

CITY OF ROCHESTER, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2014

City of Rochester, New Hampshire

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INDEPENDENT AUDITORS' REPORT

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

Additional Offices:

Nashua, NH
Andover, MA
Greenfield, MA
Ellsworth, ME

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, as of and for the year ended June 30, 2014, 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

The City's 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 opin-

ion 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund 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 Management's Discussion and Analysis and Schedule of Funding Progress 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 evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and

compliance and the results of that testing, and not to provide an opinion on 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's internal control over financial reporting and compliance.

Melanson Heath

January 22, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Rochester, we offer readers this narrative overview and analysis of the financial activities of the City of Rochester for the fiscal year ended June 30, 2014.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, education, health and welfare, culture and recreation, community development, community services, and conservation. The business-type activities include water, sewer and arena activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water, sewer and arena operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, and arena operations. The City's major proprietary funds consist of the water and sewer funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$131,277,845 (i.e., net position), a change of \$5,185,965 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$5,802,425, a change of \$(5,149,909) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$12,623,318, a change of \$(679,967) in comparison to the prior year.
- Bonds payable at the close of the current fiscal year was \$63,977,044, a change of \$(6,538,342) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current fiscal year.

	<u>NET POSITION</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and other assets	\$ 38,611,089	\$ 5,835,931	\$ 44,447,020
Capital assets	108,246,702	81,967,022	190,213,724
Deferred outflows	<u>270,463</u>	<u>-</u>	<u>270,463</u>
Total assets and deferred outflows of resources	147,128,254	87,802,953	234,931,207
Current liabilities	12,538,732	4,086,167	16,624,899
Noncurrent liabilities	37,151,087	26,746,068	63,897,155
Deferred inflows	<u>22,799,666</u>	<u>331,642</u>	<u>23,131,308</u>
Total liabilities and deferred inflows of resources	72,489,485	31,163,877	103,653,362
Net position:			
Net investment in capital assets	63,457,651	46,946,106	110,403,757
Restricted	1,124,492	-	1,124,492
Unrestricted	<u>10,056,626</u>	<u>9,692,970</u>	<u>19,749,596</u>
Total net position	<u>\$ 74,638,769</u>	<u>\$ 56,639,076</u>	<u>\$ 131,277,845</u>

CHANGES IN NET POSITION

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 4,188,794	\$ 8,027,541	\$ 12,216,335
Operating grants and contributions	34,534,764	10,000	34,544,764
Capital grants and contributions	744,631	2,314,601	3,059,232
General revenues:			
Property taxes	43,601,694	-	43,601,694
Licenses and permits	4,303,086	117,926	4,421,012
Penalties and interest on taxes	1,368,044	19,045	1,387,089
Grants and contributions not restricted to specific programs	1,850,836	-	1,850,836
Investment income	77,623	5,500	83,123
Other	3,090,456	322,659	3,413,115
Total revenues	93,759,928	10,817,272	104,577,200
Expenses:			
General government	4,859,412	-	4,859,412
Public safety	12,636,283	-	12,636,283
Highway and streets	6,098,696	-	6,098,696
Education	62,643,154	-	62,643,154
Health and welfare	379,774	-	379,774
Culture and recreation	1,818,822	-	1,818,822
Community development	429,756	-	429,756
Community services	706,519	-	706,519
Conservation	11,942	-	11,942
Interest on long-term debt	1,796,177	-	1,796,177
Water	-	3,659,247	3,659,247
Sewer	-	3,916,358	3,916,358
Nonmajor enterprise	-	435,095	435,095
Total expenses	91,380,535	8,010,700	99,391,235
Change in net position before transfers	2,379,393	2,806,572	5,185,965
Transfers in (out)	(579,148)	579,148	-
Change in net position	1,800,245	3,385,720	5,185,965
Net position - beginning of year (as restated)	72,838,524	53,253,356	126,091,880
Net position - end of year	\$ 74,638,769	\$ 56,639,076	\$ 131,277,845

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$131,277,845, a change of \$5,185,965 from the prior year.

The largest portion of net position \$110,403,757 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$1,124,492 represents resources that are subject to external restrictions on how they may be used. In theory, the remaining balance of unrestricted net position \$19,749,596, may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$1,800,245. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (1,712,210)
Capital projects fund activity on accrual basis	3,185,051
Nonmajor fund activity	63,996
Depreciation, which is not budgeted or funded, over principal maturities, a budgeted expense	(1,357,116)
Other	<u>1,620,524</u>
Total	<u>\$ 1,800,245</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$3,385,720. Key elements of this change are as follows:

Water operations	\$ 166,923
Sewer operations	3,250,578
Nonmajor enterprise operations	<u>(31,781)</u>
Total	<u>\$ 3,385,720</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$5,802,425, a change of \$(5,149,909) in comparison to the prior year. Key elements of this change are as follows:

General fund operations	\$ (1,712,210)
Capital projects fund activity	(3,501,695)
Nonmajor fund activity	<u>63,996</u>
Total	<u>\$ (5,149,909)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$12,623,318, while total fund balance was \$13,242,936. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 12,623,318	\$ 13,303,285	\$ (679,967)	15.3%
Total fund balance	\$ 13,242,936	\$ 14,955,146	\$ (1,712,210)	16.1%

The total fund balance of the general fund changed by \$(1,712,210) during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 991,389
Expenditures less than budget	841,586
Use of fund balance as a funding source	(3,508,970)
Other timing issues	<u>(36,215)</u>
Total	<u>\$ (1,712,210)</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$9,692,970.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriation of \$3,821,506. Major reasons for these amendments include:

- \$583,018 – City resolution to use unassigned fund balance to transfer monies to the sewer capital projects.
- \$100,385 – City received LGC insurance refunds. Proceeds were used to reimburse certain school department employees.
- \$1,210,684 – City resolution to use unassigned fund balance to transfer monies to the capital projects fund for school security and safety improvements.
- \$700,000 – City received LGC insurance refunds. Proceeds were used for special education tuition costs.
- \$270,000 – City resolution to use unanticipated revenues from Medicaid and tuition reimbursements to pay unanticipated tuition costs for special education services.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$190,213,724 (net of accumulated depreciation), a change of \$2,077,846 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

Governmental Activities:

Conversion of Construction in Progress to

Depreciable Asset:

Granite State Business Park	\$ 3,976,682
Pavement Rehab program	\$ 836,947
Drainage Improvement	\$ 800,000
Pine St Reconstruction	\$ 620,538

Business-type Activities:

Conversion of Construction in Progress to

Depreciable Asset:

