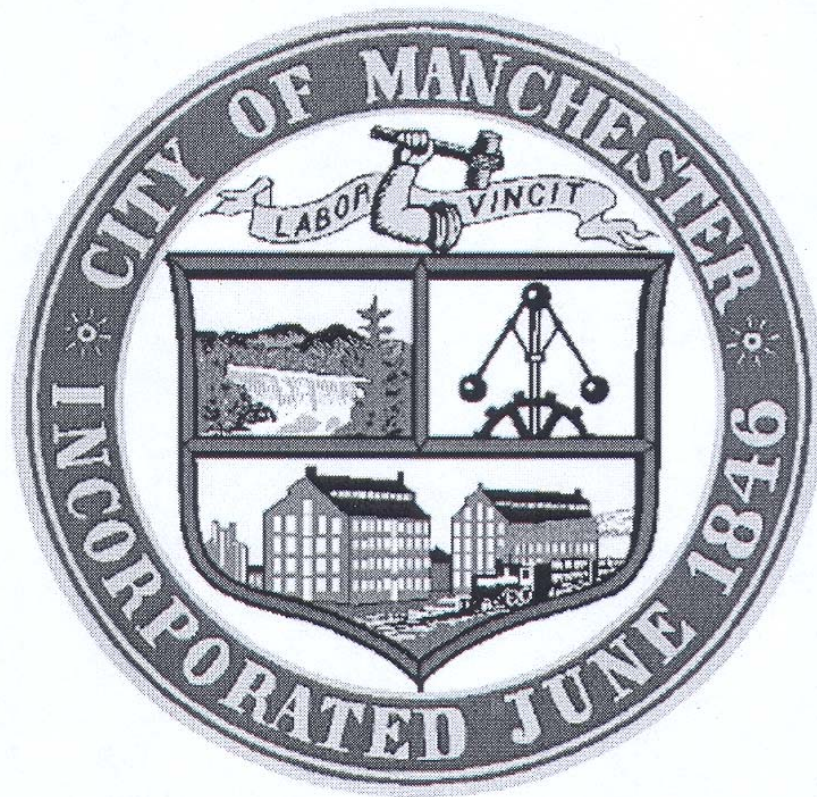


CITY OF MANCHESTER, NEW HAMPSHIRE



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2008**

CITY OF MANCHESTER, NEW HAMPSHIRE



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**For the Fiscal Year
July 1, 2007 to June 30, 2008**

Prepared By:
FINANCE DEPARTMENT

William E. Sanders
Finance Officer



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CITY OF MANCHESTER, NEW HAMPSHIRE

COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2008

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Introductory Section



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**City of Manchester
Department of Finance**

One City Hall Plaza
Manchester, NH 03101
Phone: (603) 624-6460
Fax: (603) 624-6549

March 19, 2009

To the Honorable Board of Mayor and Aldermen and
Citizens of the City of Manchester, New Hampshire

The Comprehensive Annual Financial Report (CAFR) for the City of Manchester (the City) for the fiscal year ended June 30, 2008 is hereby submitted. The City's Finance Department prepared this CAFR. The purpose of this report is to provide citizens, investors, grantor agencies, and other interested parties with reliable financial information about the City. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and changes in financial position of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's activities have been included.

The CAFR is presented in three sections: the introductory section, the financial section, and the statistical section. The introductory section, which is unaudited, includes this letter of transmittal, the City's organizational chart, and a listing of City officials. The financial section includes the independent auditor's report, management's discussion and analysis (MD&A), the basic financial statements, notes to financial statements, and the combining and individual financial statements and schedules. The statistical section, which is unaudited, includes pertinent financial and general information indicating trends for comparative basis fiscal years. The MD&A is management's opportunity to provide an overview and analysis of the City's financial operations. The MD&A should be read in partnership with this transmittal letter.

The City's Charter requires an annual audit by an independent certified public accountant. The City has engaged McGladrey & Pullen, LLP, Certified Public Accountants, to conduct the City's audit for the fiscal year ended June 30, 2008. The auditor's report on the basic financial statements is included in the financial section of this report. In addition to meeting the requirements set forth in State statutes and the Charter, the audit was designed to meet the requirements of the federal Single Audit Act and related OMB Circular 133. The auditor's reports on internal controls and compliance can be found in a separately issued Single Audit report.

The City's basic financial statements include all entities for which the City is financially accountable and other organizations of the City for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The City's financial statements include three discretely presented component units – the Manchester School District (MSD), the Manchester Development Corporation (MDC), and the Manchester Transit Authority (MTA).

General – Manchester, the largest City north of Boston, is located on the Merrimack River in south central New Hampshire. It is bordered by the towns of Hooksett, Bedford, Londonderry, Goffstown, Auburn, Litchfield, and Merrimack. According to a 2007 report of the New Hampshire Office of State Planning, the City has a population of 109,364 and occupies a land area of 33.0 square miles. The Manchester Metropolitan Area, with a ten mile radius, has a population of over 400,000. The Manchester Metropolitan Area is an area that the City believes to represent a key geographic region for the City's economy.

