

CITY OF ROCHESTER, NEW HAMPSHIRE
Financial Statements
With Schedule of Expenditures of Federal Awards
June 30, 2013
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 for Each Major Federal Program and
Report on Internal Control Over Compliance**

Schedule of Findings and Questioned Costs

CITY OF ROCHESTER, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2013

TABLE OF CONTENTS

| | <u>Page(s)</u> |
|---|----------------|
| INDEPENDENT AUDITOR’S REPORT | |
| MANAGEMENT’S DISCUSSION AND ANALYSIS | i-vii |
| BASIC FINANCIAL STATEMENTS | |
| EXHIBITS: | |
| A Statement of Net Position | 1 |
| B Statement of Activities | 2 |
| C Balance Sheet – Governmental Funds | 3 |
| D Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 4 |
| E Statement of Net Position – Proprietary Funds | 5 |
| F Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds | 6 |
| G Statement of Cash Flows – Proprietary Funds | 7 |
| H Statement of Fiduciary Net Position – Fiduciary Funds | 8 |
| I Statement of Changes in Fiduciary Net Position – Fiduciary Funds | 9 |
| NOTES TO BASIC FINANCIAL STATEMENTS | 10-34 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| SCHEDULES: | |
| 1 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund | 35 |
| 2 Schedule of Funding Progress for Other Post-Employment Benefits | 36 |
| NOTES TO REQUIRED SUPPLEMENTARY INFORMATION | 37-38 |
| FEDERAL COMPLIANCE | |
| SCHEDULE: | |
| 1 Schedule of Expenditures of Federal Awards | 39-42 |
| NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 43 |

CITY OF ROCHESTER, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2013

TABLE OF CONTENTS (CONTINUED)

| | <u>Page(s)</u> |
|--|----------------|
| FEDERAL COMPLIANCE (CONTINUED) | |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government</i> <i>Auditing Standards</i> | 44-45 |
| Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance | 46-47 |
| Schedule of Findings and Questioned Costs | 48-49 |

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 35-38 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester, New Hampshire's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014 on our consideration of the City of Rochester, New Hampshire'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rochester, New Hampshire's internal control over financial reporting and compliance.

Vachon Clukey & Company PC

Manchester, New Hampshire

January 31, 2014

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, 2013. Please read this analysis in conjunction with the financial statements presented in this report. These financial reports represent more than nine 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, 2013, the City is complying for the fifth year with the requirements of GASB 45 for recording Other Post-Employment Benefits (OPEB). See Note 8 of the Notes to the Basic Financial Statements for further information.

Additionally, during the Fiscal Year Ending June 30, 2013, the City implemented GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*. Under Statement 63, the City has segregated previously reported assets and liabilities as deferred outflows of resources and deferred inflows of resources, respectively. This statement also identifies net position as the residual of all other elements presented in the statement of financial position. See the notes to the basic financial statements for further information.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

- The City's total assets of \$230.9 and deferred outflows of resources of \$0.5 million, exceeded total liabilities of \$88.1 and deferred inflows of resources of \$19.5 million, with a residual net position of \$123.8 million. This amount represents the Total Net Position on Exhibit A, Statement of Net Position, for both Governmental and Business-type Activities. The \$123.8 million is reported as \$112.4 million of net investment in capital assets, \$0.8 million restricted and \$10.6 million in unrestricted funds. The unrestricted balance represents the portion available to be used to meet the City's ongoing obligations to its citizens and creditors.
- The City's Total Net Position (Governmental and Business-type Activities) on Exhibit A of \$123.8 million represents an increase in fiscal year 2013 of \$1.7 million or 1.4% over fiscal year 2012 of \$122.1 million.
- The City's Total Assets and Deferred Outflows of Resources on Exhibit A of \$231.4 million is a decrease of \$2 million or minus 0.9% from fiscal 2012 and Total Liabilities and Deferred Inflows of Resources of \$107.6 million is a decrease by \$3.7 million or 3.3% from the prior fiscal year.

Fund Balance Highlights

The Fund Balance for all governmental funds decreased by \$4.5 million to \$10 million for the fiscal year ending June 30, 2013. This amount is the Fund Balance of total Governmental Funds at the end of the year on Exhibit D. The **General Fund Balance** increased by \$115 thousand to \$14 million; the fund balance for the Capital Projects Fund decreased by \$2.4 million and the Nonmajor Governmental Funds decreased by \$2.2 million.

USING THE FINANCIAL STATEMENTS

This annual financial report consists of a series of financial statements (basic financial statements). The Statement of Net Position and the Statement of Activities (Exhibits A & B) present information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements for the Governmental Funds are presented in Exhibits C and D. Fund financial statements for the Proprietary Funds are presented on Exhibits E, F and G. For governmental funds, 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 fund financial statements, Fiduciary Funds, on Exhibits H and I, 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 (Statement of Net Position). 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 financial activities?" The Statement of Net Position 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, deferred outflows of resources, liabilities and deferred inflows of resources 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* position and changes in financial position. The City's net position can be thought of as the **difference** between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources, as one way to measure the City's financial health, or *financial position*. Over time, increases or decreases in the City's net position 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 Position and the Statement of Activities are separated 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 on the City's Funds

Fund financial statements provide detailed information about the most significant funds - not the City as a whole. Major funds are reported separately in the fund financial statements. 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, and other business-type activities) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (e.g. grants received from the state or federal government). The City's three fund types - *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 Position and the Statement of Activities) and governmental *funds* is reconciled at the end of the fund financial statements. The City's Major Governmental Funds are the General Fund and Capital Projects Fund.
- **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 Position 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's Major Proprietary Funds consist of the Water and Sewer 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 Position and Changes in Fiduciary Net Position 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 position is \$123.8 million. Separating the net position of Governmental and Business-type Activities, this represents \$70.6 million for Governmental Activities and \$53.2 million for Business-type Activities.

Table 1
Net Position
(in Millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|------------------------------------|--------------|-------------------------------------|-------------|-------------------------------------|--------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Current and other assets | 38.3 | 40.5 | 7.2 | 8.7 | 45.5 | 49.2 |
| Capital assets, net | <u>105.0</u> | <u>104.6</u> | <u>80.4</u> | <u>79.3</u> | <u>185.4</u> | <u>183.9</u> |
| Total assets | 143.3 | 145.1 | 87.6 | 88.0 | 230.9 | 233.1 |
| Total deferred outflows of resources | 0.4 | 0.3 | 0.1 | - | 0.5 | 0.3 |
| Long-term liabilities | 45.5 | 48.4 | 33.0 | 36.4 | 78.5 | 84.8 |
| Other liabilities | <u>8.5</u> | <u>8.1</u> | <u>1.1</u> | <u>1.1</u> | <u>9.6</u> | <u>9.2</u> |
| Total liabilities | 54.0 | 56.5 | 34.1 | 37.5 | 88.1 | 94.0 |
| Total deferred inflows of resources | 19.1 | 16.9 | 0.4 | 0.4 | 19.5 | 17.3 |
| Net investment in capital assets | 64.5 | 60.0 | 47.9 | 46.0 | 112.4 | 106.0 |
| Restricted | 0.8 | 3.0 | - | - | 0.8 | 3.0 |
| Unrestricted | <u>5.3</u> | <u>9.0</u> | <u>5.3</u> | <u>4.1</u> | <u>10.6</u> | <u>13.1</u> |
| Total net position | 70.6 | 72.0 | 53.2 | 50.1 | 123.8 | 122.1 |

The largest portion of the City's net position is comprised of its net investment in capital assets.

The City's 2013 unrestricted net position of governmental activities of \$5.3 million represents a decrease from the \$9.0 million in 2012 of \$3.7 million. This decrease represents a decrease 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 2014 will replace 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 position of the City's business-type activities represent investments in water and sewer plants, the related infrastructure, and the arena building/equipment. Unrestricted net position of the business-type activities ("enterprise" funds), however, cannot be used to fund or support other governmental activities. The City, generally,

can only use this net position to finance the continuing operations of the Water, Sewer and Arena Funds. Unrestricted net position of business-type activities increased in 2013 by \$1.2 million to \$5.3 million at year end.

The City's overall net position increased by \$1.7 million, as presented in Table 2 below. The largest expenses 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 Position
(in Millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Activities | |
|---|------------------------------------|-------------------|-------------------------------------|-------------------|-------------------------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | 4.9 | 2.1 | 8.6 | 8.8 | 13.5 | 10.9 |
| Operating grants | 29.0 | 30.6 | - | - | 29.0 | 30.6 |
| Capital grants and contributions | 1.1 | 1.2 | 1.9 | 0.2 | 3.0 | 1.4 |
| General Revenues: | | | | | | |
| Property taxes | 51.6 | 50.5 | - | - | 51.6 | 50.5 |
| Licenses and permits | 4.3 | 4.3 | - | - | 4.3 | 4.3 |
| Other general revenues | <u>3.1</u> | <u>5.5</u> | <u>0.1</u> | <u>0.1</u> | <u>3.2</u> | <u>5.6</u> |
| Total Revenues | 94.0 | 94.2 | 10.6 | 9.1 | 104.6 | 103.3 |
| Expenses | | | | | | |
| General government | 4.2 | 4.1 | - | - | 4.2 | 4.1 |
| Public safety | 12.2 | 12.1 | - | - | 12.2 | 12.1 |
| Public works | 6.2 | 5.9 | - | - | 6.2 | 5.9 |
| Health and welfare | 0.4 | 0.4 | - | - | 0.4 | 0.4 |
| Culture and recreation | 1.8 | 1.8 | - | - | 1.8 | 1.8 |
| Community development | 2.8 | 0.7 | - | - | 2.8 | 0.7 |
| Community services | 0.7 | 0.7 | - | - | 0.7 | 0.7 |
| Education | 57.7 | 56.1 | - | - | 57.7 | 56.1 |
| Food services | 2.0 | 1.9 | - | - | 2.0 | 1.9 |
| Debt Service | 1.6 | 1.6 | - | - | 1.6 | 1.6 |
| Intergovernmental | 5.6 | 5.5 | - | - | 5.6 | 5.5 |
| Water | - | - | 3.5 | 3.2 | 3.5 | 3.2 |
| Sewer | - | - | 3.8 | 3.9 | 3.8 | 3.9 |
| Arena | <u>-</u> | <u>-</u> | <u>0.4</u> | <u>0.4</u> | <u>0.4</u> | <u>0.4</u> |
| Total Expenses | 95.2 | 90.8 | 7.7 | 7.5 | 102.9 | 98.3 |
| Excess (deficiency) before transfers | (1.2) | 3.4 | 2.9 | 1.6 | 1.7 | 5.0 |
| Transfers | <u>(0.2)</u> | <u>-</u> | <u>0.2</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Increase (decrease) in net position | <u>(1.4)</u> | <u>3.4</u> | <u>3.1</u> | <u>1.6</u> | <u>1.7</u> | <u>5.0</u> |

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 2013 (tax year 2012) increased \$15.6 million or 0.8% as of April 1, 2012. The tax rate increased to \$25.68, which is 3.3% over the previous year.

The major areas where revenues exceeded projections are taxes of \$395 thousand and licenses & permits of \$342 thousand. Additional budget to actual variances can be found on Schedule 1, Schedule of Revenues, Expenditures and Changes in Fund Balance on page 35.

The conservative philosophy of sustainable and steady growth that the City of 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

The Change in Net Position for the City's business-type activities increased by \$3.1 million in 2013 as presented in Exhibit F of the basic financial statements.

- The City's sewer system posted a positive change in net position of \$1.2 million. Exhibit G, Statement of Cash Flows Proprietary Funds, reports a decrease of \$515 thousand in the cash balance from the beginning of the year, due to the bond funding cycle. Rate reviews and increases in the sewer rate will be necessary to maintain positive operations.
- The City's water system posted a positive change in net position of \$2.0 million. Exhibit G, Statement of Cash Flows Proprietary Funds, reports a decrease of \$554 thousand in cash balance from the beginning of the year, due once again to the City's bond funding cycle. 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 position decrease of \$18,532.

