>\$ 537,511</u>	<u>\$ 1,809</u>	<u>\$ 1,809</u>
					<u>\$ 2,832,683</u>

**NOTE 12—RESTRICTED NET ASSETS**

Net assets are restricted for specific purposes as follows:

Permanent funds - Endowments	\$ 53,764
Permanent funds - Income	17,435
Community development	111,020
Public safety grant funds	786
School grant funds	18,575
Other grant funds	12,097
Granite State Business Park TIF District	2,816,535
Per Exhibit A	<u>\$ 3,030,212</u>

**NOTE 13—COMPONENTS OF FUND BALANCE**

The components of the City's fund balance for its governmental funds at June 30, 2012 are as follows:

	General	Nonmajor	Total
Fund Balances	Fund	Governmental	Governmental
		Funds	Funds
<b><i>Nonspendable:</i></b>			
Prepaid expenses	\$ 51,603		\$ 51,603
Endowments		\$ 53,764	53,764
Inventory		16,963	16,963

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

<b><i>Restricted for:</i></b>		
Permanent funds	17,435	17,435
Community development	111,020	111,020
Public safety grants	786	786
School grants	18,575	18,575
Other grants	12,097	12,097
Granite State Business Park TIF District	2,816,535	2,816,535
<b><i>Committed for:</i></b>		
Conservation	1,018,680	1,018,680
Community Center	165,365	165,365
<b><i>Assigned for:</i></b>		
Economic development	51,494	51,494
Relocation costs	15,231	15,231
Computer purchases	20,000	20,000
Planning	17,244	17,244
Food service operations	95,036	95,036
<b><i>Unassigned (deficit):</i></b>		
Unassigned - General operations	12,756,051	12,756,051
Capital Projects	(2,689,734)	(2,689,734)
	<u>\$ 13,913,059</u>	<u>\$ 14,548,145</u>

**NOTE 14—CONTINGENT LIABILITIES**

***Litigation***

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

***Federal Grants***

The City participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amounts, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**NOTE 15—RESTATEMENT OF EQUITY**

***Government-Wide Financial Statements***

During the year ended June 30, 2012, it was determined that receivables due from other governments of the Capital Projects Fund, a Nonmajor Governmental Fund, were overstated.

Net Assets of the governmental activities as of July 1, 2011 have been restated as follows:

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2012**

	Governmental Activities
Net Assets - July 1, 2011 (as previously reported)	\$ 68,921,114
Amount of restatement due to:	
Overstatement of due from other governments	<u>(285,290)</u>
Net Assets - July 1, 2011, as restated	<u>\$ 68,635,824</u>

***Governmental Fund Statements***

The impact of the above restatement on the governmental funds as of July 1, 2011 is as follows:

	Nonmajor Governmental Funds
Fund balance (deficit) - July 1, 2011 (as previously reported)	\$ (2,661,410)
Amount of restatement due to:	
Overstatement of due from other governments	<u>(285,290)</u>
Fund balance (deficit) - July 1, 2011, as restated	<u>\$ (2,946,700)</u>

**NOTE 16—SUBSEQUENT EVENTS**

During July 2012, the City converted funds borrowed under the State of New Hampshire Water Pollution Control and Drinking Water State Revolving Loan Fund Programs into general obligation debt. Water Pollution Control State Revolving Loan Funds borrowed for the Washington Street Pump Station Project were converted into general obligation debt to be repaid over a 20 year period in the amount of \$646,346 with an interest rate of 3.104%. Drinking Water State Revolving Loan Funds borrowed for the Water Treatment Facility Project (aka Cocheco Well Project) were converted into general obligation debt to be repaid over a 20 year period in the amount of \$3,381,909 with principal forgiveness in the amount of \$1,690,955 recognized upon receipt of the first payment scheduled for September 2012 and an interest rate of 3.104%.