Groundwater	\$ 3,097,029
Alum Sludge Management	\$ 923,459
Washington Street	\$ 1,983,216
Rochester Hill Water Tower	\$ 591,650
Spaulding TP Utility Relocation	\$ 441,867
Granite State Business Park	\$ 429,794

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$63,977,044, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Rochester's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City Finance Office
City of Rochester
31 Wakefield Street
Rochester, New Hampshire 03867

CITY OF ROCHESTER, NEW HAMPSHIRE

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 33,788,080	\$ -	\$ 33,788,080
Investments	5,569	-	5,569
Receivables, net of allowance for uncollectibles:			
Property taxes	15,809	-	15,809
User fees	1,802,717	1,897,609	3,700,326
Intergovernmental	-	412,292	412,292
Other assets	68,477	432,376	500,853
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	2,930,437	-	2,930,437
Intergovernmental	-	3,093,654	3,093,654
Capital Assets:			
Land and construction in progress	16,114,180	9,953,992	26,068,172
Other assets, net of accumulated depreciation	92,132,522	72,013,030	164,145,552
DEFERRED OUTFLOWS OF RESOURCES	<u>270,463</u>	<u>-</u>	<u>270,463</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	147,128,254	87,802,953	234,931,207
LIABILITIES			
Current:			
Accounts payable	2,436,963	321,465	2,758,428
Accrued liabilities	4,674,452	662,423	5,336,875
Internal balances	102,740	(44,358)	58,382
Tax refunds payable	150,726	-	150,726
Other liabilities	33,354	48,083	81,437
Notes payable	-	186,069	186,069
Current portion of long-term liabilities:			
Bonds payable	4,767,504	2,789,453	7,556,957
Bond premium	42,951	109,963	152,914
Capital lease payable	127,694	-	127,694
Compensated absences	202,348	12,877	215,225
Noncurrent:			
Bonds payable, net of current portion	30,591,169	25,828,918	56,420,087
Bond premium, net of current portion	279,293	356,348	635,641
Capital lease payable, net of current portion	403,979	-	403,979
Compensated absences, net of current portion	1,821,128	115,898	1,937,026
Other post employment benefits liability	4,055,518	444,904	4,500,422
DEFERRED INFLOWS OF RESOURCES	<u>22,799,666</u>	<u>331,834</u>	<u>23,131,500</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	72,489,485	31,163,877	103,653,362
NET POSITION			
Net investment in capital assets	63,457,651	46,946,106	110,403,757
Restricted for:			
Grants and other statutory restrictions	1,045,233	-	1,045,233
Permanent funds:			
Nonexpendable	43,866	-	43,866
Expendable	35,393	-	35,393
Unrestricted	<u>10,056,626</u>	<u>9,692,970</u>	<u>19,749,596</u>
TOTAL NET POSITION	<u>\$ 74,638,769</u>	<u>\$ 56,639,076</u>	<u>\$ 131,277,845</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 4,859,412	\$ 47,231	\$ -	\$ 255,664	\$ (4,556,517)	\$ -	\$ (4,556,517)
Public safety	12,636,283	312,630	79,675	12,519	(12,231,459)	-	(12,231,459)
Highway and streets	6,098,696	29,997	-	476,448	(5,592,251)	-	(5,592,251)
Education	62,643,154	2,941,177	34,163,306	-	(25,538,671)	-	(25,538,671)
Health and welfare	379,774	-	-	-	(379,774)	-	(379,774)
Culture and recreation	1,818,822	151,030	-	-	(1,667,792)	-	(1,667,792)
Community development	429,756	-	291,783	-	(137,973)	-	(137,973)
Community services	706,519	706,729	-	-	210	-	210
Conservation	11,942	-	-	-	(11,942)	-	(11,942)
Interest	1,796,177	-	-	-	(1,796,177)	-	(1,796,177)
Total Governmental Activities	91,380,535	4,188,794	34,534,764	744,631	(51,912,346)	-	(51,912,346)
Business-Type Activities:							
Water operations	3,659,247	3,363,779	-	389,407	-	93,939	93,939
Sewer operations	3,916,358	4,285,141	-	1,925,194	-	2,293,977	2,293,977
Nonmajor enterprise fund operations	435,095	378,621	10,000	-	-	(46,474)	(46,474)
Total Business-Type Activities	8,010,700	8,027,541	10,000	2,314,601	-	2,341,442	2,341,442
Total	\$ 99,391,235	\$ 12,216,335	\$ 34,544,764	\$ 3,059,232	(51,912,346)	2,341,442	(49,570,904)
General Revenues and Transfers:							
Property taxes					43,601,694	-	43,601,694
Licenses and permits					4,303,086	117,926	4,421,012
Penalties, interest, and other taxes					1,368,044	19,045	1,387,089
Grants and contributions not restricted to specific programs					1,850,836	-	1,850,836
Investment income					77,623	5,500	83,123
Miscellaneous					3,090,456	322,659	3,413,115
Transfers, net					(579,148)	579,148	-
Total general revenues and transfers					53,712,591	1,044,278	54,756,869
Change in Net Position					1,800,245	3,385,720	5,185,965
Net Position:							
Beginning of year, as restated					72,838,524	53,253,356	126,091,880
End of year					\$ 74,638,769	\$ 56,639,076	\$ 131,277,845