GENERAL FUND BUDGET

As the City completed the year, its General Fund, as presented in the Statement of Revenues, Expenditures and Changes in Fund Balance on Schedule 1, reported a budgetary fund balance of more than \$14.5 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, 2013 is \$185.4 million (see Table 3 below). This investment in capital assets includes land, easements, 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 capital assets, including infrastructure, for the City's governmental funds to be reported in the Government Wide Financial Statements, however, they are not included on the Fund Financial Statements. See Note 6 – Capital Assets, of the Notes to the Basic Financial Statements for more information regarding the City's capital assets.

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

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|------------------------------------|--------------|-------------------------------------|-------------|--------------|--------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Land | 8.0 | 7.6 | 3.5 | 3.5 | 11.5 | 11.1 |
| Easements | 1.4 | 1.1 | - | - | 1.4 | 1.1 |
| Land improvements | 2.3 | 2.3 | - | - | 2.3 | 2.3 |
| Buildings and improvements | 41.4 | 41.9 | 29.6 | 28.7 | 71.0 | 70.6 |
| Vehicles and equipment | 6.0 | 5.7 | 3.3 | 3.2 | 9.3 | 8.9 |
| Infrastructure | 39.0 | 41.5 | 31.3 | 31.5 | 70.3 | 73.0 |
| Construction in progress | <u>6.9</u> | <u>4.5</u> | <u>12.7</u> | <u>12.4</u> | <u>19.6</u> | <u>16.9</u> |
| Totals | 105.0 | 104.6 | 80.4 | 79.3 | 185.4 | 183.9 |

Debt

The City may issue general obligation bonds, receive State Revolving Loan Fund notes in lieu of bonds, and notes in anticipation of such bonds, taxes and other anticipated revenues. As of June 30, 2013, the total bonds and notes outstanding for all funds is \$73.5 million (See Table 4 below). The City also has capital leases payable of \$158 thousand. Funds are budgeted for annually for capital leases and contracts are subject to cancellation should funds not be appropriated. The City's overall debt limitations and available debt margin are listed in Note 9 – General Debt Obligations, of the Notes to the Basic Financial Statements.

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

| | Governmental Activities | | Business-type Activities | | Total | |
|--|------------------------------------|-------------|-------------------------------------|-------------|--------------|-------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| General obligation bonds (backed by the City) and State revolving notes | <u>40.9</u> | <u>44.9</u> | <u>32.6</u> | <u>36.0</u> | <u>73.5</u> | <u>80.9</u> |
| Totals | 40.9 | 44.9 | 32.6 | 36.0 | 73.5 | 80.9 |

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 2014 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 while at the same time addressing the service and infrastructure needs of the City. 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 five budget cycles since passage of this charter amendment.

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.

EXHIBIT A
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Net Position
June 30, 2013

| | Primary Government | | |
|---|----------------------|----------------------|-----------------------|
| | Governmental | Business-type | |
| | <u>Activities</u> | <u>Activities</u> | <u>Total</u> |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 28,266,072 | | \$ 28,266,072 |
| Investments | 8,130,178 | | 8,130,178 |
| Taxes receivable, net | 1,662,543 | | 1,662,543 |
| Accounts receivable | 939,062 | \$ 2,622,130 | 3,561,192 |
| Due from other governments | 995,388 | 358,195 | 1,353,583 |
| Internal balances | (1,779,098) | 1,779,098 | - |
| Prepaid expenses | 64,878 | 314 | 65,192 |
| Inventory | 22,128 | 353,452 | 375,580 |
| Total Current Assets | <u>38,301,151</u> | <u>5,113,189</u> | <u>43,414,340</u> |
| Noncurrent Assets: | | | |
| Due from other governments | | 2,103,241 | 2,103,241 |
| Capital assets: | | | |
| Non-depreciable capital assets | 16,269,990 | 16,157,546 | 32,427,536 |
| Depreciable capital assets, net | 88,720,101 | 64,271,463 | 152,991,564 |
| Total Noncurrent Assets | <u>104,990,091</u> | <u>82,532,250</u> | <u>187,522,341</u> |
| Total Assets | <u>143,291,242</u> | <u>87,645,439</u> | <u>230,936,681</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Loss on debt refunding | 386,240 | 105,737 | 491,977 |
| Total Deferred Outflows of Resources | <u>386,240</u> | <u>105,737</u> | <u>491,977</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 2,864,737 | 386,370 | 3,251,107 |
| Accrued expenses | 5,325,453 | 623,004 | 5,948,457 |
| Retainage payable | 125,673 | 128,786 | 254,459 |
| Deposits | 203,315 | | 203,315 |
| Current portion of bonds payable | 4,810,702 | 2,830,981 | 7,641,683 |
| Current portion of capital leases payable | 32,250 | | 32,250 |
| Current portion of compensated absences payable | 250,202 | | 250,202 |
| Total Current Liabilities | <u>13,612,332</u> | <u>3,969,141</u> | <u>17,581,473</u> |
| Noncurrent Liabilities: | | | |
| Bonds payable | 35,324,524 | 28,474,446 | 63,798,970 |
| Capital leases payable | 126,111 | | 126,111 |
| Other long-term obligations | 724,146 | 1,317,111 | 2,041,257 |
| Other post-employment benefits payable | 3,327,416 | 368,950 | 3,696,366 |
| Compensated absences payable | 878,697 | 12,690 | 891,387 |
| Total Noncurrent Liabilities | <u>40,380,894</u> | <u>30,173,197</u> | <u>70,554,091</u> |
| Total Liabilities | <u>53,993,226</u> | <u>34,142,338</u> | <u>88,135,564</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property taxes collected in advance | 18,520,499 | | 18,520,499 |
| Unearned grant revenue | 30,295 | | 30,295 |
| Other unearned revenue | 564,992 | 355,482 | 920,474 |
| Total Deferred Inflows of Resources | <u>19,115,786</u> | <u>355,482</u> | <u>19,471,268</u> |
| NET POSITION | | | |
| Net investment in capital assets | 64,516,959 | 47,912,208 | 112,429,167 |
| Restricted | 765,642 | | 765,642 |
| Unrestricted | 5,285,869 | 5,341,148 | 10,627,017 |
| Total Net Position | <u>\$ 70,568,470</u> | <u>\$ 53,253,356</u> | <u>\$ 123,821,826</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, 2013

| Functions/Programs | <u>Expenses</u> | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--------------------------------------|-----------------------|---------------------------------|---|---|--|-------------------------------------|-----------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Primary Government</u> | | <u>Total</u> |
| | | | | | <u>Governmental Activities</u> | <u>Business-type Activities</u> | |
| Governmental Activities: | | | | | | | |
| General government | \$ 4,243,199 | \$ 78,051 | | | \$ (4,165,148) | | \$ (4,165,148) |
| Public safety | 12,219,400 | 643,992 | \$ 316,725 | \$ 153,024 | (11,105,659) | | (11,105,659) |
| Highways and streets | 6,183,735 | 125,724 | 521,714 | 47,832 | (5,488,465) | | (5,488,465) |
| Health and welfare | 367,237 | | | | (367,237) | | (367,237) |
| Culture and recreation | 1,743,970 | 152,883 | | | (1,591,087) | | (1,591,087) |
| Community development | 2,842,158 | | 226,615 | | (2,615,543) | | (2,615,543) |
| Community services | 692,680 | 710,480 | | | 17,800 | | 17,800 |
| Education | 57,667,950 | 2,436,788 | 26,806,074 | 26,689 | (28,398,399) | | (28,398,399) |
| Food service | 1,994,495 | 724,946 | 1,133,367 | | (136,182) | | (136,182) |
| Debt service | 1,638,980 | | | 840,077 | (798,903) | | (798,903) |
| Intergovernmental | 5,601,590 | | | | (5,601,590) | | (5,601,590) |
| Total governmental activities | <u>95,195,394</u> | <u>4,872,864</u> | <u>29,004,495</u> | <u>1,067,622</u> | <u>(60,250,413)</u> | <u>\$ -</u> | <u>(60,250,413)</u> |
| Business-type activities: | | | | | | | |
| Sewer | 3,843,231 | 4,735,135 | | 170,585 | | 1,062,489 | 1,062,489 |
| Water | 3,504,321 | 3,570,604 | | 1,726,189 | | 1,792,472 | 1,792,472 |
| Nonmajor enterprise fund | <u>430,902</u> | <u>354,009</u> | | | | <u>(76,893)</u> | <u>(76,893)</u> |
| Total business-type activities | <u>7,778,454</u> | <u>8,659,748</u> | <u>-</u> | <u>1,896,774</u> | <u>-</u> | <u>2,778,068</u> | <u>2,778,068</u> |
| Total primary government | <u>\$ 102,973,848</u> | <u>\$ 13,532,612</u> | <u>\$ 29,004,495</u> | <u>\$ 2,964,396</u> | <u>(60,250,413)</u> | <u>2,778,068</u> | <u>(57,472,345)</u> |
| General revenues: | | | | | | | |
| Property and other taxes | | | | | 51,595,952 | | 51,595,952 |
| Licenses and permits | | | | | 4,337,076 | | 4,337,076 |
| Grants and contributions: | | | | | | | |
| Rooms and meals tax distribution | | | | | 1,327,140 | | 1,327,140 |
| Interest and investment earnings | | | | | 90,152 | 5,500 | 95,652 |
| Miscellaneous | | | | | 1,716,903 | 108,077 | 1,824,980 |
| Transfers | | | | | (237,059) | 237,059 | - |
| Total general revenues and transfers | | | | | <u>58,830,164</u> | <u>350,636</u> | <u>59,180,800</u> |
| Change in net position | | | | | <u>(1,420,249)</u> | <u>3,128,704</u> | <u>1,708,455</u> |
| Net position - beginning | | | | | <u>71,988,719</u> | <u>50,124,652</u> | <u>122,113,371</u> |
| Net position - ending | | | | | <u>\$ 70,568,470</u> | <u>\$ 53,253,356</u> | <u>\$ 123,821,826</u> |

See accompanying notes to the basic financial statements

EXHIBIT C
CITY OF ROCHESTER, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2013

| | General Fund | Capital Projects Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|-----------------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 28,188,224 | | \$ 77,848 | \$ 28,266,072 |
| Investments | 8,050,919 | | 79,259 | 8,130,178 |
| Taxes receivable, net | 1,662,543 | | | 1,662,543 |
| Accounts receivable | 610,111 | | 328,951 | 939,062 |
| Due from other governments | | \$ 145,250 | 850,138 | 995,388 |
| Due from other funds | 5,831,979 | | 1,245,416 | 7,077,395 |
| Prepaid expenses | 64,878 | | | 64,878 |
| Inventory | | | 22,128 | 22,128 |
| Total Assets | <u>44,408,654</u> | <u>145,250</u> | <u>2,603,740</u> | <u>47,157,644</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Total Deferred Outflows of Resources | - | - | - | - |
| Total Assets and Deferred Outflows of Resources | <u>\$ 44,408,654</u> | <u>\$ 145,250</u> | <u>\$ 2,603,740</u> | <u>\$ 47,157,644</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 1,583,685 | \$ 845,366 | \$ 435,686 | \$ 2,864,737 |
| Accrued expenses | 4,764,730 | | 16,898 | 4,781,628 |
| Retainage payable | | 125,673 | | 125,673 |
| Deposits | 203,315 | | | 203,315 |
| Due to other funds | 3,853,110 | 4,248,977 | 754,406 | 8,856,493 |
| Total Liabilities | <u>10,404,840</u> | <u>5,220,016</u> | <u>1,206,990</u> | <u>16,831,846</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Property taxes collected in advance | 18,520,499 | | | 18,520,499 |
| Unearned property tax revenue | 1,192,258 | | | 1,192,258 |
| Unearned grant revenue | | | 30,295 | 30,295 |
| Other unearned revenue | 262,869 | | 302,123 | 564,992 |
| Total Deferred Inflows of Resources | <u>19,975,626</u> | <u>-</u> | <u>332,418</u> | <u>20,308,044</u> |
| FUND BALANCES | | | | |
| Nonspendable | 64,878 | | 82,660 | 147,538 |
| Restricted | | | 705,110 | 705,110 |
| Committed | 537,244 | | 236,246 | 773,490 |
| Assigned | 122,781 | | 40,316 | 163,097 |
| Unassigned (deficit) | 13,303,285 | (5,074,766) | | 8,228,519 |
| Total Fund Balances (deficit) | <u>14,028,188</u> | <u>(5,074,766)</u> | <u>1,064,332</u> | <u>10,017,754</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 44,408,654</u> | <u>\$ 145,250</u> | <u>\$ 2,603,740</u> | |