The City provides general governmental services for the territory within its boundaries, including police and fire protection, collection and disposal of garbage and rubbish, water and sewer services, highways, and street and sidewalk maintenance, public health and welfare, and code compliance. Public education is provided through the MSD for grades kindergarten through twelve and vocational education is available in grades nine through twelve. In addition, the City maintains 55 parks, two ice-skating coliseums, the McIntyre Ski Area, the Derryfield Country Club, four municipal pools, a minor league baseball stadium and a 10,000 seat civic arena. The City also owns and operates the Manchester-Boston Regional Airport.

Government– The City operates with a strong mayor form of government. The Mayor is the City's full-time chief executive officer. The Mayor has appointment powers and budget line-item veto authority. The City's Charter, approved by the voters in 1996, includes an ethics policy, a local initiative option, and calls for the formation of a Charter Review Committee every ten years.

The City is governed by an elected Mayor and a fourteen member Board of Aldermen (BMA) representing each of the city's twelve wards and two aldermen elected at-large. The BMA approves the City's budget. The Finance Committee, consisting of the entire Board of Mayor and Aldermen, approves labor contracts and also adopts monetary appropriations.

City financial management is the responsibility of the Finance Officer and the Department of Finance. The Finance Officer is responsible for establishing and maintaining a system of controls and financial reporting to ensure that the City's assets are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with law and generally accepted accounting principles (GAAP). The Department of Finance also performs significant and ongoing monitoring of the financial performance of the City's departments and enterprise funds, including monthly and quarterly interim reports and forecasted year-end revenue and expenditure/expense balances for all departments.

As required by City ordinance and by the Charter, interim reports are submitted to the BMA. Interim reports are reviewed with the Committee on Accounts, Enrollment and Revenue Administration (COA). The COA is a five member standing committee of the Board of Aldermen. The COA meets on a regular basis to review and to discuss financial matters. The

City has adopted debt policies and ordinances for the handling of one-time revenues, insurance reserves and undesignated fund balances.

Internal Controls - Management of the City is responsible for establishing and maintaining a system of internal controls over financial reporting to ensure that the assets of the government are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. Controls are designed to provide reasonable, but not absolute assurance regarding (1) the safeguarding of assets against loss from unauthorized use; and (2) the reliability and accuracy of financial statements. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived; and that the evaluation of cost and benefits requires estimates and judgment by management. The City believes that its internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Independent City Auditor – The Charter requires an Independent City Auditor (IA). The IA is responsible for the independent audit of the City’s CAFR as well as conducting investigations, analyses and research. The existence of the IA provides for strong internal controls.

Appropriation Process and Budget Control - The Charter provides for the Mayor, and such other officials as the Mayor shall select, to prepare a budget for consideration by the Board of Aldermen. The Charter requires budget adoption by the second Tuesday of June. If the BMA fails to adopt appropriation resolutions for the ensuing fiscal year, the Mayor's budget as originally proposed shall prevail. The Charter also provides for supplemental appropriations, reductions of appropriations, transfers of appropriations under certain limited circumstances and allows for the adoption of biennial budgets.

The City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the BMA. Activities of the general fund are included in the annual appropriated budget. Project-length budgets are prepared for the special revenue and capital projects funds. The level of budgetary control is the departmental level within each fund.

Cash Management - The City has an adopted Investment Policy. The Investment Policy conveys the concept that the preservation of capital and the liquidity requirements are the two primary factors considered in the structure of the portfolio. The Finance Officer reports on investment performance to the Board of Mayor and Aldermen on a quarterly basis.

Excess cash is invested in U.S. Treasury Bills, certificates of deposit, repurchase agreements, and the State of New Hampshire (the State) Investment Pool. The maturities of the investments range from thirty days to six months, with the average maturity closer to the thirty-day range. Between 65% - 70% of the cash and investments held at fiscal year-end in the city-wide statements were collateralized through Joint Custody Accounts at the Federal Reserve Bank of Boston or through perfected collateral arrangements.

Risk Management - The City has a program of both self-insurance and policies for worker's compensation, health, and general liability. Under this arrangement a third party administrator manages the claims with the City Risk Manager.

Community Improvement Programs – As part of the budget process, the Finance Officer provides the Mayor and Aldermanic CIP committee with a five year debt affordability forecast as a basis for the development of the Mayor’s recommended CIP program/budget. The project initiatives are envisioned over the ensuing fiscal period in accordance with the affordability forecast.

Economy- As the State’s largest city and business center, Manchester enjoys a diversified economic base. The combination of this diversified base along with the City’s investment in the Manchester-Boston Regional Airport, the Verizon Wireless Arena and various Millyard initiatives should help sustain the City during this challenging economic period. This effort has led to the location of a broad array of businesses and industries within the City, and has provided a base for future economic development. Much of this diversification was accomplished through redevelopment projects, which required public and private cooperation.

The City’s current economy appears generally steady with property tax collections rates remaining consistent with prior year. In addition, the Board of Mayor and Aldermen have adopted policies and capital initiatives to further strengthen the City’s financial condition and the local economy during this period of economic slowdown.