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Favorable</u> <u>(Unfavorable)</u>
Revenues:				
Taxes	\$ 49,128,575	\$ 49,128,575	\$ 50,522,344	\$ 1,393,769
Licenses and permits	3,909,316	3,909,316	4,272,721	363,405
Intergovernmental	26,486,341	26,486,341	26,606,770	120,429
Charges for services	681,225	681,225	570,722	(110,503)
Interest income	45,000	45,000	92,251	47,251
Miscellaneous	3,475,480	3,475,480	3,211,382	(264,098)
Total Revenues	<u>83,725,937</u>	<u>83,725,937</u>	<u>85,276,190</u>	<u>1,550,253</u>
Expenditures:				
Current operations:				
General government	3,724,069	3,724,069	3,761,358	(37,289)
Public safety	11,250,345	11,250,345	10,938,739	311,606
Highways and streets	2,670,156	2,670,156	2,422,695	247,461
Health and welfare	423,649	423,649	359,334	64,315
Culture and recreation	1,710,632	1,710,632	1,684,178	26,454
Community development	211,053	211,053	230,432	(19,379)
Education	51,975,933	51,975,933	50,663,914	1,312,019
Debt service:				
Principal retirement	4,488,515	4,488,515	4,473,950	14,565
Interest and fiscal charges	1,717,263	1,717,263	1,758,103	(40,840)
Intergovernmental	<u>5,526,142</u>	<u>5,526,142</u>	<u>5,526,142</u>	<u>-</u>
Total Expenditures	<u>83,697,757</u>	<u>83,697,757</u>	<u>81,818,845</u>	<u>1,878,912</u>
Excess of revenues over (under) expenditures	<u>28,180</u>	<u>28,180</u>	<u>3,457,345</u>	<u>3,429,165</u>
Other financing sources (uses):				
Bond premiums	-	-	123,710	123,710
Transfers in	443,974	443,974	444,401	427
Transfers out	<u>(2,034,354)</u>	<u>(2,034,354)</u>	<u>(2,301,554)</u>	<u>(267,200)</u>
Total other financing sources (uses)	<u>(1,590,380)</u>	<u>(1,590,380)</u>	<u>(1,733,443)</u>	<u>(143,063)</u>
Net change in fund balance	<u>(1,562,200)</u>	<u>(1,562,200)</u>	<u>1,723,902</u>	<u>3,286,102</u>
Fund balances at beginning of year				
- Budgetary Basis	<u>12,773,907</u>	<u>12,773,907</u>	<u>12,773,907</u>	<u>-</u>
Fund balances at end of year				
- Budgetary Basis	<u>\$ 11,211,707</u>	<u>\$ 11,211,707</u>	<u>\$ 14,497,809</u>	<u>\$ 3,286,102</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, 2012

<u>Fiscal Year Ended</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2011	\$ -	\$ 10,966,032	\$ 10,966,032	0.0%	\$ 41,460,481	26.4%
7/1/2010	\$ -	\$ 12,231,226	\$ 12,231,226	0.0%	\$ 40,252,894	30.4%
7/1/2009	\$ -	\$ 11,275,423	\$ 11,275,423	0.0%	\$ 37,144,562	30.4%

*See accompanying notes to the required supplementary information*

**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2012**

**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) – General Fund (Schedule 1) 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). Property tax budgetary revenues are recognized when levied rather than when susceptible to accrual. Budgetary revenues and expenditures were adjusted for non-budgetary revenues and expenditures and non-budgetary other financing sources (uses), as follows:

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 85,436,157	\$ 84,219,284
Difference in property taxes meeting susceptible to accrual criteria	466,413	
Non-budgetary revenues and expenditures	(31,541)	(108,885)
Non-budgetary other financing sources (uses)	(26,728)	10,000
Per Schedule 1	<u>\$ 85,844,301</u>	<u>\$ 84,120,399</u>

**NOTE 2—BUDGETARY FUND BALANCE**

The components of the budgetary fund balance for the General Fund at June 30, 2012 are as follows:

<b><i>Nonspendable:</i></b>	
Prepaid expenses	\$ 51,603
<b><i>Assigned for:</i></b>	
Computer purchases	20,000
<b><i>Unassigned:</i></b>	
Unassigned - General operations	14,426,206
	<u>\$ 14,497,809</u>



SCHEDULE 1  
**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**Schedule of Expenditures of Federal Awards**  
For the Year Ended June 30, 2012