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 104,990,091

Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis 1,192,258

Losses on debt refundings are recognized on an accrual basis in the statement of net position, not the modified accrual basis 386,240

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

Bonds payable (40,135,226)
Capital leases payable (158,361)
Other long-term obligations (724,146)
Other post-employment benefits payable (3,327,416)
Compensated absences payable (1,128,899)
Accrued interest on long-term obligations (543,825)

Net position of governmental activities \$ 70,568,470

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, 2013

| | General Fund | Capital Projects Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|----------------------|-----------------------------|-----------------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$ 52,073,849 | | | \$ 52,073,849 |
| Licenses and permits | 4,337,076 | | | 4,337,076 |
| Intergovernmental | 26,190,734 | \$ 47,832 | \$ 5,160,691 | 31,399,257 |
| Charges for services | 3,426,784 | | 1,446,080 | 4,872,864 |
| Investment income | 81,347 | | 8,805 | 90,152 |
| Miscellaneous | 1,109,505 | 853,277 | 89,963 | 2,052,745 |
| Total Revenues | <u>87,219,295</u> | <u>901,109</u> | <u>6,705,539</u> | <u>94,825,943</u> |
| Expenditures: | | | | |
| Current operations: | | | | |
| General government | 3,794,792 | | 782 | 3,795,574 |
| Public safety | 10,962,447 | | 487,920 | 11,450,367 |
| Highways and streets | 2,580,697 | | | 2,580,697 |
| Health and welfare | 363,857 | | 345 | 364,202 |
| Culture and recreation | 1,671,173 | | 39 | 1,671,212 |
| Community development | 362,257 | | 2,533,003 | 2,895,260 |
| Community services | | | 639,599 | 639,599 |
| Education | 52,561,813 | | 3,363,216 | 55,925,029 |
| Food service | | | 1,953,303 | 1,953,303 |
| Capital outlay | 158,361 | 6,291,331 | | 6,449,692 |
| Debt service: | | | | |
| Principal retirement | 4,602,642 | | | 4,602,642 |
| Interest and fiscal charges | 1,637,227 | | | 1,637,227 |
| Intergovernmental | 5,601,590 | | | 5,601,590 |
| Total Expenditures | <u>84,296,856</u> | <u>6,291,331</u> | <u>8,978,207</u> | <u>99,566,394</u> |
| Excess of revenues over (under) expenditures | <u>2,922,439</u> | <u>(5,390,222)</u> | <u>(2,272,668)</u> | <u>(4,740,451)</u> |
| Other financing sources (uses): | | | | |
| Proceeds of refunding bonds | 4,007,673 | | | 4,007,673 |
| Payment to bond escrow agent | (3,967,078) | | | (3,967,078) |
| Proceeds from capital lease obligations | 158,361 | | | 158,361 |
| Proceeds from other long-term obligations | | 248,163 | | 248,163 |
| Transfers in | 394,249 | 3,147,484 | 12,180 | 3,553,913 |
| Transfers out | (3,400,515) | (390,457) | | (3,790,972) |
| Total other financing sources (uses) | <u>(2,807,310)</u> | <u>3,005,190</u> | <u>12,180</u> | <u>210,060</u> |
| Net change in fund balances | 115,129 | (2,385,032) | (2,260,488) | (4,530,391) |
| Fund balances (deficit) at beginning of year | <u>13,913,059</u> | <u>(2,689,734)</u> | <u>3,324,820</u> | <u>14,548,145</u> |
| Fund balances (deficit) at end of year | <u>\$ 14,028,188</u> | <u>\$ (5,074,766)</u> | <u>\$ 1,064,332</u> | <u>\$ 10,017,754</u> |

CITY OF ROCHESTER, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities

For the Year Ended June 30, 2013

| | |
|---|-----------------------|
| Net Change in Fund Balances--Total Governmental Funds | \$ (4,530,391) |
| 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. | 707,328 |
| 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 gain of disposed capital assets reduced by the actual proceeds received from the sale of capital assets. | (351,085) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (477,897) |
| Proceeds from bond issuance are other financing sources in the funds, but bond issuance increases long-term liabilities in the statement of net position. | (4,007,673) |
| Proceeds from capital leases are other financing sources in the funds, but capital leases increase long-term liabilities in the statement of net position. | (158,361) |
| 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 position. | (248,163) |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | 8,282,643 |
| Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are amortized in the statement of activities over the life of the related debt. | 27,036 |
| Governmental funds report the effect of losses on debt refundings when the debt is first issued, whereas these amounts are amortized in the statement of activities over the life of the related debt. | 129,776 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | 128,512 |
| 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. | (921,974) |
| Change in Net Position of Governmental Activities | <u>\$ (1,420,249)</u> |

See accompanying notes to the basic financial statements

EXHIBIT E
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
June 30, 2013

| | Business-type Activities | | | |
|--|--------------------------|----------------------|--------------------------------|----------------------|
| | Sewer Fund | Water Fund | Nonmajor Enterprise Fund | Totals |
| ASSETS | | | | |
| Current Assets: | | | | |
| Accounts receivable | \$ 1,572,580 | \$ 1,049,075 | \$ 475 | \$ 2,622,130 |
| Due from other governments | 355,999 | 2,196 | | 358,195 |
| Due from other funds | 2,663,685 | | | 2,663,685 |
| Prepaid expenses | | 314 | | 314 |
| Inventory | 31,621 | 321,831 | | 353,452 |
| Total Current Assets | <u>4,623,885</u> | <u>1,373,416</u> | <u>475</u> | <u>5,997,776</u> |
| Noncurrent Assets: | | | | |
| Due from other governments | 2,103,241 | | | 2,103,241 |
| Capital assets: | | | | |
| Non-depreciable capital assets | 5,405,962 | 10,648,196 | 103,388 | 16,157,546 |
| Depreciable capital assets, net | <u>40,881,476</u> | <u>22,235,614</u> | <u>1,154,373</u> | <u>64,271,463</u> |
| Total Noncurrent Assets | <u>48,390,679</u> | <u>32,883,810</u> | <u>1,257,761</u> | <u>82,532,250</u> |
| Total Assets | <u>53,014,564</u> | <u>34,257,226</u> | <u>1,258,236</u> | <u>88,530,026</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Loss on debt refunding | <u>76,272</u> | <u>29,465</u> | | <u>105,737</u> |
| Total Deferred Outflows of Resources | <u>76,272</u> | <u>29,465</u> | <u>-</u> | <u>105,737</u> |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 201,751 | 175,210 | 9,409 | 386,370 |
| Accrued expenses | 304,322 | 291,861 | 26,821 | 623,004 |
| Retainage payable | 66,866 | 61,920 | | 128,786 |
| Due to other funds | | 855,648 | 28,939 | 884,587 |
| Current portion of bonds payable | <u>1,773,780</u> | <u>976,905</u> | <u>80,296</u> | <u>2,830,981</u> |
| Total Current Liabilities | <u>2,346,719</u> | <u>2,361,544</u> | <u>145,465</u> | <u>4,853,728</u> |
| Noncurrent Liabilities: | | | | |
| Bonds payable | 15,198,246 | 12,504,758 | 771,442 | 28,474,446 |
| Other long-term obligations | 928,964 | 388,147 | | 1,317,111 |
| Other post-employment benefits payable | 169,225 | 177,325 | 22,400 | 368,950 |
| Compensated absences payable | <u>7,339</u> | <u>3,826</u> | <u>1,525</u> | <u>12,690</u> |
| Total Noncurrent Liabilities | <u>16,303,774</u> | <u>13,074,056</u> | <u>795,367</u> | <u>30,173,197</u> |
| Total Liabilities | <u>18,650,493</u> | <u>15,435,600</u> | <u>940,832</u> | <u>35,026,925</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unearned revenue | <u>355,482</u> | | | <u>355,482</u> |
| Total Deferred Inflows of Resources | <u>355,482</u> | <u>-</u> | <u>-</u> | <u>355,482</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 28,462,720 | 19,043,465 | 406,023 | 47,912,208 |
| Unrestricted (deficit) | <u>5,622,141</u> | <u>(192,374)</u> | <u>(88,619)</u> | <u>5,341,148</u> |
| Total Net Position | <u>\$ 34,084,861</u> | <u>\$ 18,851,091</u> | <u>\$ 317,404</u> | <u>\$ 53,253,356</u> |

See accompanying notes to the basic financial statements

EXHIBIT F
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013

| | Business-type Activities | | | |
|--|--------------------------|----------------------|--------------------------------|----------------------|
| | Sewer Fund | Water Fund | Nonmajor Enterprise Fund | Totals |
| Operating revenues: | | | | |
| Charges for services | \$ 4,735,135 | \$ 3,570,604 | \$ 354,009 | \$ 8,659,748 |
| Miscellaneous | 19,676 | 30,540 | 57,861 | 108,077 |
| Total operating revenues | <u>4,754,811</u> | <u>3,601,144</u> | <u>411,870</u> | <u>8,767,825</u> |
| Operating expenses: | | | | |
| Personnel services | 1,097,326 | 1,153,092 | 188,692 | 2,439,110 |
| Materials and supplies | 278,758 | 259,192 | 12,315 | 550,265 |
| Utilities | 346,698 | 134,083 | 77,169 | 557,950 |
| Depreciation | 1,102,561 | 1,040,790 | 64,888 | 2,208,239 |
| Miscellaneous | 275,193 | 293,440 | 50,033 | 618,666 |
| Total operating expenses | <u>3,100,536</u> | <u>2,880,597</u> | <u>393,097</u> | <u>6,374,230</u> |
| Operating income | <u>1,654,275</u> | <u>720,547</u> | <u>18,773</u> | <u>2,393,595</u> |
| Non-operating revenues (expenses): | | | | |
| Interest revenue | 2,500 | 2,500 | 500 | 5,500 |
| Bond issuance expense | (76,510) | (2,757) | | (79,267) |
| Interest expense | (666,185) | (620,967) | (37,805) | (1,324,957) |
| Net non-operating revenues (expenses) | <u>(740,195)</u> | <u>(621,224)</u> | <u>(37,305)</u> | <u>(1,398,724)</u> |
| Income (Loss) before capital contributions and transfers | 914,080 | 99,323 | (18,532) | 994,871 |
| Capital contributions | 170,585 | 1,726,189 | | 1,896,774 |
| Transfers in | 68,948 | 171,903 | | 240,851 |
| Transfers out | <u>(1,896)</u> | <u>(1,896)</u> | | <u>(3,792)</u> |
| Change in net position | 1,151,717 | 1,995,519 | (18,532) | 3,128,704 |
| Total net position at beginning of year | <u>32,933,144</u> | <u>16,855,572</u> | <u>335,936</u> | <u>50,124,652</u> |
| Total net position at end of year | <u>\$ 34,084,861</u> | <u>\$ 18,851,091</u> | <u>\$ 317,404</u> | <u>\$ 53,253,356</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, 2013