The labor force in the Manchester NH MetroNECTA numbers 102,400 at June 30, 2008 while the unemployment rate is 4.1% at December 31, 2008.

Debt- The general debt limit of the City is 9.75% of base valuation¹, of which Water and Sewer projects ordered by the State Water Supply and Pollution control commission, self-supporting sewer debt, debt for urban redevelopment and housing purposes, and overlapping debt are excluded from the measure of indebtedness. Other water projects are subject to a separate, special debt limit of 10% of the City's base valuation. Borrowings authorized by special legislative acts rather than the general municipal finance statutes are sometimes excluded from a city or town's statutory debt limit.

As of June 30, 2008 the City has a total outstanding General Obligation debt of \$193,784,813 and authorized and unissued debt of \$7,775,000 for various improvements, infrastructure improvements, and economic development projects.

The City currently retains the following credit ratings; FitchRatings (Fitch), Moody’s Investors Service, Inc. (Moody’s) and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (S&P), have assigned the ratings of “AA+,” “Aa2,” and “AA+,” respectively. The MSD was assigned the following credit ratings; Fitch, Moody’s and S&P, have assigned the ratings of “AA,” “Aa3,” and “AA,” respectively. The MWW was assigned the following credit ratings; Fitch, Moody’s and S&P, have assigned the ratings of “AA,” “Aa3,” and “AA,” respectively.

¹ Base valuation for debt limits is provided annually by the State of New Hampshire Department of Revenue Administration as part of the calculations for equalized assessed valuations for each municipality, and amounted to \$1,003,185,000.

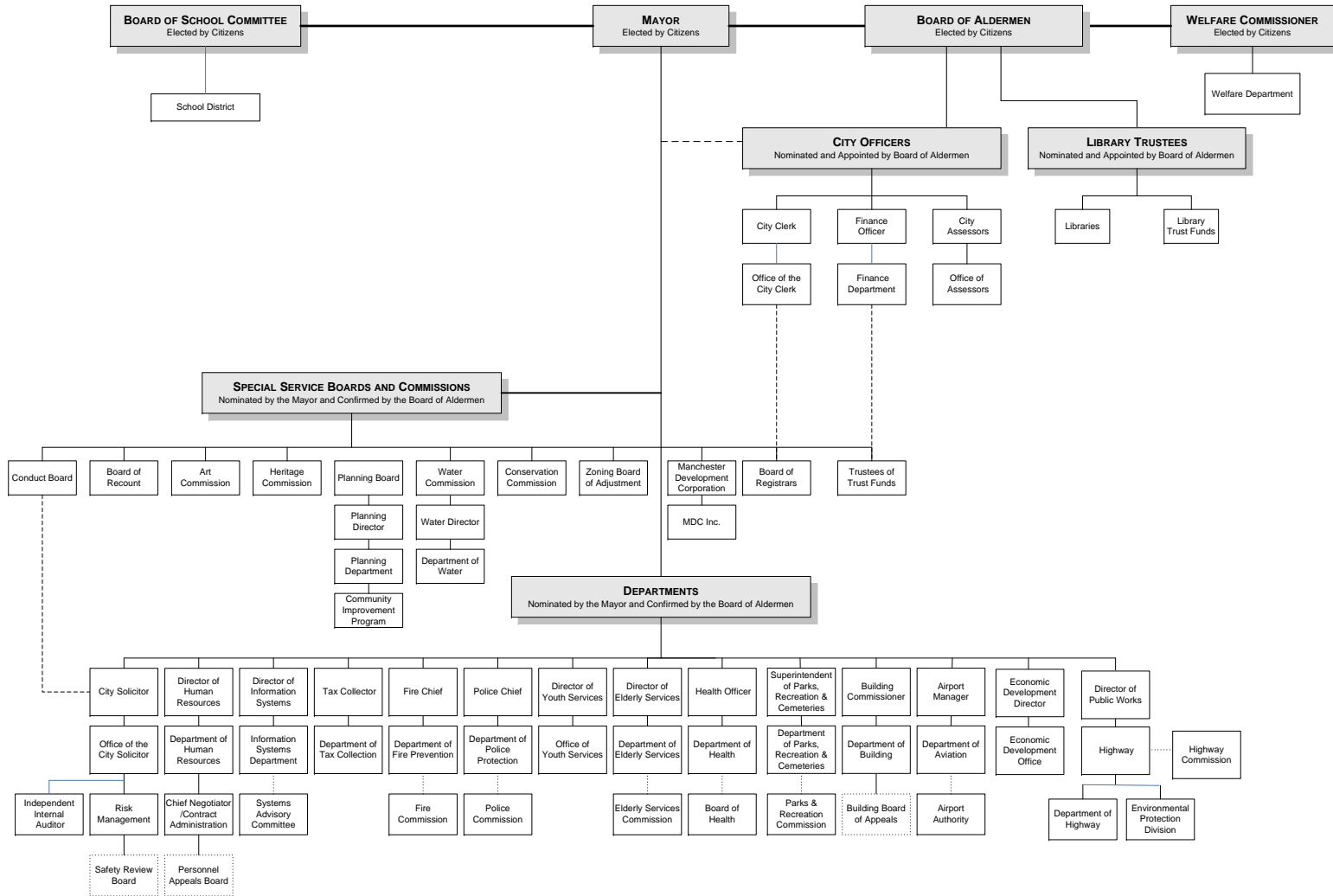
I would like to thank the City's department heads and their hard working staff for their help in the completion of another successful year. I would especially like to thank the employees of the Finance Department for their commitment and dedication.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "William E. Sanders". The signature is written in a cursive style with a long horizontal line extending to the right.