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 the New Hampshire Department of Education		
School Breakfast Program	10.553	\$ 169,252
National School Lunch Program	10.555	835,097
Special Milk Program for Children	10.556	1,040
Summer Food Service Program for Children	10.559	38,917
Fresh Fruit and Vegetable Program	10.582	72,270
		<u>1,116,576</u>
<b>Total Department of Agriculture</b>		<u>1,116,576</u>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>		
Received directly from U.S. Treasury Department		
Community Development Block Grants/Entitlement Grants	14.218	
#BC-10-MC-33-0004		169,262
#BC-11-MC-33-0004		138,357
		<u>307,619</u>
Pass Through Payments from the New Hampshire Community Development Finance Authority		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	
#09-216-NSPH		<u>36,463</u>
Pass Through Payments from the Rochester Housing Authority		
Public Housing Capital Fund	14.872	
#NH36P00850111		<u>48,294</u>
<b>Total Department of Housing and Urban Development</b>		<u>392,376</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-K012		<u>7,243</u>
Pass Through Payments from the Department of Justice Through the County of Strafford, New Hampshire		
Bulletproof Vest Partnership Program	16.607	
#2010-BU-BX-1005-2433		<u>2,695</u>
Received directly from U.S. Treasury Department		
Bulletproof Vest Partnership Program	16.607	<u>1,872</u>
Received directly from U.S. Treasury Department		
Public Safety Partnership and Community Policing Grants	16.710	
#2009-CK-WX-0093		11,325
#2010-CK-WX-0325		28,866
		<u>40,191</u>
Received directly from U.S. Treasury Department		
Public Safety Partnership and Community Policing Grants, Recovery Program	16.710	
#2009-RK-WX-0616		<u>193,452</u>

See notes to schedule of expenditures of federal awards

SCHEDULE I  
**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**Schedule of Expenditures of Federal Awards (Continued)**  
For the Year Ended June 30, 2012

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
<b>DEPARTMENT OF JUSTICE (CONTINUED)</b>		
Pass Through Payments from the Department of Justice Through the County of Strafford, New Hampshire Edward Byrne Memorial Justice Assistance Grant Program	16.738	
#2009-DJ-BX-0799		39,838
#2009-DJ-BX-0911		1,307
		<u>41,145</u>
Received directly from U.S. Treasury Department Edward Byrne Memorial Justice Assistance Grant Program	16.738	
#2008-DJ-BX-0576		261
#2011-DJ-BX-2523		19,251
		<u>19,512</u>
Received directly from U.S. Treasury Department Congressionally Recommended Awards	16.753	
#2009-DJ-BX-0249		<u>6,494</u>
Pass Through Payments from the Department of Justice Through the County of Strafford, New Hampshire Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804	
#2009-SB-B9-2452		<u>805</u>
<b>Total Department of Justice</b>		<u>313,409</u>
<b>DEPARTMENT OF TRANSPORTATION</b>		
Pass Through Payments from the New Hampshire Department of Highway Safety and Transportation State and Community Highway Safety	20.600	
#304-11A-026		410
#308-11F-005		61
#315-11A-076		707
		<u>1,178</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	
#308-11A-063		<u>1,123</u>
<b>Total Department of Transportation</b>		<u>2,301</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	66.458	
#CS-333122-12		<u>256</u>
Capitalization Grants for Clean Water State Revolving Funds - ARRA	66.458	
#CS-333122-10		<u>36,795</u>
Capitalization Grants for Drinking Water State Revolving Funds - ARRA	66.468	
#2001010-07		27,363
#2001010-06C/08		36,043
		<u>63,406</u>
<b>Total Environmental Protection Agency</b>		<u>100,457</u>

See notes to schedule of expenditures of federal awards

SCHEDULE I  
**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**Schedule of Expenditures of Federal Awards (Continued)**  
For the Year Ended June 30, 2012

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</b>		
Pass Through Payments from the New Hampshire Department of Education		
Adult Education - Basic Grants to States	84.002	
#17304		788
#27320		17,117
		<u>17,905</u>
 Title I Grants to Local Educational Agencies	 84.010	
#10123		188,019
#10287		497
#10289		1,590
#20123		1,232,225
#20287		11,768
#20289		24,846
#21807		77,875
#3413		644
#3415		12
		<u>1,537,476</u>
 Special Education - Grants to States	 84.027	
#12554		172,175
#22557		1,049,186
		<u>1,221,361</u>
 Career and Technical Education - Basic Grants to States	 84.048	
#15032		4,847
#25032		145,081
		<u>149,928</u>
 Special Education - Preschool Grants	 84.173	
#12554		7,159
#22557		40,789
		<u>47,948</u>
 Safe and Drug-Free Schools and Communities - State Grants	 84.186	
#16474		4,998
 Education for Homeless Children and Youth	 84.196	
#3403		2,560
#20702		28,257
		<u>30,817</u>
 Fund for the Improvement of Education	 84.215	<u>29,193</u>
 Twenty-First Century Community Learning Centers	 84.287	
#06279		1,206
 English Language Acquisition Grants	 84.365	
#10807		12,729
 Mathematics and Science Partnerships	 84.366	
#25192		<u>315,401</u>