| | Business-type Activities | | | |
|---|--------------------------|---------------------|--------------------------------|---------------------|
| | Sewer Fund | Water Fund | Nonmajor Enterprise Fund | Totals |
| Cash flows from operating activities: | | | | |
| Cash received from customers | \$ 4,821,406 | \$ 3,593,178 | \$ 353,534 | \$ 8,768,118 |
| Other operating cash receipts | 19,676 | 30,540 | 57,861 | 108,077 |
| Cash paid to suppliers | (1,208,768) | (1,002,852) | (182,851) | (2,394,471) |
| Cash paid to employees | (759,409) | (811,183) | (136,305) | (1,706,897) |
| Net cash provided by operating activities | <u>2,872,905</u> | <u>1,809,683</u> | <u>92,239</u> | <u>4,774,827</u> |
| Cash flows from noncapital financing activities: | | | | |
| Transfer to other funds | (1,896) | (1,896) | | (3,792) |
| Net cash used for noncapital financing activities | <u>(1,896)</u> | <u>(1,896)</u> | <u>-</u> | <u>(3,792)</u> |
| Cash flows from capital and related financing activities: | | | | |
| Purchases of capital assets | (1,839,618) | (1,298,147) | (27,501) | (3,165,266) |
| Proceeds from debt refunding | 8,881,580 | 272,260 | | 9,153,840 |
| Payments on refunded debt | (8,881,580) | (272,260) | | (9,153,840) |
| Proceeds from other long-term obligations | 320,189 | 253,139 | | 573,328 |
| Principal paid on long-term debt | (1,657,000) | (908,730) | (77,454) | (2,643,184) |
| Interest paid on long-term debt | (707,314) | (582,728) | (35,309) | (1,325,351) |
| Transfer from other funds | 68,948 | 171,903 | | 240,851 |
| Capital contributions | 426,227 | | | 426,227 |
| Net cash used for capital and related financing activities | <u>(3,388,568)</u> | <u>(2,364,563)</u> | <u>(140,264)</u> | <u>(5,893,395)</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 decrease in cash and cash equivalents | (515,059) | (554,276) | (47,525) | (1,116,860) |
| Cash and cash equivalents (deficiency) at beginning of year | 3,178,744 | (301,372) | 18,586 | 2,895,958 |
| Cash and cash equivalents (deficiency) at end of year | <u>\$ 2,663,685</u> | <u>\$ (855,648)</u> | <u>\$ (28,939)</u> | <u>\$ 1,779,098</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | | |
| Operating income | \$ 1,654,275 | \$ 720,547 | \$ 18,773 | \$ 2,393,595 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation expense | 1,102,561 | 1,040,790 | 64,888 | 2,208,239 |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | 86,271 | 22,574 | (475) | 108,370 |
| Prepaid expenses | | 37 | | 37 |
| Inventory | (31,621) | (45,098) | | (76,719) |
| Accounts payable | 24,793 | 25,040 | 1,762 | 51,595 |
| Accrued expenses | 7,368 | 5,698 | 698 | 13,764 |
| Other post-employment benefits payable | 31,984 | 41,067 | 5,960 | 79,011 |
| Compensated absences payable | (2,726) | (972) | 633 | (3,065) |
| Net cash provided by operating activities | <u>\$ 2,872,905</u> | <u>\$ 1,809,683</u> | <u>\$ 92,239</u> | <u>\$ 4,774,827</u> |
| Non-cash transactions affecting financial position: | | | | |
| Capital asset additions included in year end liabilities | \$ 207,858 | \$ 170,106 | \$ 3,915 | \$ 381,879 |
| Principal forgiveness on debt | | 1,726,189 | | 1,726,189 |
| Amortization on bond premiums | | 1,762 | 815 | 2,577 |
| Amortization on losses on debt refundings | (3,256) | (12,254) | (4,539) | (20,049) |
| | <u>\$ 204,602</u> | <u>\$ 1,885,803</u> | <u>\$ 191</u> | <u>\$ 2,090,596</u> |

See accompanying notes to the basic financial statements

EXHIBIT H
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

| | Private- Purpose <u>Trust Funds</u> | Agency <u>Funds</u> |
|--------------------------------------|---|------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 34,983 | \$ 187,641 |
| Investments | <u>1,918,271</u> | |
| Total Assets | <u>1,953,254</u> | <u>\$ 187,641</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Total Deferred Outflows of Resources | <u>-</u> | |
| LIABILITIES | | |
| Due to student groups | | <u>\$ 187,641</u> |
| Total Liabilities | <u>-</u> | <u>\$ 187,641</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Total Deferred Inflows of Resources | <u>-</u> | |
| NET POSITION | | |
| Held in trust | <u>1,953,254</u> | |
| Total Net Position | <u>\$ 1,953,254</u> | |

See accompanying notes to the basic financial statements

EXHIBIT I
CITY OF ROCHESTER, NEW HAMPSHIRE
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2013

| | Private- Purpose Trust Funds |
|---|------------------------------------|
| ADDITIONS: | |
| Contributions: | |
| Private donations | \$ 23,532 |
| Total Contributions | <u>23,532</u> |
| Investment earnings: | |
| Investment income | 59,400 |
| Net increase in the fair value of investments | <u>138,678</u> |
| Total Investment Earnings | <u>198,078</u> |
| Less: Investment expense | <u>(3,027)</u> |
| Net Investment Earnings | <u>195,051</u> |
| Total Additions | <u>218,583</u> |
| DEDUCTIONS: | |
| Benefits | <u>86,060</u> |
| Total Deductions | <u>86,060</u> |
| Change in net position | 132,523 |
| Net position - beginning of year | <u>1,820,731</u> |
| Net position - end of year | <u><u>\$ 1,953,254</u></u> |

See accompanying notes to the basic financial statements

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

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 incorporated in 1722 and 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 position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

During the fiscal year ended June 30, 2013, the City implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". Under Statement 63, the City has segregated previously reported assets and liabilities as deferred outflows of resources and deferred inflows of resources, respectively. This statement also identifies net position as the residual of all other elements presented in the statement of financial position. Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources.

1. Government-Wide Financial Statements:

The statement of net position 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 position 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

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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 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 deferred outflows of resources less liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

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

The *Capital Projects Fund* accounts for all financial transactions used for the acquisition or construction of major capital facilities, infrastructure and equipment. It accounts for the federal, state, and local financing of these projects and the related capital outlay expenditures.

The City's Nonmajor Governmental Funds consist of the Permanent Funds and the following special revenue funds: Community Development Fund, Police Grants Funds, Miscellaneous Grants Funds, Other School Grants Funds, 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 or committed in nature for specific expenditures.

2. Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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.

3. Fiduciary Funds:

Fiduciary fund reporting focuses on net position and changes in net position. 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 City's schools.

Measurement Focus

1. Government-Wide Financial Statements:

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

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, deferred outflows of resources, current liabilities and deferred inflows of resources 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 funds are accounted for on a flow of economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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 unearned revenue, and in the presentation of expenses versus expenditures.

1. Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of fiscal year end.

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

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

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

2. Unearned Revenue:

Unearned 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 unearned revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned 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

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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

Budgetary Data

The City's budget represents functional appropriations as authorized by annual or special 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, 2013, the City applied \$2,178,418 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 | \$ 2,663,685 | | \$ 2,663,685 |
| Water Fund | | \$ (855,648) | (855,648) |
| Nonmajor Enterprise Fund | | (28,939) | (28,939) |
| | <u>\$ 2,663,685</u> | <u>\$ (884,587)</u> | <u>\$ 1,779,098</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, 2013 are recorded as receivables net of reserves for estimated uncollectible taxes of \$2,584,976.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2013 are recorded as prepaid items.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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 position, 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 - 100 |
| Land improvements | 10 - 20 |
| Buildings and improvements | 5 - 100 |
| Vehicles and equipment | 3 - 50 |

Loss on Debt Refunding

Debt refundings that result in a difference between the reacquisition price of old debt and the net carrying value of the old debt have been reported in the accompanying financial statements as a loss on debt refunding. Losses on debt refundings are amortized as a component of interest expense over the remaining life of the related debt. The balances of the loss on debt refunding as of June 30, 2013 are \$386,240 and \$105,737 in the governmental and business-type activities, respectively.

Compensated Absences

City employees earn vacation, personal time, compensatory time and sick leave as they provide services. Provision is made in the annual budget for vacation, personal time, compensatory time and sick leave. Vacation, personal time and compensatory time accrued in a year (based on anniversary date) must be

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

taken within the following employment year. Pursuant to the City personnel policy and collective bargaining agreements, employees may accumulate (subject to certain limitations) unused sick leave earned and upon severance of employment, will be compensated for such amounts at current rates of pay.

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

Bond Premiums

Bond premiums are amortized as a component of interest expense over the life of the related bond using the effective interest rate method. Bonds payable are reported in the accompanying financial statements gross of any applicable unamortized bond premiums. The balances of the unamortized bond premiums as of June 30, 2013 are \$361,905 and \$563,362 in the governmental activities 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 Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is 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 the governmental fund types. Under Statement 54, the City has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. The components of fund balance are defined as follows:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

- *Nonspendable 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.
- *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 amounts and unassigned amounts.

Deficit Fund Balance

At 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.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Interfund Activity

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

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the water fund, sewer fund and arena fund, these revenues are charges to customers for sales and services. Operating expenses, which include depreciation on capital assets, are 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—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$2,004,617,304 as of April 1, 2012) and are due in two installments on July 5, 2012 and December 20, 2012. 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, 2013 were \$5,601,590. The City bears responsibility for uncollected taxes.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

NOTE 3—RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2013, the City participated in public entity risk pools (Trusts) for property and liability insurance and worker's compensation coverage. Coverage has not been significantly reduced from the prior year and settled claims have not exceeded coverage in any of the past three years.

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, 2013.

Property and Liability Insurance

The Trust provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the Trust, 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

The Trust 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 4—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, 2013 are classified in the accompanying financial statements as follows:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

| | |
|--------------------------------------|----------------------|
| Statement of net position: | |
| Cash and cash equivalents | \$ 28,266,072 |
| Investments | 8,130,178 |
| Statement of fiduciary net position: | |
| Cash and cash equivalents | 222,624 |
| Investments | 1,918,271 |
| Total deposits and investments | <u>\$ 38,537,145</u> |

Deposits and investments as of June 30, 2013 consist of the following:

| | |
|--------------------------------------|----------------------|
| Cash on hand | \$ 5,275 |
| Deposits with financial institutions | 34,533,093 |
| Investments | 3,998,777 |
| Total deposits and investments | <u>\$ 38,537,145</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:

| Investment Type | Totals | Remaining Maturity (in Years) | | |
|-------------------------|-------------------|-------------------------------|-------------------|-------------------|
| | | 0-1 Years | 1-5 Years | > 5 Years |
| US Treasury notes | \$ 63,100 | | \$ 63,100 | |
| Government agency bonds | 62,991 | \$ 51,423 | 1,378 | \$ 10,190 |
| Municipal obligations | 42,332 | | 26,472 | 15,860 |
| Corporate bonds | 336,667 | 55,299 | 189,523 | 91,845 |
| | <u>\$ 505,090</u> | <u>\$ 106,722</u> | <u>\$ 280,473</u> | <u>\$ 117,895</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.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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:

| <u>Investment Type</u> | <u>Totals</u> | <u>Rating as of Year End</u> | | | | | |
|-------------------------|-------------------|------------------------------|------------------|-------------------|------------------|------------------|-------------------|
| | | <u>Aaa</u> | <u>Aa</u> | <u>A</u> | <u>Ba</u> | <u>Baa</u> | <u>Not Rated</u> |
| Government agency bonds | \$ 62,991 | \$ 62,991 | | | | | |
| Municipal obligations | 42,332 | | \$ 42,332 | | | | |
| Corporate bonds | 336,667 | | 33,291 | \$ 200,459 | \$ 14,926 | \$ 87,991 | |
| Mutual funds | 192,660 | | | | | | \$ 192,660 |
| Money market funds | 202,112 | | | | | | 202,112 |
| Total Fair Value | <u>\$ 836,762</u> | <u>\$ 62,991</u> | <u>\$ 75,623</u> | <u>\$ 200,459</u> | <u>\$ 14,926</u> | <u>\$ 87,991</u> | <u>\$ 394,772</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 do not have a policy regarding custodial credit risk.

Of the City's deposits with financial institutions at year end, \$34,403,872 was collateralized by securities held by the bank in the bank's name.

As of June 30, 2013, City investments in the following investment types were held by the same counterparty that was used to buy the securities:

| <u>Investment Type</u> | <u>Reported Amount</u> |
|---------------------------|------------------------|
| US Treasury notes | \$ 63,100 |
| Government agency bonds | 62,991 |
| Municipal obligations | 42,332 |
| Corporate bonds | 336,667 |
| Equity securities | 1,047,419 |
| Foreign equity securities | 50,249 |
| Mutual funds | 192,660 |
| Money market funds | 202,112 |
| Repurchase agreement | 2,001,247 |
| | <u>\$ 3,998,777</u> |

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. As of June 30, 2013, the City held \$50,249 in foreign equity securities. The City and the Trustees of Trust Funds do not have an investment policy for assurance against foreign currency risk.