William E. Sanders
Finance Officer

CITY OF MANCHESTER NEW HAMPSHIRE ORGANIZATION CHART



**List of Principal Officials
in office at the close of fiscal year ended June 30, 2008**

Mayor

Frank C. Guinta

Aldermen

Ward 1	Mark E. Roy	Ward 7	William P. Shea
Ward 2	Theodore L. Gatsas	Ward 8	Betsi L. DeVries
Ward 3	Peter M. Sullivan	Ward 9	Michael D. Garrity
Ward 4	Jim Roy	Ward 10	George W. Smith
Ward 5	Ed Osborne	Ward 11	Russ Ouellette
Ward 6	Real R. Pinard	Ward 12	Kelleigh Domaingue
At-large	Michael J. Lopez *	At-large	Daniel P. O'Neil

* Chairman of the Board

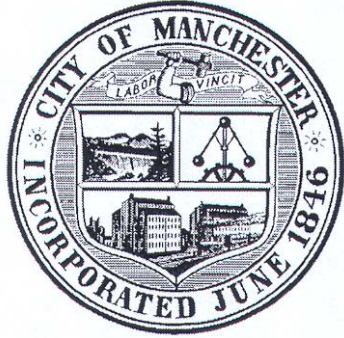
City Departments

Finance Officer	William E. Sanders
City Clerk	Carol Johnson
City Solicitor	Thomas R. Clark
Commissioner of Welfare	Paul R. R. Martineau
Chief of Police	David Mara
Fire Chief	James Burkush
Public Health Director	Timothy Soucy, MPH
Director of Public Works	Kevin Sheppard
Director of Parks, Recreation & Cemetery	unfilled
Director of Economic Development	Jay Minkarah
Building Commissioner	Leon LaFreniere
Airport Director	Mark Brewer
Director of Water	Thomas M. Bowen, P.E.
Director of Information Systems	Jennie Angell
Director of City Library	Denise Van Zanten
Director of Planning Board	unfilled
Superintendent of Schools	Thomas Brennan
Director of Human Resources	Jane Gile
Director of Elderly Services	Barbara A. Vigneault
Director of Youth Services	Martin Boldin
Chairman Board of Assessors	David Cornell
Collector of Taxes	Joan A. Porter



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Financial Section



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McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Mayor and Aldermen
City of Manchester, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire ("the City") as of and for the year ended June 30, 2008 which collectively comprises the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Manchester School District or the Manchester Transit Authority, component units of the City, which financial statements reflect 100% of the revenues and 95% of the assets of the discretely presented component units. We also did not audit the City of Manchester Employees' Contributory Retirement System, a pension trust fund and a blended component unit of the City, which represents 90% of the assets and 100% of the additions of the pension trust funds. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to amounts included for the Manchester School District, the Manchester Transit Authority and the City of Manchester Employees' Contributory Retirement System, component units of the City, is based solely on the reports of other auditors.

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 basic financial statements are free of material misstatement. The financial statements of the City of Manchester Employees' Contributory Retirement System were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the reports of other auditors, provide a reasonable basis for our opinions.

As described in Note 10 to the basic financial statements, the City accounted for the receipt of title to the Manchester Civic Center in 2001 as a non-exchange transaction. We were not able to obtain sufficient evidence to satisfy ourselves as to the propriety of this accounting treatment of the carrying value of net assets.

In our opinion, except for the effect, if any, of the reporting of the receipt of title to the Manchester Civic Center as a non-exchange transaction of governmental activities, as described in the preceding paragraph, based on our audit and the reports of other auditors the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows, thereof, and the budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards," we have also issued our report dated March 19, 2009 on our consideration of the City of Manchester, New Hampshire's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The management discussion and analysis on pages 10 through 19 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, budgetary detail, combining and individual nonmajor fund statements, capital asset schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary detail, combining and individual nonmajor fund statements and capital assets schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them. The prior year comparative information has been derived from the City's 2007 financial statements and, in our report dated February 1, 2008, we expressed unqualified opinions on the respective financial statements of the business-type activities, each major fund and the aggregate remaining fund information, and a qualified opinion on the financial statements of the governmental activities.

McGladrey & Pullen, LLP

New Haven, Connecticut
March 19, 2009

**City of Manchester, New Hampshire
Management's Discussion and Analysis
June 30, 2008**

As management of the City of Manchester, New Hampshire (the City) we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented herein along with additional information we have furnished in our letter of transmittal, as well as the City's basic financial statements that follow this section.