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 33,616,965	\$ -	\$ 171,115	\$ 33,788,080
Investments	-	-	5,569	5,569
Receivables:				
Property taxes	3,957,626	-	-	3,957,626
User fees	363,299	52,710	1,386,708	1,802,717
Due from other funds	11,604,840	-	994,472	12,599,312
Other assets	<u>50,159</u>	<u>-</u>	<u>18,318</u>	<u>68,477</u>
TOTAL ASSETS	<u>\$ 49,592,889</u>	<u>\$ 52,710</u>	<u>\$ 2,576,182</u>	<u>\$ 52,221,781</u>
LIABILITIES				
Accounts payable	\$ 1,262,082	\$ 1,021,609	\$ 153,272	\$ 2,436,963
Accrued liabilities	4,028,133	138,156	7,783	4,174,072
Tax refunds payable	150,726	-	-	150,726
Due to other funds	4,218,376	7,469,406	1,014,270	12,702,052
Other liabilities	<u>33,354</u>	<u>-</u>	<u>-</u>	<u>33,354</u>
TOTAL LIABILITIES	9,692,671	8,629,171	1,175,325	19,497,167
DEFERRED INFLOWS OF RESOURCES	26,657,282	-	264,907	26,922,189
FUND BALANCES				
Nonspendable	50,159	-	43,866	94,025
Restricted	549,459	-	1,092,084	1,641,543
Assigned	20,000	-	-	20,000
Unassigned	<u>12,623,318</u>	<u>(8,576,461)</u>	<u>-</u>	<u>4,046,857</u>
TOTAL FUND BALANCES	<u>13,242,936</u>	<u>(8,576,461)</u>	<u>1,135,950</u>	<u>5,802,425</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 49,592,889</u>	<u>\$ 52,710</u>	<u>\$ 2,576,182</u>	<u>\$ 52,221,781</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total governmental fund balances	\$ 5,802,425
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	108,246,702
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	3,111,143
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(229,917)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(42,291,584)</u>
Net position of governmental activities	<u><u>\$ 74,638,769</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 41,682,809	\$ -	\$ -	\$ 41,682,809
Penalties, interest, and other taxes	1,368,044	-	-	1,368,044
Charges for services	2,798,327	-	1,390,467	4,188,794
Intergovernmental	29,868,952	383,114	4,678,331	34,930,397
Licenses and permits	4,303,086	-	-	4,303,086
Investment income	64,538	-	13,085	77,623
Miscellaneous	1,850,836	-	23,135	1,873,971
Contributions	<u>2,442,533</u>	<u>585,125</u>	<u>-</u>	<u>3,027,658</u>
Total Revenues	84,379,125	968,239	6,105,018	91,452,382
Expenditures:				
Current:				
General government	4,134,800	648,642	904	4,784,346
Public safety	11,690,009	614,093	90,871	12,394,973
Highway and streets	2,716,910	3,578,331	-	6,295,241
Education	55,021,335	922,805	5,294,031	61,238,171
Health and welfare	377,859	-	-	377,859
Culture and recreation	1,752,981	25,000	-	1,777,981
Community development	158,840	-	264,588	423,428
Community services	-	-	667,335	667,335
Conservation	11,942	-	-	11,942
Debt service	6,513,641	-	-	6,513,641
Capital outlay	<u>-</u>	<u>1,520,968</u>	<u>17,258</u>	<u>1,538,226</u>
Total Expenditures	<u>82,378,317</u>	<u>7,309,839</u>	<u>6,334,987</u>	<u>96,023,143</u>
Excess (deficiency) of revenues over expenditures	2,000,808	(6,341,600)	(229,969)	(4,570,761)
Other Financing Sources (Uses):				
Transfers in	1,308,502	4,207,216	293,965	5,809,683
Transfers out	<u>(5,021,520)</u>	<u>(1,367,311)</u>	<u>-</u>	<u>(6,388,831)</u>
Total Other Financing Sources (Uses)	<u>(3,713,018)</u>	<u>2,839,905</u>	<u>293,965</u>	<u>(579,148)</u>
Change in fund balance	(1,712,210)	(3,501,695)	63,996	(5,149,909)
Fund Equity, at Beginning of Year, as restated	<u>14,955,146</u>	<u>(5,074,766)</u>	<u>1,071,954</u>	<u>10,952,334</u>
Fund Equity, at End of Year	<u>\$ 13,242,936</u>	<u>\$ (8,576,461)</u>	<u>\$ 1,135,950</u>	<u>\$ 5,802,425</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE
RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

Net changes in fund balances - total governmental funds \$ (5,149,909)

- 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 and reported as depreciation expense:

Capital outlay purchases, net 6,686,746

Depreciation (6,146,912)

- Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., property taxes, etc.) differ between the two statements. This amount represents the net change in deferred revenue.

1,918,885

- The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:

Issuance of debt (375,148)

Repayments of debt on bonds payable 4,789,796

Repayments of debt on capital leases 137,076

Current year amortization of bond premium 39,661

Current year amortization of loss on refunding (45,395)

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.

(82,173)

- Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

27,618

Change in net position of governmental activities **\$ 1,800,245**

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Positive (Negative)</u>
Revenues and Other Sources:				
Taxes	\$ 41,561,852	\$ 41,561,852	\$ 41,561,852	\$ -
Penalties, interest, and other taxes	1,135,572	1,138,368	1,368,044	229,676
Charges for services	3,060,820	2,863,003	2,798,327	(64,676)
Intergovernmental	31,227,602	31,694,105	31,719,788	25,683
Licenses and permits	3,893,975	3,918,975	4,303,086	384,111
Investment income	55,000	55,000	64,538	9,538
Miscellaneous	950,290	1,974,762	2,407,533	432,771
Transfers in	404,000	1,104,000	1,078,286	(25,714)
Use of fund balance	<u>1,708,418</u>	<u>3,508,970</u>	<u>3,508,970</u>	<u>-</u>
Total Revenues and Other Sources	83,997,529	87,819,035	88,810,424	991,389
Expenditures and Other Uses:				
General government	4,308,539	4,252,092	4,127,611	124,481
Public safety	12,022,686	12,057,241	11,667,347	389,894
Highway and streets	2,703,287	2,727,969	2,695,701	32,268
Education	54,079,588	55,093,891	55,021,335	72,556
Health and welfare	449,080	449,230	372,371	76,859
Culture and recreation	1,738,975	1,732,034	1,742,923	(10,889)
Debt service	6,714,361	6,670,058	6,513,641	156,417
Transfers out	<u>1,981,013</u>	<u>4,836,520</u>	<u>4,836,520</u>	<u>-</u>
Total Expenditures and Other Uses	<u>83,997,529</u>	<u>87,819,035</u>	<u>86,977,449</u>	<u>841,586</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,832,975</u>	\$ <u>1,832,975</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total
ASSETS				
Current:				
Due from other funds	\$ -	\$ 2,623,008	\$ 46,230	\$ 2,669,238
User fees, net of allowance for uncollectibles	850,651	1,046,950	8	1,897,609
Intergovernmental receivables	53,401	358,891	-	412,292
Other assets	<u>389,984</u>	<u>42,392</u>	<u>-</u>	<u>432,376</u>
Total current assets	1,294,036	4,071,241	46,238	5,411,515
Noncurrent:				
Intergovernmental receivables	-	3,093,654	-	3,093,654
Capital Assets:				
Land and construction in progress	4,845,746	4,895,923	212,323	9,953,992
Other assets, net of accumulated depreciation	<u>28,817,414</u>	<u>42,105,269</u>	<u>1,090,347</u>	<u>72,013,030</u>
Total noncurrent assets	<u>33,663,160</u>	<u>50,094,846</u>	<u>1,302,670</u>	<u>85,060,676</u>
TOTAL ASSETS	34,957,196	54,166,087	1,348,908	90,472,191
LIABILITIES				
Current:				
Accounts payable	115,085	190,597	15,783	321,465
Accrued liabilities	323,539	323,683	15,201	662,423
Due to other funds	2,403,884	-	220,996	2,624,880
Other current liabilities	-	48,083	-	48,083
Notes payable	176,239	9,830	-	186,069
Current portion of long-term liabilities:				
Bonds payable	1,024,924	1,685,030	79,499	2,789,453
Bond premium	2,815	106,373	775	109,963
Compensated absences	<u>4,921</u>	<u>6,786</u>	<u>1,170</u>	<u>12,877</u>
Total current liabilities	4,051,407	2,370,382	333,424	6,755,213
Noncurrent:				
Bonds payable, net of current portion	11,613,626	13,531,544	683,748	25,828,918
Bond premium, net of current portion	20,958	327,970	7,420	356,348
Compensated absences, net of current portion	44,290	61,076	10,532	115,898
OPEB liability	<u>208,901</u>	<u>207,842</u>	<u>28,161</u>	<u>444,904</u>
Total noncurrent liabilities	<u>11,887,775</u>	<u>14,128,432</u>	<u>729,861</u>	<u>26,746,068</u>
DEFERRED INFLOWS OF RESOURCES	-	331,834	-	331,834
TOTAL LIABILITIES AND DEFERRED OUTFLOWS OF RESOURCES	15,939,182	16,830,648	1,063,285	33,833,115
NET POSITION				
Net investment in capital assets	14,846,445	31,534,713	564,948	46,946,106
Unrestricted	<u>4,171,569</u>	<u>5,800,726</u>	<u>(279,325)</u>	<u>9,692,970</u>
TOTAL NET POSITION	<u>\$ 19,018,014</u>	<u>\$ 37,335,439</u>	<u>\$ 285,623</u>	<u>\$ 56,639,076</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total
Operating Revenues:				
Charges for services	\$ 3,363,779	\$ 4,285,141	\$ 378,621	\$ 8,027,541
Other	<u>72,419</u>	<u>373,018</u>	<u>14,193</u>	<u>459,630</u>
Total Operating Revenues	3,436,198	4,658,159	392,814	8,487,171
Operating Expenses:				
Operating expenses	1,978,227	2,166,514	340,336	4,485,077
Depreciation	<u>1,164,750</u>	<u>1,163,258</u>	<u>64,026</u>	<u>2,392,034</u>
Total Operating Expenses	<u>3,142,977</u>	<u>3,329,772</u>	<u>404,362</u>	<u>6,877,111</u>
Operating Income (Loss)	293,221	1,328,387	(11,548)	1,610,060
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	389,407	1,925,194	10,000	2,324,601
Investment income	2,500	2,500	500	5,500
Interest expense	<u>(516,270)</u>	<u>(586,586)</u>	<u>(30,733)</u>	<u>(1,133,589)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(124,363)</u>	<u>1,341,108</u>	<u>(20,233)</u>	<u>1,196,512</u>
Income (Loss) Before Transfers	168,858	2,669,495	(31,781)	2,806,572
Transfers:				
Transfers in	-	583,018	-	583,018
Transfers out	<u>(1,935)</u>	<u>(1,935)</u>	<u>-</u>	<u>(3,870)</u>
Change in Net Position	166,923	3,250,578	(31,781)	3,385,720
Net Position at Beginning of Year	<u>18,851,091</u>	<u>34,084,861</u>	<u>317,404</u>	<u>53,253,356</u>
Net Position at End of Year	<u>\$ 19,018,014</u>	<u>\$ 37,335,439</u>	<u>\$ 285,623</u>	<u>\$ 56,639,076</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 3,634,622	\$ 5,183,789	\$ 393,281	\$ 9,211,692
Payments to vendors and employees	(1,965,699)	(2,037,955)	(329,647)	(4,333,301)
Other	114,127	(18,783)	-	95,344
Net Cash Provided By (Used For) Operating Activities	1,783,050	3,127,051	63,634	4,973,735
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfers in	-	583,018	-	583,018
Transfers out	(1,935)	(1,935)	-	(3,870)
Interfund borrowing	1,548,236	40,677	145,827	1,734,740
Net Cash (Used For) Noncapital Financing Activities	1,546,301	621,760	145,827	2,313,888
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(1,944,100)	(1,877,011)	(108,932)	(3,930,043)
Principal payments on bonds	(1,231,260)	(2,129,412)	(88,491)	(3,449,163)
Bond issued in current period	388,147	937,322	-	1,325,469
SRF loan converted to long term bond	(388,147)	(928,964)	-	(1,317,111)
Bond premium proceeds	23,773	65,083	8,195	97,051
Interest expense	(516,270)	(586,586)	(30,733)	(1,133,589)
Intergovernmental revenue	336,006	768,257	10,000	1,114,263
Net Cash (Used For) Capital and Related Financing Activities	(3,331,851)	(3,751,311)	(209,961)	(7,293,123)
<u>Cash Flows From Investing Activities:</u>				
Investment income	2,500	2,500	500	5,500
Net Cash Provided by Investing Activities	2,500	2,500	500	5,500
Net Change in Cash and Short-Term Investments	-	-	-	-
Cash and Short-Term Investments, Beginning of Year	-	-	-	-
Cash and Short-Term Investments, End of Year	\$ -	\$ -	\$ -	\$ -
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ 293,221	\$ 1,328,387	\$ (11,548)	\$ 1,610,060
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,164,750	1,163,258	64,026	2,392,034
Changes in assets and liabilities:				
User fees	198,424	525,629	464	724,517
Other assets	(36,178)	11,383	-	(24,795)
Accounts payable	(60,125)	(11,154)	6,374	(64,905)
Accrued liabilities	145,997	10,408	(11,620)	144,785
Compensated absences	45,385	60,523	10,177	116,085
OPEB liability	31,576	38,617	5,761	75,954
Net Cash Provided By (Used For) Operating Activities	\$ 1,783,050	\$ 3,127,051	\$ 63,634	\$ 4,973,735

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 137,775	\$ 357,287
Investments	2,048,539	-
Due from other funds	<u>-</u>	<u>58,382</u>
Total Assets	2,186,314	415,669
<u>LIABILITIES AND NET POSITION</u>		
Other liabilities	<u>-</u>	<u>415,669</u>
Total Liabilities	<u>-</u>	<u>415,669</u>
<u>NET POSITION</u>		
Total net position held in trust	\$ <u><u>2,186,314</u></u>	\$ <u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Private Purpose Trust Funds</u>
Additions:	
Miscellaneous revenue	\$ 48,807
Increase in fair value of investments	<u>284,464</u>
Total additions	333,271
Deductions:	
Other	<u>100,211</u>
Total deductions	<u>100,211</u>
Net increase	233,060
Net position:	
Beginning of year	<u>1,953,254</u>
End of year	<u><u>\$ 2,186,314</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF ROCHESTER, NEW HAMPSHIRE

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the City of Rochester, New Hampshire (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The City is a municipal corporation governed by a City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2014, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, 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, vehicles, and equipment for the City.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

- The *Water Fund* accounts for services relating to water activities.
- The *Sewer Fund* accounts for services relating to sewer activities.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guar-

anteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due from/to other funds” (i.e., the current portion of interfund loans).