NOTE 5—DUE FROM OTHER GOVERNMENTS

Receivables due from other governments at June 30, 2013 consist of various state and federal funding and other 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:

Governmental activities:

| | |
|---|-----------|
| Community Development Block Grants | \$ 34,970 |
| State and Federal public safety grants | 169,532 |
| School lunch program | 99,220 |
| State and Federal education grants | 546,416 |
| State of New Hampshire - Department of Transportation | 137,882 |
| State of New Hampshire - State revolving funds | 1,968 |
| State of New Hampshire - Department of Environmental Services | 5,400 |

Business-type activities:

| | |
|--|---------------------|
| State of New Hampshire - State revolving funds | 25,281 |
| State of New Hampshire - State Aid Grants | 2,397,519 |
| EPA STAG grant | 31,171 |
| Other miscellaneous grants and reimbursements | 7,465 |
| | <u>\$ 3,456,824</u> |

NOTE 6—CAPITAL ASSETS

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

| | Balance 7/1/2012 | Additions | Reductions | Balance 6/30/2013 |
|---|---------------------|------------------|--------------------|----------------------|
| Governmental activities: | | | | |
| Capital assets not depreciated: | | | | |
| Land | \$ 7,618,796 | \$ 701,672 | \$ (335,843) | \$ 7,984,625 |
| Easements | 1,067,330 | 354,920 | | 1,422,250 |
| Construction in process | 4,532,162 | 3,296,435 | (965,482) | 6,863,115 |
| Total capital assets not being depreciated | <u>13,218,288</u> | <u>4,353,027</u> | <u>(1,301,325)</u> | <u>16,269,990</u> |
| Other capital assets: | | | | |
| Infrastructure | 140,398,316 | 855,382 | | 141,253,698 |
| Land improvements | 5,385,138 | 147,517 | | 5,532,655 |
| Buildings and improvements | 64,404,787 | 795,594 | | 65,200,381 |
| Vehicles and equipment | 15,962,578 | 1,416,307 | | 17,378,885 |
| Total other capital assets at historical cost | <u>226,150,819</u> | <u>3,214,800</u> | <u>-</u> | <u>229,365,619</u> |

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Less accumulated depreciation for:

| | | | | |
|---------------------------------|-----------------------|---------------------|-----------------------|-----------------------|
| Infrastructure | (98,890,353) | (3,324,931) | | (102,215,284) |
| Land improvements | (3,087,342) | (191,528) | | (3,278,870) |
| Buildings and improvements | (22,548,479) | (1,266,307) | | (23,814,786) |
| Vehicles and equipment | (10,209,084) | (1,127,494) | | (11,336,578) |
| Total accumulated depreciation | (134,735,258) | (5,910,260) | - | (140,645,518) |
| Total other capital assets, net | 91,415,561 | (2,695,460) | - | 88,720,101 |
| Total capital assets, net | <u>\$ 104,633,849</u> | <u>\$ 1,657,567</u> | <u>\$ (1,301,325)</u> | <u>\$ 104,990,091</u> |

Depreciation was charged to functions as follows:

| | |
|--|---------------------|
| General government | \$ 262,388 |
| Public safety | 517,022 |
| Highways and streets | 3,582,611 |
| Culture and recreation | 53,941 |
| Community services | 21,549 |
| Education | 1,455,854 |
| Food service | 16,895 |
| Total governmental activities depreciation expense | <u>\$ 5,910,260</u> |

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

| | Balance 7/1/2012 | Additions | Reductions | Balance 6/30/2013 |
|---|----------------------|---------------------|-----------------------|----------------------|
| Business-type activities: | | | | |
| Capital asset not depreciated: | | | | |
| Land | \$ 3,480,989 | | | \$ 3,480,989 |
| Construction in process | 12,436,323 | \$ 3,275,846 | \$ (3,035,612) | 12,676,557 |
| Total capital assets not being depreciated | 15,917,312 | 3,275,846 | (3,035,612) | 16,157,546 |
| Other capital assets: | | | | |
| Infrastructure | 45,093,957 | 728,319 | | 45,822,276 |
| Land improvements | 53,600 | | | 53,600 |
| Buildings and improvements | 45,948,880 | 1,923,349 | | 47,872,229 |
| Vehicles and equipment | 6,709,271 | 423,365 | | 7,132,636 |
| Total other capital assets at historical cost | 97,805,708 | 3,075,033 | - | 100,880,741 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (13,652,631) | (852,435) | | (14,505,066) |
| Land improvements | (44,600) | (2,000) | | (46,600) |
| Buildings and improvements | (17,235,793) | (1,014,281) | | (18,250,074) |
| Vehicles and equipment | (3,468,015) | (339,523) | | (3,807,538) |
| Total accumulated depreciation | (34,401,039) | (2,208,239) | - | (36,609,278) |
| Total other capital assets, net | 63,404,669 | 866,794 | - | 64,271,463 |
| Total capital assets, net | <u>\$ 79,321,981</u> | <u>\$ 4,142,640</u> | <u>\$ (3,035,612)</u> | <u>\$ 80,429,009</u> |

Depreciation was charged to proprietary funds as follows:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

| | |
|---|---------------------|
| Sewer fund | \$ 1,102,561 |
| Water fund | 1,040,790 |
| Nonmajor enterprise fund | 64,888 |
| Total business-type activities depreciation expense | <u>\$ 2,208,239</u> |

NOTE 7—DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the New Hampshire Retirement System (NHRS), a cost-sharing, multiple-employer, defined benefit pension plan administrated by the NHRS Board of Trustees. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

Funding Policy

Covered 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 rates for the covered payroll of police officers, fire employees, teachers, and general employees were 19.95%, 22.89%, 11.30% and 8.80%, respectively. 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, 2013, 2012 and 2011 were \$4,943,244, \$4,914,886, and \$3,843,369, respectively, equal to the required contributions for each year.

NOTE 8—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 and teachers 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 I employees who are members of the New Hampshire Retirement System and hired on or after July 1, 2011 are required to reach age 60 with 30 years of service or age 65 with no service requirement. 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. Group II employees who are members of the New Hampshire Retirement System and hired on or after July 1, 2011 are required to reach age 50 with 25 years of service or age 60 with no service requirement. 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, 2012, the most recent full actuarial valuation date, approximately 59 retirees and 704 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Annual OPEB Costs

The City's fiscal year 2013 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, 2013 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) | \$ 1,269,757 |
| Interest on Net OPEB obligation (NOO) | 127,174 |
| NOO amortization adjustment to ARC | <u>(120,457)</u> |
| Annual OPEB cost | 1,276,474 |
| Contributions made | <u>(406,199)</u> |
| Increase in Net OPEB obligation | 870,275 |
| Net OPEB obligation - beginning of year | <u>2,826,091</u> |
| Net OPEB obligation - end of year | <u><u>\$ 3,696,366</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, 2013, 2012 and 2011 are as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------|---------------------|---|------------------------|
| 6/30/2013 | \$ 1,276,474 | 31.8% | \$ 3,696,366 |
| 6/30/2012 | \$ 1,157,009 | 47.0% | \$ 2,826,091 |
| 6/30/2011 | \$ 1,296,988 | 38.8% | \$ 2,213,078 |

The City's net OPEB obligation as of June 30, 2013 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, 2012, the date of the most recent full actuarial valuation, is as follows:

| | |
|---|-----------------------------|
| Actuarial Accrued Liability (AAL) | \$ 11,803,851 |
| Actuarial value of plan assets | <u>-</u> |
| Unfunded Actuarial Accrued Liability (UAAL) | <u><u>\$ 11,803,851</u></u> |
| Funded ratio (actuarial value of plan assets/AAL) | 0.0% |
| Covered payroll (active plan members) | N/A |
| UAAL as a percentage of covered payroll | N/A |

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

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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.

For the July 1, 2012 actuarial valuation the Projected Unit Credit cost method was used with linear proration to decrement. The actuarial value of assets was not determined as the City has not advance funded its obligation. The City employs the Pay-as-you-go Cash Basis to fund the plan. The actuarial assumptions included a 4.5% investment rate of return and an inflation rate of 3.0%. The initial annual healthcare cost trend rate used was 9.0% which decreases to a 5.0% long-term rate for all healthcare benefits after eight 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.

NOTE 9—GENERAL DEBT OBLIGATIONS

Changes in Long-Term Obligations

The changes in the City's long-term debt obligations for the year ended June 30, 2013 are as follows:

| | Balance <u>7/1/2012</u> | <u>Additions</u> | <u>Reductions</u> | Balance <u>6/30/2013</u> | Due Within <u>One Year</u> |
|--------------------------------|----------------------------|----------------------|------------------------|-----------------------------|-------------------------------|
| Governmental activities: | | | | | |
| Bonds payable | \$ 44,159,266 | \$ 3,896,698 | \$ (8,282,643) | \$ 39,773,321 | \$ 4,771,041 |
| Unamortized bond premium | 277,966 | 110,975 | (27,036) | 361,905 | 39,661 |
| Total Bonds payable | 44,437,232 | 4,007,673 | (8,309,679) | 40,135,226 | 4,810,702 |
| Capital leases payable | - | 158,361 | | 158,361 | 32,250 |
| Other long-term obligations | 475,983 | 248,163 | | 724,146 | - |
| Compensated absences payable | 998,189 | 465,479 | (334,769) | 1,128,899 | 250,202 |
| Total governmental activities | <u>\$ 45,911,404</u> | <u>\$ 4,879,676</u> | <u>\$ (8,644,448)</u> | <u>\$ 42,146,632</u> | <u>\$ 5,093,154</u> |
| Business-type activities: | | | | | |
| Bonds payable | \$ 29,834,557 | \$ 14,044,906 | \$ (13,137,398) | \$ 30,742,065 | \$ 2,733,930 |
| Unamortized bond premium | 30,401 | 535,538 | (2,577) | 563,362 | 97,051 |
| Total Bonds payable | 29,864,958 | 14,580,444 | (13,139,975) | 31,305,427 | 2,830,981 |
| Other long-term obligations | 6,186,844 | 556,871 | (5,426,604) | 1,317,111 | - |
| Compensated absences payable | 15,755 | | (3,065) | 12,690 | - |
| Total business-type activities | <u>\$ 36,067,557</u> | <u>\$ 15,137,315</u> | <u>\$ (18,569,644)</u> | <u>\$ 32,635,228</u> | <u>\$ 2,830,981</u> |

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Payments on the general obligation bonds, capital leases 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. Amortization of the governmental activities bond premiums is recognized as a component of interest expense on the Statement of Activities (Exhibit B). Amortization of the business-type activities bond premiums is recognized as a component of interest expense in the Sewer, Water and Arena Fund, as applicable, on the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (Exhibit F). Compensated absences will be paid from the fund where the employee's salary is paid.