Financial Highlights

- ◆ On a government-wide basis of the primary government, the assets of the City exceeded its liabilities resulting in total net assets at the close of the fiscal year of \$525.4 million. Total net assets for Governmental Activities at fiscal year-end were \$130.2 million and total net assets for Business-Type Activities were \$395.2 million.
- ◆ On a government-wide basis, during the fiscal year, the City's net assets increased by \$23.8 million or 4.7%, from \$501.6 million to \$525.4 million. Net assets increased by \$1.1 million for Governmental Activities and net assets increased by \$22.7 million for Business-Type Activities. Government-wide expenses were \$246.1 million, while revenues were \$269.9 million.
- ◆ At the close of the fiscal year, the City's governmental funds reported, on a current financial resource basis, combined ending fund balances of \$54.8 million, a decrease of \$11.1 million from the prior fiscal year. Of the total funds, \$24.5 million is available for spending at the government's discretion, which represents the combined unreserved fund balance in the general fund, special revenue funds and capital projects funds. Also available for spending are amounts designated for health insurance, general liability insurance, the special revenue account and the revenue stabilization account.
- ◆ At the end of the current fiscal year, the total fund balance for the General Fund was \$21.4 million, a decrease of \$4.5 million from the prior fiscal year. Included in the fiscal year 2008 budget was a withdrawal of \$3.5 million from the Special Revenue Reserve account to apply to the FY2008 General Fund Revenues. As of June 30, 2008, the general fund had an unreserved and undesignated deficit of (\$.8) million which represents .6% of total general fund expenditures and transfers (\$124.3 million).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's 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 the financial statements. This report also contains other supplementary information as well as the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. All of the resources the City has at its disposal are shown, including major assets such as buildings and infrastructure. A thorough accounting of the cost of government is rendered because the statements present all costs, not just how much was collected and disbursed. They provide both long-term and short-term information about the City's overall financial status.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference reported as net assets (deficits). Over time, increases or decreases in net assets (deficits) may serve as an indicator of whether the financial position of the City is improving or deteriorating. It speaks to the question of whether or not, the City, as a whole is better or worse off as a result of this year's activities. Other non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure will need to be considered to assess the overall health of the City.

The statement of activities presents information showing how the government's net assets (deficits) changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in some future fiscal period, uncollected taxes and earned but unused vacation leave are examples.

Both of the government-wide financial statements distinguish functions of the City that are 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).

- ◆ Governmental activities of the City encompass most of the City's basic services and include governmental and community services, administration, public safety, health and sanitation, highways and streets, welfare, and education and library as well as cemetery, and parks and recreation. Property taxes, charges for services and state and federal grants finance most of these activities.
- ◆ Business-type activities of the City consist of the Water Works, Environmental Protection Division, Aviation, Recreation and the Parking Program. They are reported here, as the City charges a user fee to customers to help cover all or most of the cost of operations.
- ◆ The government-wide financial statements include not only the City itself, but also three legally separate component units, the Manchester School District (MSD), the Manchester Transit Authority (MTA) and the Manchester Development Corporation (MDC).

The government-wide financial statements (statement of net assets and statement of activities) can be found on pages 20-22 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control and accountability over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has three fund types:

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.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Projects which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation as Other Governmental Funds. Non-major governmental funds for the City include the United States Department of Housing and Urban Development (DHUD) Section 108 Fund, Cash Special Projects Fund, Community Development Block Grant Fund, Other Grants Fund, Civic Center Fund, and the Revolving Loan Fund. Permanent Funds consist of the Cemetery Fund and the Library Fund. Individual fund data for each of these non-major governmental funds is provided in the combining balance sheets on pages 82-83 and in the combining statement of revenues, expenditures and changes in fund balance on pages 84-85.

The City adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the authorized budget. The statement of revenues, expenditures and changes in fund balance on a budgetary basis can be found on page 26.

The basic governmental fund financial statements (balance sheet and statement of revenues, expenditures and changes in fund balance) can be found on pages 23-24 of this report.

Proprietary funds. The City maintains five proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water Works, Environmental Protection Division, Aviation, Recreation and the Parking Funds. The proprietary fund financial statements provide separate information for the Water Works, Environmental Protection Division and Aviation, which are considered to be major funds of the City. Conversely, both of the remaining funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the Recreation Fund and the Parking Fund is provided on pages 86-88 in the form of combining statements elsewhere in this report.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 27-30 of this report.

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 statement because the resources of those funds are not available to provide services to the City's constituency. The City has two pension trust funds and one agency fund. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 31-32 and 66-67 of this report.

Notes to the 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. The notes to the financial statements can be found on pages 33-76 of this report.

The notes to this report also contain certain information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position and an important determinant of its ability to finance services in the future. On a government-wide basis, the City's assets exceeded its liabilities by \$525.4 and \$501.6 million at June 30, 2008 and 2007, respectively.