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10 – 20
Building and improvements	5 – 100
Infrastructure	10 – 50
Vehicles and equipment	5 – 50

H. Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental

funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities/deferred inflows. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City’s fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., City Council).
- 4) Assigned funds are used for specific purposes as established by management.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the City uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing 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 the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. **Stewardship, Compliance, and Accountability**

A. Budgetary Information

The City Manager presents an operating and capital budget for the proposed expenditures of the year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the year at City Council meetings as required by changing conditions. Departments are limited to the line item as voted. Formal budgetary integration is employed as a management control device during the year for the General Fund. At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 84,379,125	\$ 82,378,317
Other financing sources/uses (GAAP basis)	<u>1,308,502</u>	<u>5,021,520</u>
Subtotal (GAAP Basis)	85,687,627	87,399,837
Adjust tax revenue to accrual basis	(120,957)	-
Recognize use of fund balance as funding source	3,508,970	-
To eliminate conservation activity	(37,705)	(196,942)
To eliminate economic development activity	(227,511)	(158,840)
To record other GAAP timing differences	<u>-</u>	<u>(66,606)</u>
Budgetary basis	<u>\$ 88,810,424</u>	<u>\$ 86,977,449</u>

D. Deficit Fund Equity

The following funds reflected deficit balances as of June 30, 2014:

Capital Projects Fund - various projects	\$ <u>(8,576,461)</u>
	\$ <u>(8,576,461)</u>

The deficits in these funds will be eliminated through future departmental revenues, bonds proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty (e.g., broker-dealer) 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.

Pursuant to NH Statute, "the treasurer shall insure that prior to acceptance of any moneys for deposit or investment, including repurchase agreements, the federally insured bank shall make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the City." The City does not have a deposit policy for custodial credit risk.

The underlying securities of the City's deposit in repurchase agreements of \$1,000,688 are held by the investment's counterparty, not in the name of the City.

As of June 30, 2014, \$195,713 of the City's bank balance of \$34,813,873 was exposed to custodial credit risk as uninsured or uncollateralized. This amount represents the cash portion of investment accounts in the custody of the Trustees of Trust Funds.

4. **Investments**

A. **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. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Presented below is the actual rating as of year-end for each investment of the City:

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End					Not Rated
				Aaa	Aa	A	Baa		
U.S. Treasury notes	\$ 61,781	N/A	\$ -	\$ 61,781	\$ -	\$ -	\$ -	\$ -	-
Corporate bonds	362,619		-	-	33,342	253,976	60,165		15,136
Corporate equities	1,149,456	N/A	1,149,456	-	-	-	-		-
Mutual funds	389,143	N/A	389,143	-	-	-	-		-
Federal agency securities	48,161		-	40,343	-	-	-		7,818
Municipal obligations	42,948		-	-	42,948	-	-		-
Total investments	\$ 2,054,108		\$ 1,538,599	\$ 102,124	\$ 76,290	\$ 253,976	\$ 60,165		\$ 22,954

B. **Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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. The City does not have policies for custodial credit risk.

The City's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the City's brokerage firm, which is also the Counterparty to these securities. The City manages this custodial credit risk with SIPC and excess SIPC.

C. **Concentration of Credit Risk**

The City does not have an investment in one issuer greater than 5% of total investments.

D. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. Although the City has an investment policy, it does not address foreign currency risk.

5. Taxes Receivable

The City bills property taxes on a semi-annual basis and they are due in July and December. Property tax revenues are recognized in the year for which taxes have been levied to the extent that they become available, i.e., due or receivable, within the current year and collected within the current period or within 60 days of year end.

Property taxes collected before the due date, and in advance of the year for which they are levied, are recorded as a prepaid tax liability as they are intended to finance the subsequent year's budget.

At the time of tax lien, which the City usually processes in May for the previous levy year, a lien is recorded on the property at the Registry of Deeds. The City Council approves conveyance of lien property to the City. Afterwards, the City Council sets a date for public sale.

The City annually raises through tax levy an amount (overlay for abatements) for property tax abatements and interest refunds. All abatements and interest refunds are charged to overlay.

Taxes receivable at June 30, 2014 consist of the following:

Current Use Tax		\$	16,020
Yield Tax			2,494
Unredeemed Taxes			
2013	1,462,717		
2012	950,199		
2011	480,200		
2010	307,700		
2009	205,416		
2008	154,791		
2007	117,617		
2006	118,741		
2005 and prior	<u>133,196</u>		
			3,930,577
Elderly Liens			<u>8,535</u>
Total		\$	<u><u>3,957,626</u></u>

Taxes Collected for Others

The City collects property taxes for the State of New Hampshire, the Rochester School District, and the County of Strafford. Payments to the other taxing units are normally made throughout the year. The ultimate responsibility for the collection of taxes rests with the City.

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 1,011,380	\$ -
User fees		
Water	\$ -	\$ 94,517
Sewer	\$ -	\$ 116,328

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2014.

8. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2014 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 11,604,840	\$ 4,218,376
Capital Projects Fund	-	7,469,406
Non Major Funds:		
Special Revenue Funds	994,472	1,014,270
Business Type Activities:		
Enterprise Funds		
Water	-	2,403,884
Sewer	2,623,008	-
Nonmajor Enterprise	46,230	220,996
Agency Funds	58,382	-
Total	<u>\$ 15,326,932</u>	<u>\$ 15,326,932</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 5,532,655	\$ 361,229	\$ (7,234)	\$ 5,886,650
Buildings and improvements	65,200,381	465,250	-	65,665,631
Vehicles and equipment	17,889,273	1,482,045	(169,056)	19,202,262
Infrastructure	<u>141,253,698</u>	<u>6,849,972</u>	<u>(125,162)</u>	<u>147,978,508</u>
Total capital assets, being depreciated	229,876,007	9,158,496	(301,452)	238,733,051
Less accumulated depreciation for:				
Land improvements	(3,278,870)	(204,247)	-	(3,483,117)
Buildings and improvements	(23,814,786)	(1,284,195)	-	(25,098,981)
Vehicles and equipment	(11,336,578)	(1,175,712)	176,255	(12,336,035)
Infrastructure	<u>(102,215,284)</u>	<u>(3,482,758)</u>	<u>15,646</u>	<u>(105,682,396)</u>
Total accumulated depreciation	<u>(140,645,518)</u>	<u>(6,146,912)</u>	<u>191,901</u>	<u>(146,600,529)</u>
Total capital assets, being depreciated, net	89,230,489	3,011,584	(109,551)	92,132,522
Capital assets, not being depreciated:				
Land	7,984,625	271,283	-	8,255,908
Easement	1,422,250	-	-	1,422,250
Construction in progress	<u>9,069,504</u>	<u>6,896,068</u>	<u>(9,529,550)</u>	<u>6,436,022</u>
Total capital assets, not being depreciated	<u>18,476,379</u>	<u>7,167,351</u>	<u>(9,529,550)</u>	<u>16,114,180</u>
Governmental activities capital assets, net	<u>\$ 107,706,868</u>	<u>\$ 10,178,935</u>	<u>\$ (9,639,101)</u>	<u>\$ 108,246,702</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 53,600	\$ 923,459	\$ -	\$ 977,059
Buildings and improvements	48,434,712	4,232,704	-	52,667,416
Vehicles and equipment	6,395,707	142,353	-	6,538,060
Infrastructure	<u>45,996,721</u>	<u>4,835,084</u>	<u>-</u>	<u>50,831,805</u>
Total capital assets, being depreciated	100,880,740	10,133,600	-	111,014,340
Less accumulated depreciation for:				
Land improvements	(46,600)	(20,469)	-	(67,069)
Buildings and improvements	(18,244,464)	(1,084,589)	-	(19,329,053)
Vehicles and equipment	(3,786,818)	(377,184)	-	(4,164,002)
Infrastructure	<u>(14,531,394)</u>	<u>(909,792)</u>	<u>-</u>	<u>(15,441,186)</u>
Total accumulated depreciation	<u>(36,609,276)</u>	<u>(2,392,034)</u>	<u>-</u>	<u>(39,001,310)</u>
Total capital assets, being depreciated, net	64,271,464	7,741,566	-	72,013,030
Capital assets, not being depreciated:				
Land	3,480,989	-	-	3,480,989
Construction in progress	<u>12,676,557</u>	<u>3,470,005</u>	<u>(9,673,559)</u>	<u>6,473,003</u>
Total capital assets, not being depreciated	<u>16,157,546</u>	<u>3,470,005</u>	<u>(9,673,559)</u>	<u>9,953,992</u>
Business-type activities capital assets, net	<u>\$ 80,429,010</u>	<u>\$ 11,211,571</u>	<u>\$ (9,673,559)</u>	<u>\$ 81,967,022</u>

Depreciation expense was charged to functions of the City of Rochester, New Hampshire as follows:

Governmental Activities:	
General government	\$ 279,731
Public safety	531,077
Highway and streets	3,774,182
Education	1,483,932
Culture and recreation	56,441
Community services	<u>21,549</u>
Total depreciation expense - governmental activities	\$ <u>6,146,912</u>
Business-Type Activities:	
Water	\$ 1,164,750
Sewer	1,163,258
Arena	<u>64,026</u>
Total depreciation expense - business-type activities	\$ <u>2,392,034</u>

10. **Deferred Outflows of Resources**

Deferred outflows of resources represent the consumption of net assets by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2014:

	Governmental
	<u>Activities</u>
Loss on debt refunding	\$ <u>270,463</u>
Total	\$ <u>270,463</u>

11. **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities represent 2014 expenditures paid after June 30, 2014.

12. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Board of Tax and Land Appeals.

13. Notes Payable

This balance represents the drawdown proceeds from the State of New Hampshire through the State Revolving Loan Program. The program provides low interest loans to assist communities with the design and construction of various types of projects and the proceeds are disbursed as eligible cost are incurred through drawdowns. Upon completion of the project the original financial assistant agreement shall be amended to reflect actual project expenditures. A supplemental agreement will then be executed between the State and the City containing the final project cost and the repayment schedule.

14. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2018. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2014:

<u>Governmental</u>	<u>Capital Leases</u>
2015	\$ 141,943
2016	141,942
2017	141,942
2018	<u>141,940</u>
Total minimum lease payments	567,767
Less amounts representing interest	<u>36,094</u>
Present Value of Minimum Lease Payments	<u>\$ 531,673</u>

15. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/14
<u>Governmental Activities:</u>			
1995 Series Bond Issue	08/15/15	5.25-5.625%	\$ 240,000
1996 Series Bond Issue	08/15/16	5.625-5.75%	168,000
1997 Series Bond Issue	08/15/17	4.70-5.30%	260,000
1998 Series A Bond Issue	08/15/18	4.91%	381,300
2002 Series Bond Issue	08/15/22	4.25-4.70%	2,818,000
2004 Series Bond Issue - Refunded	06/30/15	4.00%	745,000
2005 Series Bond Issue	01/15/26	4.00-4.40%	2,210,000
2005 Series Bond Issue - 20 year	01/15/21	4.00-4.40%	125,000
2005 Series Bond Issue - 15 year	01/15/16	4.00-4.25%	420,000
2005 Series Bond Issue - Honeywell	01/15/16	4.00-4.25%	1,920,000
2005 QZAB	12/29/20	0.00%	645,358
2007 Bond Issue - Refinancing - 13 year	08/15/20	5.50-5.80%	2,416,837
2008 Series Bond Issue - 20 year	02/15/28	3.00-5.00%	6,702,458
2008 Series Bond Issue - 10 year	02/15/18	5.25-6.50%	125,474
2008 Series Bond Issue - 10 year	02/15/18	3.00-5.00%	1,043,968
2008 Series A NHMBB - 20 year	08/15/28	4.00-5.25%	520,000
2010 Series Bond Issue - 5 year	01/15/15	2.00-2.25%	32,743
2010 Series Bond Issue - 10 year	01/15/20	2.00-3.25%	1,185,791
2010 Series Bond Issue - 20 year	01/15/30	2.00-4.00%	2,300,440
2012 Series B Bond Issue - 20 year - TIF	03/15/32	1.00-3.25%	4,820,000
2012 Series A Bond Issue - 20 year	03/15/32	2.00-3.00%	1,966,000
2012 Series A Bond Issue - 10 year	03/15/22	2.00-3.00%	125,000
2013 Series A - Refunding 2004 bonds	07/15/24	2.00-3.00%	3,830,914
2014 State Revolving Loan - Washington St Phase 4	06/01/33	3.39%	356,390
Total Governmental Activities:			\$ <u>35,358,673</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/14
<u>Business-Type Activities:</u>			
1996 Series Bond Issue	08/15/16	5.625-5.75%	\$ 42,000
1998 Series A Bond Issue	08/15/18	3.90-4.75%	268,700
2002 Series Bond Issue	08/15/22	4.25-4.70%	963,000
2004 Series Bond Issue - Unrefunded Portion	07/15/14	3.10-4.00%	110,000
2005 Series Bond Issue	01/15/26	4.00-4.40%	140,000
2005 State Revolving Loan - Chestnut Hill	01/01/15	2.18%	71,602
2005 State Revolving Loan - Chestnut Hill	08/01/25	3.49%	527,812
2007 State Revolving Loan - Homemakers	07/01/27	2.14%	261,392
2007 State Revolving Loan - Ground Water Supply	09/01/26	3.35%	324,577