See notes to schedule of expenditures of federal awards

SCHEDULE I  
**CITY OF ROCHESTER, NEW HAMPSHIRE**  
**Schedule of Expenditures of Federal Awards (Continued)**  
For the Year Ended June 30, 2012

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>		
Improving Teacher Quality State Grants #04898	84.367	7,026
#14922		67,733
#24922		172,005
		<u>246,764</u>
Striving Readers #13803	84.371	<u>2,788</u>
Education for Homeless Children and Youth, Recovery Act #3417	84.387	<u>5,914</u>
Title I Grants to Local Educational Agencies, Recovery Act #3408	84.389	<u>126,692</u>
Special Education Grants to States, Recovery Act #3794	84.391	<u>94,098</u>
Special Education - Preschool Grants, Recovery Act #3795	84.392	<u>18,721</u>
Education Jobs Fund #18257	84.410	19,442 <u>596,340</u> <u>615,782</u>
<b>Total Department of Education</b>		<u>4,479,721</u>
<b>DEPARTMENT OF HOMELAND SECURITY</b>		
Pass Through Payments from the New Hampshire Department of Homeland Security and Emergency Management Emergency Management Performance Grants	97.042	870
#2008-EM-08-0025		17,500
#2009-EP-E9-0044		12,981
#2011-EP-00023-S01		<u>31,351</u>
Homeland Security Grant Program #2009-GE-T9-0078	97.067	<u>33,527</u>
<b>Total Department of Homeland Security</b>		<u>64,878</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 6,469,718</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, 2012**

**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, New Hampshire's reporting entity is defined in Note 1 to the City's basic financial statements. All federal funds are included on the schedule.

**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. On the Schedule of Expenditures of Federal Awards, \$70,027 has been reported as part of the National School Lunch Program which represents the value of commodities received by the City.

**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 governmental funds as follows:

Major Governmental Funds:	
General Fund	\$ 19,442
Nonmajor Governmental Funds	<u>6,279,792</u>
	<u>\$ 6,299,234</u>

The recognition of expenditures of federal awards in the amounts of \$36,795 and \$63,406 represent fifty percent of the drawdowns from the Clean Water and Drinking Water State Revolving Loan Fund Programs, respectively. As authorized by the American Recovery and Reinvestment Act, federal financial assistance in the form of principal forgiveness not to exceed 50% of aggregate disbursements will be forgiven on the principal of the loan over the length of the loan for a period not to exceed 20 years.

Additionally, the recognition of expenditures of federal awards in the amount of \$256 represents twenty-five percent of the drawdowns from the Clean Water State Revolving Loan Fund Program. Federal financial assistance in the form of principal forgiveness not to exceed 25% of aggregate disbursements will be forgiven on the principal of the loan over the length of the loan for a period not to exceed 20 years.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, New Hampshire, as of and for the year ended June 30, 2012, which collectively comprise the City of Rochester, New Hampshire's basic financial statements, and have issued our report thereon dated February 15, 2013. 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*

Management of the City of Rochester, New Hampshire is responsible for establishing and maintaining effective 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 opinions 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 entity'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*.

We noted certain matters that we reported to management of the City of Rochester, New Hampshire in a separate letter dated February 15, 2013.

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

February 15, 2013



**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

Compliance

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, 2012. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Rochester, New Hampshire's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of 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, 2012.

Internal Control Over Compliance

Management of the City of Rochester, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with the 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, 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 Cloutay & Company PC

February 15, 2013

**City of Rochester, New Hampshire  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012**

**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>
10.553, 10.555, 10.556 & 10.559	Child Nutrition Cluster
14.218	Community Development Block Grants/Entitlement Grants
16.710	Public Safety Partnership and Community Policing Grants
84.366	Mathematics and Science Partnerships

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

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

## **Section II--Financial Statement Findings**

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

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

There were no findings and questioned costs required to be reported under OMB Circular A-133 .510(a).