City of Manchester, New Hampshire
Net Assets (\$000 's)
Primary Government

	June 30, 2008			June 30, 2007		
	Govern- mental Activities	Business Type Activities	Total	Govern- mental Activities	Business Type Activities	Total
Current and Other Assets	\$ 153,212	\$ 101,773	\$ 254,985	\$ 173,785	\$ 107,579	\$ 281,364
Non-Current	18,940	3,788	22,728	19,836	3,855	23,691
Capital Assets	333,537	637,389	970,926	338,195	629,839	968,034
Total Assets	505,689	742,950	1,248,639	531,816	741,273	1,273,089
Current Liabilities	99,986	21,227	121,213	109,486	29,593	139,079
Long-term liabilities outstanding	275,506	326,541	602,047	293,191	339,195	632,386
Total Liabilities	375,492	347,768	723,260	402,677	368,788	771,465
Net Assets:						
Invested in Capital Assets, net of related debt	130,205	326,272	456,477	137,363	316,388	453,751
Restricted	22,172	56,533	78,705	22,389	46,944	69,333
Unrestricted	(22,180)	12,377	(9,803)	(30,613)	9,153	(21,460)
Total Net Assets	\$ 130,197	\$ 395,182	\$ 525,379	\$ 129,139	\$ 372,485	\$ 501,624

At the end of the current fiscal year, the City is able to report a positive balance in both its governmental and proprietary activities.

A portion of the City's net assets totaling \$456.5 million reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), net any outstanding debt related to these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its 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.

The portion of the City's net assets that are restricted, \$78.7 million, represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets (deficit) of (\$9.6) million may not be used to meet the government's ongoing obligations to citizens and creditors, due to the negative balance. The primary reasons for the negative balance are due to the Old System Pension Obligation Bond with an outstanding balance of \$13.8 million, which was issued to properly fund the unfunded amount, the Landfill Closure Project, which has an outstanding balance of \$11.3 million, other landfill closure and post-closure care costs estimated liability with an outstanding balance of \$4.3 million, Urban Renewal Related Projects with outstanding balances of \$.9 million, Revaluation debt with an outstanding balance of \$.4 million, long-term debt related to insurance claims with an estimated outstanding balance of \$4.0 million, as well as long-term debt related to compensated absences with an estimated outstanding balance of \$10.4 million at June 30, 2008. The increase in invested capital assets net of related debt is due to major building additions and renovations.

City of Manchester, New Hampshire
Changes in Net Assets (\$ 000's)
Primary government

	June 30, 2008			June 30, 2007		
	Govern- mental Activities	Business Type Activities	Total	Govern- mental Activities	Business Type Activities	Total
Revenues:						
Program Revenues:						
Charges for services	\$ 18,725	\$ 95,318	\$ 114,043	\$ 24,769	\$ 87,637	\$ 112,406
Operating grants and contributions	21,017	5,829	26,846	20,547	4,371	24,918
Capital grants and contributions	6,202	19,303	25,505	4,436	23,251	27,687
General Revenues:						
Property taxes/auto/franchise fees	89,292	-	89,292	89,151	-	89,151
Unrestricted investment earnings	2,466	3,314	5,780	4,296	3,435	7,731
Transfers and other	7,489	900	8,389	9,314	(1,269)	8,045
Total revenues	145,191	124,664	269,855	152,513	117,425	269,938
Expenses:						
General government	39,763	-	39,763	47,027	-	47,027
Public safety	52,319	-	52,319	50,031	-	50,031
Health and sanitation	5,047	-	5,047	4,350	-	4,350
Highways and streets	26,608	-	26,608	15,582	-	15,582
Welfare	1,313	-	1,313	1,445	-	1,445
Education and library	7,791	-	7,791	7,512	-	7,512
Parks and recreation	6,767	-	6,767	6,409	-	6,409
Cemetery Trust	60	-	60	22	-	22
Investment management fee	55	-	55	39	-	39
Interest expense	4,410	16,012	20,422	4,094	15,692	19,786
Operations	-	85,955	85,955	-	81,373	81,373
Total Expenses	144,133	101,967	246,100	136,511	97,065	233,576
Change in net assets	1,058	22,697	23,755	16,002	20,360	36,362
Net assets - beginning	129,139	372,485	501,624	113,137	352,125	465,262
Net assets - ending	\$ 130,197	\$ 395,182	\$ 525,379	\$ 129,139	\$ 372,485	\$ 501,624

The City's net assets increased by \$23.8 million during the fiscal year, with net assets of Governmental Activities increasing by \$1.1 million, and net assets of Business-Type Activities increasing by \$22.7 million. The general government incurred more expenditures in 2008 than 2007 related to investments in net assets.

Governmental Activities

More than 61.5% of the governmental funds revenues were derived from property taxes, auto registrations and franchise fees, 18.75% from operating and capital grants and contributions, then followed by 12.90% from charges for services and finally, about 6.85% of the City's revenue in this fiscal year was derived from a combination of investment earnings, gain (loss) of sales of capital assets, and transfers. Total revenues, excluding transfers and other, decreased by \$5.5 million. Property taxes, auto registrations and franchise fees increased by \$.1 million or .16% over last year.