General Obligation Bonds

Governmental Activities

Bonds payable at June 30, 2013 are comprised of the following individual issues:

| | Original Issue Amount | Interest Rate | Final Maturity Date | Balance at 6/30/13 |
|--------------------------------------|-----------------------------|---------------------------------------|---------------------------|-----------------------|
| 1995 Series bond issue | \$ 2,440,000 | 5.25-5.625% | August 2015 | \$ 360,000 |
| 1996 Series bond issue | 1,197,000 | 5.625-5.75% | August 2016 | 224,000 |
| 1997 Series bond issue | 1,320,000 | 4.70-5.30% | August 2017 | 325,000 |
| 1998 Series A | 1,779,000 | 3.90-4.75% | August 2018 | 457,561 |
| 2002 Series bond issue | 6,383,000 | 4.25-4.70% | August 2022 | 3,133,000 |
| 2004 Series bond issue | 11,169,735 | 3.10-4.75% | July 2024 | 1,490,000 |
| 2005 Series bond issue - 20 year | 3,724,700 | 4.0-4.40% | January 2026 | 2,395,000 |
| 2005 Series bond issue - 15 year | 285,000 | 4.0-4.25% | January 2021 | 145,000 |
| 2005 Series bond issue - 10 year | 2,144,568 | 4.0-4.25% | January 2016 | 630,000 |
| 2005 Series bond issue - Honeywell | 9,611,575 | 4.0-4.25% | January 2016 | 2,880,000 |
| 2005 QZAB | 1,382,910 | 0% | December 2020 | 737,552 |
| Refinancing bonds 2007 - 13 year | 3,670,314 | 5.50-5.80% | August 2020 | 2,785,507 |
| 2008 Series bond issue - 20 year | 9,593,958 | 3.0-5.0% | February 2028 | 7,181,201 |
| 2008 Series bond issue - 10 year | 315,380 | 5.25-6.50% | February 2018 | 157,125 |
| 2008 Series bond issue - 10 year | 2,631,970 | 3.0-5.0% | February 2018 | 1,312,309 |
| 2008 Series A NHMBB - 20 year | 692,995 | 4.0-5.25% | August 2028 | 555,000 |
| 2010 Series bond issue - 5 year | 171,291 | 2.0-2.25% | January 2015 | 65,485 |
| 2010 Series bond issue - 10 year | 1,990,997 | 2.0-3.25% | January 2020 | 1,376,079 |
| 2010 Series bond issue - 20 year | 2,863,883 | 2.0-4.0% | January 2030 | 2,441,304 |
| 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 | 2,080,500 |
| 2012 Series A bond issue - 10 year | 160,747 | 2.0-3.0% | March 2022 | 145,000 |
| 2013 Series A - Refunding 2004 bonds | 3,896,698 | 2.0-3.0% | July 2024 | 3,896,698 |
| | <u>\$ 74,623,262</u> | | | 39,773,321 |
| | | Add: <i>Unamortized bond premiums</i> | | 361,905 |
| | | Totals | | <u>\$ 40,135,226</u> |

Debt service requirements to retire general obligation bonds outstanding at June 30, 2013 are as follows:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

| Year Ending June 30, | Principal | Interest | Total |
|---------------------------------------|----------------------|---------------------|----------------------|
| 2014 | \$ 4,771,041 | \$ 1,363,571 | \$ 6,134,612 |
| 2015 | 4,748,745 | 1,198,855 | 5,947,600 |
| 2016 | 4,344,186 | 1,031,696 | 5,375,882 |
| 2017 | 3,040,481 | 877,467 | 3,917,948 |
| 2018 | 2,971,515 | 765,132 | 3,736,647 |
| 2019-2023 | 11,219,575 | 2,540,019 | 13,759,594 |
| 2024-2028 | 6,551,877 | 1,008,449 | 7,560,326 |
| 2029-2032 | 2,125,901 | 158,852 | 2,284,753 |
| Sub-total Bonds payable | 39,773,321 | 8,944,041 | 48,717,362 |
| Add: <i>Unamortized bond premiums</i> | 361,905 | - | 361,905 |
| Total Bonds payable | <u>\$ 40,135,226</u> | <u>\$ 8,944,041</u> | <u>\$ 49,079,267</u> |

As included on the Statement of Activities (Exhibit B) as 'Debt service' expense, interest expense for the year ended June 30, 2013 was \$1,638,980 on general obligation debt for the governmental activities.

Business-type Activities

Bonds payable at June 30, 2013 are comprised of the following individual issues:

| | Original Issue <u>Amount</u> | Interest Rate | Maturity Date | Balance at 6/30/13 |
|------------------------------------|------------------------------------|------------------|------------------|-----------------------|
| 1996 Series bond issue | \$ 280,000 | 5.625-5.75% | August 2016 | \$ 56,000 |
| 1998 Series A | 871,000 | 3.90-4.75% | August 2018 | 322,440 |
| 2002 Series bond issue | 2,253,000 | 4.25-4.70% | August 2022 | 1,078,000 |
| 2004 Series bond issue | 2,181,000 | 3.10-4.75% | July 2024 | 220,000 |
| 2005 Series bond issue | 261,015 | 4.0-4.40% | January 2026 | 155,000 |
| 2005 State Revolving loan | 716,020 | 3.18% | January 2015 | 143,204 |
| 2006 State Revolving loan | 879,685 | 3.488% | August 2025 | 571,796 |
| 2007 State Revolving loan | 341,373 | 3.352% | July 2027 | 275,845 |
| 2007 State Revolving loan | 483,988 | 3.352% | September 2026 | 348,251 |
| Refinancing bonds 2007 - 13 year | 809,685 | 5.50-5.80% | August 2020 | 614,493 |
| 2008 Series bond issue - 20 year | 5,536,042 | 3.0-5.0% | February 2028 | 4,143,799 |
| 2008 Series bond issue - 10 year | 1,079,620 | 5.25-6.50% | February 2018 | 537,875 |
| 2008 Series bond issue - 10 year | 948,029 | 3.0-5.0% | February 2018 | 472,691 |
| 2009 State Revolving loan | 1,852,387 | 3.688% | December 2027 | 1,389,290 |
| 2009 State Revolving loan | 1,335,120 | 3.488% | August 2028 | 1,068,096 |
| 2010 State Revolving loan | 627,000 | 2.952% | February 2029 | 509,188 |
| 2010 Series bond issue - 5 year | 101,663 | 2.0-2.25% | January 2015 | 38,866 |
| 2010 Series bond issue - 10 year | 852,568 | 2.0-3.25% | January 2020 | 674,321 |
| 2010 Series bond issue - 20 year | 3,240,757 | 2.0-4.0% | January 2030 | 2,803,944 |
| 2011 Round Pond Land Purchase | 375,000 | 0% | January 2030 | 262,500 |
| 2012 State Revolving loan - 010-05 | 1,997,523 | 2.864% | December 2030 | 1,890,270 |
| 2012 Series A bond issue - 20 year | 946,711 | 2.0-3.0% | March 2032 | 914,500 |

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

| | | | | |
|--------------------------------------|----------------------|---------------------------------------|----------------|----------------------|
| 2013 State Revolving loan - 010-07 | 3,381,909 | 3.104% | September 2031 | 1,690,935 |
| 2013 State Revolving loan - 122-11 | 1,398,348 | 2.72% | February 2032 | 1,328,430 |
| 2013 State Revolving loan - 122-09 | 646,346 | 3.104% | July 2031 | 614,029 |
| 2013 Series B - Refunding SRF bonds | 7,480,000 | 2.0-4.0% | August 2020 | 7,480,000 |
| 2013 Series A - Refunding 2004 bonds | 1,138,302 | 2.0-3.0% | July 2024 | 1,138,302 |
| | <u>\$ 42,014,091</u> | | | 30,742,065 |
| | | Add: <i>Unamortized bond premiums</i> | | 563,362 |
| | | Totals | | <u>\$ 31,305,427</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 \$412,884 at June 30, 2013 are as follows:

| Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------------|----------------------|---------------------|----------------------|
| 2014 | \$ 2,733,930 | \$ 958,099 | \$ 3,692,029 |
| 2015 | 2,722,510 | 920,751 | 3,643,261 |
| 2016 | 2,627,624 | 837,011 | 3,464,635 |
| 2017 | 2,627,876 | 750,256 | 3,378,132 |
| 2018 | 2,593,515 | 663,131 | 3,256,646 |
| 2019-2023 | 9,533,033 | 2,171,358 | 11,704,391 |
| 2024-2028 | 5,624,150 | 907,278 | 6,531,428 |
| 2029-2032 | 1,866,543 | 125,572 | 1,992,115 |
| | <u>30,329,181</u> | <u>7,333,456</u> | <u>37,662,637</u> |
| Add: <i>Principal forgiveness</i> | 412,884 | - | 412,884 |
| Sub-total Bonds payable | 30,742,065 | 7,333,456 | 38,075,521 |
| Add: <i>Unamortized bond premiums</i> | 563,362 | - | 563,362 |
| Total Bonds payable | <u>\$ 31,305,427</u> | <u>\$ 7,333,456</u> | <u>\$ 38,638,883</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, 2013, the reimbursement was \$406,085.

As included on the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (Exhibit F), interest expense for the year ended June 30, 2013 was \$1,324,957 on general obligation debt for business-type activities. Interest incurred for the year ended June 30, 2013 of the business-type activities in the amount of \$5,317, was capitalized during the construction phase of capital assets.

Capital Lease Obligations

Capital lease obligations represent lease agreements entered into for the financing of equipment acquisitions. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. Amounts are annually budgeted in the applicable function. The following is the individual capital lease obligation of the governmental activities at June 30, 2013:

| | |
|---|-------------------|
| Office equipment, due in annual installments of \$33,668, including interest of 2.68%, through August 2017 | <u>\$ 158,361</u> |
|---|-------------------|

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2013 are as follows:

| <u>Year Ending</u> <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------------|-------------------|-----------------|-------------------|
| 2014 | \$ 32,250 | \$ 1,418 | \$ 33,668 |
| 2015 | 30,288 | 3,380 | 33,668 |
| 2016 | 31,100 | 2,568 | 33,668 |
| 2017 | 31,934 | 1,734 | 33,668 |
| 2018 | 32,789 | 879 | 33,668 |
| | <u>\$ 158,361</u> | <u>\$ 9,979</u> | <u>\$ 168,340</u> |

Other Long-Term Obligations

The City has drawn \$2,041,257 of approximately \$3,285,000 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 and Water Main Upgrades and the Route 125 Pumping Station Upgrade. 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 following year. Total funding to date of \$724,146 and \$1,317,111 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 and Washington Street Phase IV Water Main Upgrade projects, whereby a portion of the principal sum, not to exceed \$1,102,500 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 the initial loan repayment.

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 the initial loan repayment.

Authorized and Unissued Debt

The following debt was authorized and unissued as of June 30, 2013:

| <u>Purpose</u> | <u>Amount</u> | <u>Total</u> |
|---------------------------------|---------------|--------------|
| Governmental Funds: | | |
| City General FY 2004 Authorized | \$ 41,840 | |
| City General FY 2005 Authorized | 301,496 | |
| City General FY 2006 Authorized | 241,795 | |
| City General FY 2007 Authorized | 1,187,300 | |
| City General FY 2008 Authorized | 200,000 | |
| City General FY 2009 Authorized | 1,950,000 | |

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

| | | |
|---------------------------------|------------------|-----------------------------|
| Governmental Funds (continued): | | |
| City General FY 2010 Authorized | 1,460,000 | |
| City General FY 2011 Authorized | 758,616 | |
| City General FY 2012 Authorized | 3,224,058 | |
| City General FY 2013 Authorized | 2,900,000 | |
| School FY 2008 Authorized | 275,000 | |
| School FY 2009 Authorized | 50,000 | |
| School FY 2011 Authorized | 435,000 | |
| School FY 2012 Authorized | 368,155 | |
| School FY 2013 Authorized | <u>736,000</u> | |
| Total Governmental Funds | | <u>\$ 14,129,260</u> |
| Business-type Funds: | | |
| Sewer FY 2004 Authorized | 109,926 | |
| Sewer FY 2005 Authorized | 379,370 | |
| Sewer FY 2007 Authorized | 651,322 | |
| Sewer FY 2008 Authorized | 10,000 | |
| Sewer FY 2009 Authorized | 1,780,000 | |
| Sewer FY 2010 Authorized | 575,000 | |
| Sewer FY 2011 Authorized | 725,000 | |
| Sewer FY 2012 Authorized | 1,129,575 | |
| Sewer FY 2013 Authorized | 3,688,018 | |
| 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 | 269,811 | |
| Water FY 2008 Authorized | 136,574 | |
| Water FY 2009 Authorized | 1,224,019 | |
| Water FY 2010 Authorized | 100,000 | |
| Water FY 2011 Authorized | 1,275,000 | |
| Water FY 2012 Authorized | 2,719,900 | |
| Water FY 2013 Authorized | <u>2,453,650</u> | |
| Total Business-type Funds | | <u>17,783,802</u> |
| Combining Total | | <u><u>\$ 31,913,062</u></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, 2013, the City had the following available debt margins:

| | <u>% of Assessed Valuation</u> | <u>Statutory Limit</u> | <u>Net Debt Outstanding</u> | <u>Available Debt Margin</u> | <u>Authorized and Unissued</u> | <u>Available Debt Limit</u> |
|-----------|------------------------------------|----------------------------|---------------------------------|----------------------------------|------------------------------------|---------------------------------|
| School | 7.0% | \$ 141,922,490 | \$ 10,903,108 | \$ 131,019,382 | \$ 1,864,155 | \$ 129,155,227 |
| Water | 10.0% | \$ 202,746,413 | \$ 13,843,439 | \$ 188,902,974 | \$ 8,735,591 | \$ 180,167,383 |
| All other | 3.0% | \$ 60,823,924 | \$ 24,712,958 | \$ 36,110,966 | \$ 12,265,105 | \$ 23,845,861 |

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

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Overlapping Debt

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

| <u>Related Entity</u> | <u>Total Principal</u> | <u>City's Percent</u> | <u>City's Share</u> |
|-----------------------|----------------------------|---------------------------|-------------------------|
| Strafford County | <u>\$ 16,210,000</u> | 20.5189% | <u>\$ 3,326,114</u> |

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

NOTE 10—REFUNDING OF DEBT

Current Refunding

During the year ending June 30, 2013, the City issued \$7,480,000 of general obligation bonds in the Sewer Fund to affect a current refunding for \$7,693,026 of outstanding bonds (old debt). Net refunding proceeds of \$7,952,042 were used to retire old debt principal of \$7,693,026, old debt interest of \$222,684, cover bond issuance costs of \$35,861, with additional proceeds of \$471. As a result, this old debt is considered to be defeased, and the liability for those outstanding bonds has been removed from the Statement of Net Position.