(continued)

(continued)

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/14</u>
2007 Refinancing Bonds - 13 year	08/15/20	5.50-5.80%	533,163
2008 Series Bond Issue - 20 year	02/15/28	3.00-5.00%	3,867,542
2008 Series Bond Issue - 10 year	02/15/18	5.25-6.50%	429,526
2008 Series Bond Issue - 10 year	02/15/18	3.00-5.00%	376,032
2009 State Revolving Loan - East Rochester I&I	12/01/27	3.69%	1,296,671
2009 State Revolving Loan - South Main/Solar Bee Pilot	08/01/28	3.49%	1,001,340
2010 State Revolving Loan - South Main Street	02/01/29	2.95%	478,881
2010 Series Bond Issue - 5 year	01/15/15	2.00-2.25%	19,433
2010 Series Bond Issue - 10 year	01/15/20	2.00-3.25%	617,201
2010 Series Bond Issue - 20 year	01/15/30	2.00-4.00%	2,644,398
2011 Round Pond Land Purchase	04/06/20	0.00%	225,000
2010 State Revolving Loan - Washington Street	12/01/30	2.86%	1,812,043
2012 Series A Bond Issue - 20 year	03/15/32	2.00-3.00%	884,000
2013 State Revolving Loan - Cochecho Well	09/01/31	3.10%	1,624,281
2013 State Revolving Loan - Headworks	02/01/32	2.72%	1,258,513
2013 State Revolving Loan - Washington St Pump Station	07/01/31	3.10%	581,712
2013 Series B Bond Issue - Refunding 2004 bonds	08/01/20	2.00-4.00%	6,495,000
2013 Series A Bond Issue - Refunding 2004 bonds	07/15/24	2.00-3.00%	1,119,084
2014 State Revolving Loan - Washington & Pine St	12/01/32	2.72%	192,799
2014 State Revolving Loan - Washington St Phase 4	06/01/33	3.39%	452,669
Total Business-Type Activities:			<u>\$ 28,618,371</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2014 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 4,767,504	\$ 1,210,948	\$ 5,978,452
2016	4,362,944	1,043,153	5,406,097
2017	3,059,239	888,283	3,947,522
2018	2,990,273	775,314	3,765,587
2019	2,626,699	674,710	3,301,409
2020 - 2024	10,277,304	2,217,063	12,494,367
2025 - 2029	5,688,649	793,924	6,482,573
Thereafter	1,586,061	97,963	1,684,024
Total	<u>\$ 35,358,673</u>	<u>\$ 7,701,358</u>	<u>\$ 43,060,031</u>

The general fund has been designated as the sole source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2014.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,789,453	\$ 941,340	\$ 3,730,793
2016	2,684,041	856,590	3,540,631
2017	2,684,512	768,810	3,453,322
2018	2,650,376	680,646	3,331,022
2019	2,430,971	598,501	3,029,472
2020 - 2024	8,648,314	1,922,134	10,570,448
2025 - 2029	5,363,915	740,781	6,104,696
Thereafter	<u>1,366,789</u>	<u>76,754</u>	<u>1,443,543</u>
Total	<u>\$ 28,618,371</u>	<u>\$ 6,585,556</u>	<u>\$ 35,203,927</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities:

	Total Balance 7/1/13	Additions	Reductions	Total Balance 6/30/14	Less Current Portion	Equals Long-Term Portion 6/30/14
<u>Governmental Activities</u>						
Bonds payable	\$ 39,773,321	\$ 375,148	\$ (4,789,796)	\$ 35,358,673	\$ (4,767,504)	\$ 30,591,169
Bond premium	361,905	-	(39,661)	322,244	(42,951)	279,293
Capital lease payable	668,749	-	(137,076)	531,673	(127,694)	403,979
Compensated absences	1,999,814	23,662	-	2,023,476	(202,348)	1,821,128
SRF loan proceeds	724,146	-	(724,146)	-	-	-
Other post employment benefits	<u>3,327,416</u>	<u>728,102</u>	<u>-</u>	<u>4,055,518</u>	<u>-</u>	<u>4,055,518</u>
Totals	<u>\$ 46,855,351</u>	<u>\$ 1,126,912</u>	<u>\$ (5,690,679)</u>	<u>\$ 42,291,584</u>	<u>\$ (5,140,497)</u>	<u>\$ 37,151,087</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 30,742,065	\$ 1,325,469	\$ (3,449,163)	\$ 28,618,371	\$ (2,789,453)	\$ 25,828,918
Bond premium	563,362	-	(97,051)	466,311	(109,963)	356,348
Compensated absences	12,690	116,085	-	128,775	(12,877)	115,898
SRF loan proceeds	1,317,111	-	(1,317,111)	-	-	-
Other post employment benefits	<u>368,950</u>	<u>75,954</u>	<u>-</u>	<u>444,904</u>	<u>-</u>	<u>444,904</u>
Totals	<u>\$ 33,004,178</u>	<u>\$ 1,517,508</u>	<u>\$ (4,863,325)</u>	<u>\$ 29,658,361</u>	<u>\$ (2,912,293)</u>	<u>\$ 26,746,068</u>

16. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2014:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u> <u>Sewer Fund</u>
Prepaid taxes	\$ 101,562	\$ -
Taxes collected in advance	22,433,197	-
Unearned grant revenues	<u>264,907</u>	<u>331,834</u>
Total	\$ <u>22,799,666</u>	\$ <u>331,834</u>