Business-Type Activities

Business-Type activities increased the City's net assets by \$22.7 million, which is an increase of \$2.3 million from an increase of \$7.9 million for last year. See next page for more detail.

- ◆ Water Works net assets increased by \$4.3 million, up \$.9 million from the increase in net assets of \$3.4 million last year. Non-operating revenues were \$.9 million for the current fiscal year as compared to a total of \$1.7 in non-operating expenses during the fiscal year ended June 30, 2007.
- ◆ EPD net assets increased by \$4.0 million, up \$.5 million from the increase in net assets of \$3.5 million in the previous fiscal year. The most significant change in EPD's fund net assets lies in the increase in operating revenues of \$3.7 million which is mainly due to the increase in user rates of 20% starting January 1, 2008.
- ◆ Aviation net assets increased by \$14.3 million. Aviation fund capital contributions amounted to \$17.3 million, a decrease from \$20.3 million the previous year. Manchester-Boston Regional Airport experienced an increase (3.7%) in passenger enplanements in FY2008, as enplanements increased by 70,045 from FY 2007.

Financial Analysis of the Fund Financial Statements

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved 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, the City's governmental funds reported combined ending fund balances of \$54.8 million, a decrease from \$66.0 million as reported on June 30, 2007. The decrease of \$11.2 in fund balances is mainly due to the timing of bond proceeds and capital expenditures. Approximately 44.6% of this total amount constitutes unreserved fund balance that is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: \$19.6 million to cemetery, library and other trust funds; \$1.7 million to liquidate contracts and purchase orders of the prior period; \$2.6 million to self-insured workers' compensation claims reserve, \$3.3 million for land held for resale, \$2.4 million for advances and \$.77 million for inventory.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved and undesignated fund deficit of the general fund was (\$.8) million while the total fund balance reached \$21.4 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and education operating transfers. Unreserved fund balance represents 9.9% of total general fund expenditures of \$121.9 million, while total fund balance represents 17.6% of that same amount.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Manchester-Boston Regional Airport experienced an increase of 3.7% in passenger enplanements in FY2008, as enplanements increased by 70,045 from FY2007. This increase surpassed expectations; despite the ongoing nationwide airline struggles with bankruptcies, competitive strategies, and high fuel costs. Many airports in

the small and medium hub categories experienced reductions in capacity, either from the airlines substituting regional jets for mainline jets or by the airlines eliminating service all together. Operating loss increased from (\$928,627) in FY2007 to (\$1,633,652), an increase of 75.9%. The operating loss increase was due primarily to increased operating expenses. Fiscal year 2008 was a record breaking winter season with excessive snow removal costs.

Net assets of the proprietary fund consisting of the Water Works were \$77.4 million, as compared to \$73.1 million in the prior year. The unrestricted net asset balance of the Water Works was \$6.3 million. The restricted net assets increased from \$11.8 million to \$12.6 million. The Water Works experienced operating revenues of \$16.2 million from user fees. The total net income for the Water Works was \$2.8 million before capital contributions of \$1.6 million. The change in net assets for the fiscal year ended June 30, 2008 was \$4.3 million, due mainly to an increase in gain on disposal of capital assets.

Total assets for Environmental Protection Division (EPD) increased from \$145.9 million ending balance at June 30, 2007 to \$151.7 million at June 30, 2008. EPD's cash decreased by \$1.1 million primarily due to paying cash, rather than incurring debt, for the construction and acquisition of capital resources. This contributed to a \$2.3 million increase in investments in capital assets. The fiscal year 2008 ending fund balance (fund net assets) is \$114.8 million. Investments in capital assets accounts for 96.1% of this total fund balance.

General Fund Budgetary Highlights

The City ended Fiscal Year (FY) 2008 with a decrease in the general fund balance sheet over FY 2007. The City's "rainy day" Revenue Stabilization fund decreased to \$9.2 million at June 30, 2008. The City's unreserved and undesignated fund balance decreased from \$.3 million to an (\$.8) million deficit, less than the targeted one percent of the FY 2008 tax warrants according to City ordinance which would make it \$1.6 million. In order to fund additional amounts into the Tax Rate Stabilization Reserve, the City has to realize an excess amount past the \$1.6 million. The special revenue account which accounts for one-time revenues, (i.e., property sales, etc.) decreased by \$3.8 to \$1.6 million from \$5.4 million. The City's reserves for workers compensation, health insurance, and general liability had an aggregate decrease of \$1.1 million or 2.1% from \$4.8 to \$4.7 million. At June 30, 2008, the City reserved \$2.4 million for advances on the Recreation Fund deficit.