The current refunding of debt resulted in an economic gain of \$502,464. The City in effect, reduced its aggregate debt service payments by \$530,524 over the next eight years through the current refunding.

Advance Refunding

During the year ending June 30, 2013, the City issued \$5,035,000 of general obligation bonds in the Governmental Activities (\$3,896,698), the Sewer Fund (\$873,581) and the Water Fund (\$264,721) to advance refund \$4,755,000 of outstanding bonds (old debt) in the Governmental Activities (\$3,680,000), the Sewer Fund (\$825,000) and the Water Fund (\$250,000). Net refunding proceeds of \$5,153,154 were used to cover bond issuance costs of \$24,139, additional proceeds of \$3,074 and the remaining balance of \$5,125,941 was placed into an irrevocable trust (restricted refunding escrow account) to provide for retirement of the old debt with a call date of July 15, 2014. As a result, this old debt is considered to be defeased, and the liability for those outstanding bonds has been removed from the Statement of Net Position. Accordingly, the irrevocable trust account assets and the liabilities for the defeased bonds are not included in the City's financial statements.

The advance refunding of debt resulted in an economic gain of \$466,754. The City in effect, reduced its aggregate debt service payments by \$511,069 over the next twelve years through the advance refunding.

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 fund as an interfund balance. Interfund balances at June 30, 2013 are as follows:

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

| | | Due from | | | | | |
|--------|-----------------------------|---------------------|---------------------|-------------------|-------------------|------------------|---------------------|
| | | General | Capital | Nonmajor | Water | Nonmajor | |
| | | Fund | Projects | Governmental | Fund | Enterprise | |
| | | Fund | Fund | Funds | Fund | Fund | |
| | | | | | | Totals | |
| Due to | General Fund | | \$ 4,248,977 | \$ 754,406 | \$ 799,657 | \$ 28,939 | \$ 5,831,979 |
| | Nonmajor Governmental Funds | \$ 1,245,416 | | | | | 1,245,416 |
| | Sewer Fund | 2,607,694 | | | 55,991 | | 2,663,685 |
| | | <u>\$ 3,853,110</u> | <u>\$ 4,248,977</u> | <u>\$ 754,406</u> | <u>\$ 855,648</u> | <u>\$ 28,939</u> | <u>\$ 9,741,080</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, 2013 are as follows:

| | | Transfers out | | | | |
|--------------|-----------------------------|---------------------|-------------------|-----------------|-----------------|---------------------|
| | | General | Capital | Sewer | Water | |
| | | Fund | Projects | Fund | Fund | Totals |
| Transfers in | General Fund | | \$ 390,457 | \$ 1,896 | \$ 1,896 | \$ 394,249 |
| | Capital Projects Fund | \$ 3,147,484 | | | | 3,147,484 |
| | Nonmajor Governmental Funds | 12,180 | | | | 12,180 |
| | Sewer Fund | 68,948 | | | | 68,948 |
| | Water Fund | 171,903 | | | | 171,903 |
| | | <u>\$ 3,400,515</u> | <u>\$ 390,457</u> | <u>\$ 1,896</u> | <u>\$ 1,896</u> | <u>\$ 3,794,764</u> |

NOTE 12—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

| | |
|--|-------------------|
| Permanent funds - Endowments | \$ 60,532 |
| Permanent funds - Income | 18,727 |
| Community development | 53,763 |
| Public safety grant funds | 6,659 |
| School grant funds | 5,533 |
| Other grant funds | 10,282 |
| Granite State Business Park TIF District | 610,146 |
| Per Exhibit A | <u>\$ 765,642</u> |

NOTE 13—COMPONENTS OF FUND BALANCE

The components of the City's fund balance for its governmental funds at June 30, 2013 are as follows:

| | General | Capital | Nonmajor | Total |
|----------------------|-----------|----------|--------------|--------------|
| Fund Balances | Fund | Projects | Governmental | Governmental |
| | | Fund | Funds | Funds |
| Nonspendable: | | | | |
| Prepaid expenses | \$ 64,878 | | | \$ 64,878 |
| Endowments | | | \$ 60,532 | 60,532 |
| Inventory | | | 22,128 | 22,128 |

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Restricted for:

| | | | |
|--|--|---------|---------|
| Permanent funds | | 18,727 | 18,727 |
| Community development | | 53,763 | 53,763 |
| Public safety grants | | 6,659 | 6,659 |
| School grants | | 5,533 | 5,533 |
| Other grants | | 10,282 | 10,282 |
| Granite State Business Park TIF District | | 610,146 | 610,146 |

Committed for:

| | | | |
|------------------|---------|---------|---------|
| Conservation | 537,244 | | 537,244 |
| Community Center | | 236,246 | 236,246 |

Assigned for:

| | | | |
|-------------------------|---------|--------|---------|
| Economic development | 102,781 | | 102,781 |
| Computer purchases | 20,000 | | 20,000 |
| Planning | | 17,847 | 17,847 |
| Food service operations | | 22,469 | 22,469 |

Unassigned (deficit):

| | | | |
|---------------------------------|----------------------|-----------------------|----------------------|
| Unassigned - General operations | 13,303,285 | | 13,303,285 |
| Capital Projects | | \$ (5,074,766) | (5,074,766) |
| | <u>\$ 14,028,188</u> | <u>\$ (5,074,766)</u> | <u>\$ 1,064,332</u> |
| | | | <u>\$ 10,017,754</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.

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, 2013

| | Budgeted Amounts | | Actual | Variance with |
|--|----------------------|----------------------|----------------------|--|
| | Original | Final | Amounts | Final Budget - Favorable (Unfavorable) |
| Revenues: | | | | |
| Taxes | \$ 51,200,687 | \$ 51,200,687 | \$ 51,595,952 | \$ 395,265 |
| Licenses and permits | 3,995,050 | 3,995,050 | 4,337,076 | 342,026 |
| Intergovernmental | 25,980,876 | 25,980,876 | 26,190,734 | 209,858 |
| Charges for services | 3,146,703 | 3,227,203 | 3,426,784 | 199,581 |
| Interest income | 45,000 | 45,000 | 81,347 | 36,347 |
| Miscellaneous | 510,063 | 540,478 | 502,965 | (37,513) |
| Total Revenues | <u>84,878,379</u> | <u>84,989,294</u> | <u>86,134,858</u> | <u>1,145,564</u> |
| Expenditures: | | | | |
| Current operations: | | | | |
| General government | 4,033,920 | 4,033,920 | 3,738,966 | 294,954 |
| Public safety | 11,255,817 | 11,336,317 | 10,962,447 | 373,870 |
| Highways and streets | 2,713,710 | 2,713,710 | 2,580,697 | 133,013 |
| Health and welfare | 426,100 | 426,100 | 363,857 | 62,243 |
| Culture and recreation | 1,713,081 | 1,713,771 | 1,661,530 | 52,241 |
| Community development | 260,163 | 260,588 | 253,577 | 7,011 |
| Education | 52,947,215 | 52,947,215 | 52,561,813 | 385,402 |
| Debt service: | | | | |
| Principal retirement | 4,616,709 | 4,616,709 | 4,602,642 | 14,067 |
| Interest and fiscal charges | 1,657,292 | 1,657,292 | 1,637,227 | 20,065 |
| Intergovernmental | 5,601,590 | 5,601,590 | 5,601,590 | - |
| Total Expenditures | <u>85,225,597</u> | <u>85,307,212</u> | <u>83,964,346</u> | <u>1,342,866</u> |
| Excess of revenues over (under) expenditures | <u>(347,218)</u> | <u>(317,918)</u> | <u>2,170,512</u> | <u>2,488,430</u> |
| Other financing sources (uses): | | | | |
| Transfers in | 294,000 | 294,000 | 293,792 | (208) |
| Transfers out | (2,125,200) | (2,164,500) | (2,381,692) | (217,192) |
| Total other financing sources (uses) | <u>(1,831,200)</u> | <u>(1,870,500)</u> | <u>(2,087,900)</u> | <u>(217,400)</u> |
| Net change in fund balance | <u>(2,178,418)</u> | <u>(2,188,418)</u> | <u>82,612</u> | <u>2,271,030</u> |
| Fund balances at beginning of year | | | | |
| - Budgetary Basis | <u>14,497,809</u> | <u>14,497,809</u> | <u>14,497,809</u> | <u>-</u> |
| Fund balances at end of year | | | | |
| - Budgetary Basis | <u>\$ 12,319,391</u> | <u>\$ 12,309,391</u> | <u>\$ 14,580,421</u> | <u>\$ 2,271,030</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, 2013

| <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> |
|----------------------------------|--|--|------------------------------------|-------------------------|----------------------------|--|
| 7/1/2012 | \$ - | \$ 11,803,851 | \$ 11,803,851 | 0.0% | N/A | N/A |
| 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% |

See accompanying notes to the required supplementary information

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2013

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. Additionally, budgetary revenues and other financing sources and expenditures and other financing uses were adjusted for non-budgetary activity, budgetary transfers out, capital lease proceeds, and bond refunding proceeds and payments as follows:

| | Revenues and Other Financing <u>Sources</u> | Expenditures and Other Financing <u>Uses</u> |
|---|--|---|
| Per Exhibit D | \$ 91,779,578 | \$ 91,664,449 |
| Difference in property taxes meeting susceptible to accrual criteria | (477,897) | |
| Non-budgetary revenues and expenditures | (606,540) | (133,554) |
| Non-budgetary transfers in and out | (100,457) | (1,028,823) |
| Budgetary transfers out | | 10,000 |
| Capital lease proceeds | (158,361) | (158,361) |
| Bond refunding proceeds and payments | (4,007,673) | (4,007,673) |
| Per Schedule 1 | <u>\$ 86,428,650</u> | <u>\$ 86,346,038</u> |

NOTE 2—BUDGETARY FUND BALANCE

The components of the budgetary fund balance for the General Fund at June 30, 2013 are as follows:

| | |
|---------------------------------|----------------------|
| <i>Nonspendable:</i> | |
| Prepaid expenses | \$ 64,878 |
| <i>Assigned for:</i> | |
| Computer purchases | 20,000 |
| <i>Unassigned:</i> | |
| Unassigned - General operations | 14,495,543 |
| | <u>\$ 14,580,421</u> |

CITY OF ROCHESTER, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
June 30, 2013