	<u>Governmental Funds</u>					
	<u>Nonmajor Funds</u>					
	<u>General Fund</u>	<u>CDBG Fund</u>	<u>City Grants Fund</u>	<u>Misc. Grants Fund</u>	<u>Community Center Fund</u>	<u>Total Nonmajor Funds</u>
Prepaid taxes	\$ 101,562	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes collected in advance	22,433,197	-	-	-	-	-
Unearned revenue - property taxes	4,122,523	-	-	-	-	-
Unearned grant revenues	<u>-</u>	<u>252,293</u>	<u>2,516</u>	<u>2,765</u>	<u>7,333</u>	<u>264,907</u>
Total	\$ <u>26,657,282</u>	\$ <u>252,293</u>	\$ <u>2,516</u>	\$ <u>2,765</u>	\$ <u>7,333</u>	\$ <u>264,907</u>

17. **Restricted Net Position**

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

18. **Governmental Funds - Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The City has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2014:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the City's fund balances at June 30, 2014:

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Prepaid expenditures	\$ 50,159	\$ -	\$ -	\$ 50,159
Nonexpendable permanent funds	-	-	43,866	43,866
Total Nonexpendable	50,159	-	43,866	94,025
Restricted				
Community development	171,452	-	-	171,452
Conservation	378,007	-	-	378,007
Special revenue funds	-	-	1,045,233	1,045,233
Expendable permanent funds	-	-	46,851	46,851
Total Restricted	549,459	-	1,092,084	1,641,543
Assigned				
Reserved for expenditures	20,000	-	-	20,000
Total Assigned	20,000	-	-	20,000
Unassigned				
General fund	12,623,318	-	-	12,623,318
Capital projects fund - deficit	-	(8,576,461)	-	(8,576,461)
Total Unassigned	12,623,318	(8,576,461)	-	4,046,857
Total Fund Balance	\$ 13,242,936	\$ (8,576,461)	\$ 1,135,950	\$ 5,802,425

19. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how unassigned fund balance is reported in accordance with the budgetary basis for reporting for the State of New Hampshire for tax rate setting purposes. The major difference is the State of New Hampshire considers revenues in connection with property tax receivables to be available to liquidate liabilities when billed rather than received.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis	\$ 12,623,318
Reserve for prepaid expenditures	50,159
Reclass accrued vacation to government-wide	(926,554)
Tax refunds payable	150,726
Tax deeded property	122,279
Accrued payroll	66,202
Other GAAP adjustments	<u>(300)</u>
Tax Rate Setting balance	<u>\$ 12,085,830</u>

20. Subsequent Events

Debt

Subsequent to June 30, 2014 the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond Anticipation Note Series A	\$ 9,558,000	0.65%	12/16/14	03/12/15
Bond Anticipation Note Series B	\$ 8,649,000	0.75%	12/16/14	03/12/15

The use of the bond anticipation notes were to provide short term funding for numerous City, School, Water and Sewer capital projects.

21. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

22. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

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

A. Plan Description

The City provides its eligible retirees, including in some cases their beneficiaries (as governed by RSA 100-A:50), the ability to purchase health, dental, and prescription insurance at the City's group rates. Although the City does not supplement the cost of these plans, GASB Statement 45 requires the City to recognize the liability for the inclusion of any implicit rate subsidies afforded its retirees. This subsidy is generated as a result of the basic nature of insurance - one risk group subsidizes another to arrive at a blended premium, therefore current employees who are young and healthy subsidized the older retirees. As of June 30, 2014, there were 59 retiree subscribers, including eligible spouses and dependents, and 704 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical, prescription drug, mental health/substance abuse, and life insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 100% of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2014 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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2013.

Annual Required Contribution (ARC)	\$ 1,238,029
Interest on net OPEB obligation	166,336
Adjustment to ARC	<u>(157,552)</u>
Annual OPEB cost	1,246,813
Contributions made	<u>(442,757)</u>
Increase in net OPEB obligation	804,056
Net OPEB obligation - beginning of year	<u>3,696,366</u>
Net OPEB obligation - end of year	<u><u>\$ 4,500,422</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 1,246,813	35.5%	\$ 4,500,422
2013	\$ 1,276,474	31.8%	\$ 3,696,366

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 11,668,357
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 11,668,357</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 45,737,594</u>
UAAL as a percentage of covered payroll	<u>25.5%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

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. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4.5% investment rate of return and an initial annual healthcare cost trend rate of 8.5% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3%.

23. Retirement System

The City follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description

Full-time employees participate in the State of New Hampshire Retirement System (the System), a multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are available to each group, funding policies, vesting requirements, contribution requirements and plan assets available to pay benefits are disclosed in the System's annual report available from the New Hampshire Retirement System located at 54 Regional Drive, Concord, New Hampshire 03301-8509.

B. Funding Policy

Plan members are required to contribute a percentage of their gross earnings to the pension plan. *Group I* members (employees and teachers) contribute 7% and *Group II* members (police and fire) contribute 11.55% and 11.80% respectively. The City makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, which is 10.77% for employees, 14.16% for teachers, 25.30% for police, and 27.74% for fire. The City's contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$6,247,279, \$4,943,244, and \$4,914,886, respectively, which were equal to its annual required contributions for each of these years.

The payroll for employees covered by the System for the year ended June 30, 2014, was \$41,524,704.

24. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

25. Beginning Net Position Restatement

The beginning (July 1, 2013) net assets of the City have been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental</u>
As previously reported	\$ 70,568,470
Adjust for prior year Granite State Business Park capital asset	2,206,389
Adjust for prior year accrued payroll taxes	<u>63,665</u>
As restated	<u>\$ 72,838,524</u>

Fund Basis Financial Statements:

	<u>General Fund</u>	<u>Nonmajor Funds</u>
As previously reported	\$ 14,028,188	\$ 1,064,332
Adjust for prior year accrued vacation, personal and comp time	863,761	7,154
Adjust for prior year accrued payroll taxes	<u>63,197</u>	<u>468</u>
As restated	<u>\$ 14,955,146</u>	<u>\$ 1,071,954</u>

26. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by recognizing as a liability and expense, the City's applicable portion of the New Hampshire Retirement System's actuarially accrued liability.

CITY OF ROCHESTER, NEW HAMPSHIRE
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014
(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/13	\$ -	\$ 11,668,357	\$ 11,668,357	0.0%	\$ 45,737,594	25.5%
07/01/12	\$ -	\$ 11,803,851	\$ 11,803,851	0.0%	\$ 44,405,431	26.6%

See Independent Auditors' Report.