NOTE 3—SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS

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

SCHEDULE 1

CITY OF ROCHESTER, NEW HAMPSHIRE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2013

| Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number | Federal Catalogue Number | Expenditures |
|--|--------------------------------|------------------|
| DEPARTMENT OF AGRICULTURE | | |
| Pass Through Payments from the New Hampshire Department of Education | | |
| School Breakfast Program | 10.553 | \$ 188,156 |
| National School Lunch Program | 10.555 | 901,882 |
| Special Milk Program for Children | 10.556 | 802 |
| Summer Food Service Program for Children | 10.559 | 29,573 |
| Fresh Fruit and Vegetable Program | 10.582 | 84,407 |
| Total Department of Agriculture | | <u>1,204,820</u> |
| DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | |
| Received directly from U.S. Treasury Department | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | |
| #BC-11-MC-33-0004 | | 138,005 |
| #BC-12-MC-33-0004 | | 88,200 |
| | | <u>226,205</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>409</u> |
| Pass Through Payments from the Rochester Housing Authority | | |
| Public Housing Capital Fund | 14.872 | |
| #NH136P00850113 | | <u>42,179</u> |
| Total Department of Housing and Urban Development | | <u>268,793</u> |
| DEPARTMENT OF JUSTICE | | |
| Pass Through Payments from the New Hampshire Office of the Governor and Attorney General | | |
| Missing Children's Assistance | 16.543 | |
| #2012-MC-CX-K034 | | <u>1,558</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>2,721</u> |
| Received directly from U.S. Treasury Department | | |
| Bulletproof Vest Partnership Program | 16.607 | |
| #2012-BU-BX-1206-3374 | | <u>1,198</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, 2013

| <u>Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number</u> | <u>Federal Catalogue Number</u> | <u>Expenditures</u> |
|--|---|---------------------|
| DEPARTMENT OF JUSTICE (CONTINUED) | | |
| Received directly from U.S. Treasury Department | | |
| Public Safety Partnership and Community Policing Grants | 16.710 | |
| #2009-CK-WX-0093 | | 10,827 |
| #2009-CK-WX-0715 | | 26,110 |
| | | <u>36,937</u> |
| Received directly from U.S. Treasury Department | | |
| Public Safety Partnership and Community Policing Grants, Recovery Program | 16.710 | |
| #2009-RK-WX-0616 | | <u>119,804</u> |
| Pass Through Payments from the Department of Justice Through the County of Strafford, New Hampshire | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | |
| #2012-DJ-BX-0971 | | <u>12,837</u> |
| Pass Through Payments from the New Hampshire Department of Justice | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | |
| #2010-DJ-BX-0799 | | <u>30,000</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>173</u> |
| Received directly from U.S. Treasury Department | | |
| Organized Crime Drug Enforcement Task Forces | 16.NE-ME-98 | |
| #NE-ME-98 | | <u>11,000</u> |
| Total Department of Justice | | <u>216,228</u> |
| DEPARTMENT OF TRANSPORTATION | | |
| Pass Through Payments from the New Hampshire Department of Transportation | | |
| Highway Planning and Construction | 20.205 | |
| #X-A002(320), 14350 | | 869 |
| #X-A002(377), 22712 | | 41,562 |
| | | <u>42,431</u> |
| Pass Through Payments from the New Hampshire Highway Safety Agency | | |
| State and Community Highway Safety | 20.600 | |
| #314-13A-002 | | 607 |
| #315-13A-094 | | 818 |
| | | <u>1,425</u> |
| Alcohol Impaired Driving Countermeasures Incentive Grants I | 20.601 | |
| #308-13A-028 | | 997 |
| #315-13A-095 | | 1,437 |
| | | <u>2,434</u> |
| Total Department of Transportation | | <u>46,290</u> |

See notes to schedule of expenditures of federal awards

SCHEDULE 1

CITY OF ROCHESTER, NEW HAMPSHIRE**Schedule of Expenditures of Federal Awards (Continued)**

For the Year Ended June 30, 2013

| Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number | Federal Catalogue Number | Expenditures |
|--|--------------------------------|--|
| ENVIRONMENTAL PROTECTION AGENCY | | |
| Pass Through Payments from the New Hampshire Department of Environmental Services | | |
| Congressionally Mandated Projects #EM-971653-01 | 66.202 | 31,171 |
| Capitalization Grants for Clean Water State Revolving Funds #CS-330122-12 | 66.458 | 2,328 |
| Capitalization Grants for Clean Water State Revolving Funds - ARRA #CS-333122-10/10B | 66.458 | 275,468 |
| Capitalization Grants for Drinking Water State Revolving Funds - ARRA #2001010-08 | 66.468 | 120,129 |
| Total Environmental Protection Agency | | 429,096 |
| DEPARTMENT OF EDUCATION | | |
| Pass Through Payments from the New Hampshire Department of Education | | |
| Adult Education - Basic Grants to States #37307 | 84.002 | 20,405 |
| Title I Grants to Local Educational Agencies #20123 #20287 #20289 #30123 #30291 #31518 #32695 | 84.010 | 156,649 12,490 41 1,174,806 9,598 6,786 8,200 1,368,570 |
| Special Education - Grants to States #22557 #32511 | 84.027 | 5,126 996,684 1,001,810 |
| Career and Technical Education - Basic Grants to States #25032 #35032 | 84.048 | 1,972 129,641 131,613 |
| Special Education - Preschool Grants #22557 #32511 | 84.173 | 249 38,947 39,196 |
| Education for Homeless Children and Youth #20702 #30702 | 84.196 | 2,674 83,407 86,081 |

See notes to schedule of expenditures of federal awards

SCHEDULE 1

CITY OF ROCHESTER, NEW HAMPSHIRE

Schedule of Expenditures of Federal Awards (Continued)

For the Year Ended June 30, 2013

| Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number | Federal Catalogue Number | Expenditures |
|--|--------------------------------|---------------------|
| DEPARTMENT OF EDUCATION (CONTINUED) | | |
| English Language Acquisition State Grants | 84.365 | |
| #10807 | | 4,433 |
| #20807 | | 3,632 |
| | | <u>8,065</u> |
| Mathematics and Science Partnerships | 84.366 | |
| #25192 | | 184,517 |
| #35192 | | 233,956 |
| | | <u>418,473</u> |
| Improving Teacher Quality State Grants | 84.367 | |
| #14922 | | 4,000 |
| #24922 | | 65,115 |
| #34922 | | 187,494 |
| | | <u>256,609</u> |
| Total Department of Education | | <u>3,330,822</u> |
| DEPARTMENT OF HOMELAND SECURITY | | |
| Pass Through Payments from the New Hampshire Department of Homeland Security and Emergency Management | | |
| Emergency Management Performance Grants | 97.042 | |
| #2011-EP-00023-S01 | | 29,256 |
| #23EM118092 | | 4,325 |
| | | <u>33,581</u> |
| Received directly from U.S. Treasury Department | | |
| Assistance to Firefighters Grant | 97.044 | |
| #EMW-2012-FO-02361 | | 97,658 |
| Pass Through Payments from the New Hampshire Department of Homeland Security and Emergency Management | | |
| Homeland Security Grant Program | 97.067 | |
| #2007-GE-T7-0053 | | 1,832 |
| #2009-GE-T9-0078 | | 73,154 |
| | | <u>74,986</u> |
| Total Department of Homeland Security | | <u>206,225</u> |
| Total Expenditures of Federal Awards | | <u>\$ 5,702,274</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, 2013

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, \$95,468 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 and capital contributions in the proprietary funds as follows:

| | |
|-----------------------------|---------------------|
| Major Governmental Fund: | |
| Capital Projects Fund | \$ 42,430 |
| Nonmajor Governmental Funds | 5,135,280 |
| Major Proprietary Fund: | |
| Sewer Fund | <u>31,171</u> |
| | <u>\$ 5,208,881</u> |

The recognition of expenditures of federal awards in the amounts of \$275,468 and \$120,129 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 \$1,102,500 and \$230,000, respectively, or 50% of aggregate disbursements, whichever is less, will be forgiven at the time of the initial loan repayment.

Additionally, the recognition of expenditures of federal awards in the amount of \$2,328 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 \$136,250 or 25% of aggregate disbursements, whichever is less, will be forgiven at the time of the initial loan repayment.

**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**

Independent Auditor's Report

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

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the City of Rochester, New Hampshire's basic financial statements, and have issued our report thereon dated January 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Rochester, New Hampshire's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Rochester, New Hampshire's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

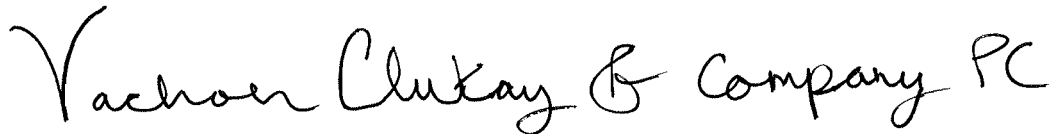
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rochester, New Hampshire's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vachon Clukay & Company PC". The signature is written in a cursive, flowing style.

Manchester, New Hampshire
January 31, 2014

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Rochester, New Hampshire's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Rochester, New Hampshire's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Rochester, New Hampshire complied, in all material respects, with the types of 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, 2013.

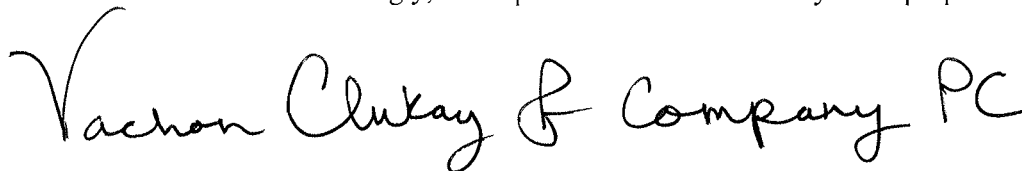
Report on Internal Control Over Compliance

Management of the City of Rochester, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Rochester, New Hampshire's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vachon Chukay & Company PC". The signature is written in a cursive, flowing style.

Manchester, New Hampshire
January 31, 2014

**City of Rochester, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified--all reporting units
 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: Unmodified

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:

| CFDA Number(s) | Name of Federal Program or Cluster |
|-----------------------|--|
| 16.710 | Public Safety Partnership and Community Policing Grants |
| 66.458 | Capitalization Grants for Clean Water State Revolving Funds |
| 66.468 | Capitalization Grants for Drinking Water State Revolving Funds |
| 84.010 | Title I Grants to Local Educational Agencies |

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

Auditee qualified as low-risk auditee? Xyes _____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).

Required Communications to Those Charged with Governance

| Requirements | Response |
|--|--|
| <p>The level of responsibility we assume in an audit.</p> <p>In addition to the above:</p> <p>GAGAS (Single Audit requirement)</p> | <p>Performing the audit in accordance with auditing standards generally accepted in the United States of America.</p> <p>Expressing opinions as to the fairness with which the City's financial statements are presented in all material respects in conformity with accounting principles generally accepted in the United States of America.</p> <p>We considered the internal controls developed by the City.</p> <p>We considered the internal control over compliance with the requirements that could have a direct material effect on a major program in order to determine our audit procedures and to test the internal control over compliance. We used applicable compliance supplements to make the above determination.</p> |
| <p>Management is responsible for the selection and use of appropriate accounting policies. We discussed our judgments about the quality of accounting principles selected, the consistence in their application and the clarity in presentation including judgments and uncertainties.</p> | <p>These are described in Note 1 of the financial statements.</p> |
| <p>Changes in existing accounting policies and/or the adoption of new policies.</p> | <p>During the year ended June 30, 2013, the City adopted and implemented the following Governmental Accounting Standards Board Statements:</p> <p><i>GASB #63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position</i></p> <p><i>GASB #65 - Items Previously Reported as Assets and Liabilities</i></p> |
| <p>Transactions identified with lack of authoritative guidance or consent and related alternative treatments discussed with management.</p> | <p>Nothing came to our attention.</p> |
| <p>Transactions were recorded in the proper accounting period.</p> | <p>Nothing came to our attention.</p> |

City of Rochester, New Hampshire
For the Year Ended June 30, 2013

Required Communications to Those Charged with Governance (Continued)

| | |
|--|---|
| Significant accounting estimates that are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. | Overall we believe management's estimations process to be appropriate and conservative. |
| Certain financial statement disclosures are particularly sensitive to financial statement users. Significant disclosures not made are: | Nothing came to our attention. |
| We performed the audit according to planned scope and timing previously communicated to you. | Engagement letter dated October 18, 2013. |
| Significant audit adjustments. | None. |
| Uncorrected misstatements as part of the audit. | None. |
| Material weaknesses or significant deficiencies in internal controls noted during the audit. | Nothing came to our attention. |
| The nature of significant disagreements with management on financial accounting matters or auditing procedures. | Nothing came to our attention. |
| Any difficulties encountered in dealing with management that affected the performance of the audit. | Management has been extremely cooperative throughout the audit. |
| Formal opinions management obtained from other independent accountants on significant accounting issues. | Management did not make us aware of any. |
| Major accounting or auditing issues discussed with management prior to being retained as auditors. | None. |
| We obtained certain representations from management which we consider to be additions to our standard letter; these are: | None. |
| Fraud involving management that caused a material misstatement to the financial statements. | Nothing came to our attention. |
| Independence issues. | We are not aware of any instances that we believe would impact our independence. |