During the year, actual revenues and other financing sources on a budgetary basis were \$116.4 million, \$1.6 million less than the estimated revenues. Actual tax revenues were over budget by \$802,399. Actual intergovernmental revenue was \$126,653 under budgetary estimates. Investment income was \$476,745 less than the \$2.6 million that had been budgeted. Additional shortfalls of \$713,074 resulted in a decrease of building permits included in licenses and permits. Nonenterprise charges for sales and services were \$168,928 more than budgeted. Other revenues were \$477,004 less than budgeted of which approximately \$282 thousand is due a decrease in chargebacks received from the Manchester School District. Transfers in were \$398,603 less than budgeted estimates, consisting of \$367,531 from the Parking Enterprise.

Actual expenditures on a budgetary basis and other financing uses totaled \$121.9 million, \$350,125 less than budgeted. The combined net difference of budgeted revenues and expenses on a budgetary basis resulted in a negative variance of \$1,208,483. The fiscal year 2008 budget included a withdrawal of \$3.5 million from the Special Revenue Reserve account to apply to the FY2008 General Fund Revenues.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2008, amounts to \$970.9 million, net of accumulated depreciation. This investment in capital assets includes land, building and system improvements, machinery and equipment, park facilities, roads, sewers and bridges. The total increase in the City's investment in capital assets for the current fiscal year was \$2.9 million or .3%.

City of Manchester, New Hampshire
Capital Assets (net of depreciation) (000's)
June 30, 2008 and 2007
Primary Government

	2008			2007			Change
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total	
Land	14,338	49,865	64,203	\$ 14,338	\$ 44,655	\$ 58,993	\$ 5,210
Buildings and improvements	252,394	504,264	756,658	248,453	468,354	716,807	39,851
Infrastructure	55,739	-	55,739	35,521	-	35,521	20,218
Equipment and vehicles	9,107	66,601	75,708	9,391	60,417	69,808	5,900
Construction in progress	1,959	16,659	18,618	30,492	56,413	86,905	(68,287)
Total	\$ 333,537	\$ 637,389	\$ 970,926	\$ 338,195	\$ 629,839	\$ 968,034	\$ 2,892

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

- ◆ Improvements and renovations to school facilities.
- ◆ Continued rehabilitation of playgrounds and athletic fields.
- ◆ Infrastructure improvements including roads, bridges, and sanitary and sewer projects.
- ◆ Replacement of emergency and rescue equipment and purchase of police vehicles.
- ◆ Acquisition of parcels for ongoing city development projects.
- ◆ Aviation capital improvements and buildings.
- ◆ Water Works buildings and structures.
- ◆ EPD capital improvements and infrastructure.
- ◆ Recreation capital improvements.

Information on the City's capital assets can be found in Note 8 on pages 56-59 of this report.

City of Manchester, New Hampshire
Outstanding Debt
General Obligation and Revenue Bonds (000's) in thousands
June 30, 2008 and 2007

	2008			2007		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
General Obligation Bonds	148,670	45,115	\$ 193,785	\$ 161,053	\$ 42,167	\$ 203,220
Revenue Bonds, net of premiums and discounts	108,121	273,741	381,862	111,807	284,669	396,476
Totals	\$ 256,791	\$ 318,856	\$ 575,647	\$ 272,860	\$ 326,836	\$ 599,696

Long-term debt. At the end of the current fiscal year, the City had total debt service requirements including interest payments, on bonded debt outstanding, of \$863.7 million. General obligation debt is backed by the full faith and credit of the City government.

The City was assigned the following credit ratings; Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., have assigned the ratings of "AA+," "Aa2," and "AA+," respectively.

The general debt limit of the City is 9.75% of base valuation. Base valuation (\$10,289,080,881) is determined by adding the amount of taxable property lost to the City as a result of the enactment of the State Business Profit Tax Law to the "equalize assessed valuation." Not more than 7% of the base valuation may be incurred for school purposes. Water and sewer projects ordered by the State Water Supply and Pollution Control Commission, self-supporting sewer debt, debt for urban redevelopment and housing purposes, and overlapping debt are excluded from the measure of indebtedness. Other water projects are subject to a separate, special debt limit of 10% of the City's base valuation. Borrowings authorized by legislative acts rather than the general municipal finance statutes are sometimes excluded from the city's debt limit. The Total Equalized Valuation figure includes Utility Valuation and Railroad Monies Reimbursements. Total bonded debt for the general government includes the MSD portion. As of June 30, 2008, the City recorded long-term debt of \$113.0 million related to Governmental Activities, \$127.1 million related to the MSD and \$318.9 million related to Business-Type Activities, well below its statutory debt limit. Information on the City's long-term debt can be found in Note 10 on pages 61-65 of this report.

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Officer at One City Hall Plaza, Manchester, NH 03101.

Basic Financial Statements



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Statement of Net Assets

City of Manchester New Hampshire
June 30, 2008

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Manchester School District	Manchester Transit Authority	Manchester Development Corporation
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 74,837,874	\$ 7,447,707	\$ 82,285,581	\$ 4,190,030	\$ 392,673	\$ -
Restricted cash	17,627,522	79,142,068	96,769,590	-	-	1,985,309
Investments	559,084	-	559,084	1,018,034	-	-
Restricted Investments	22,641,552	-	22,641,552	-	-	-
Receivables	30,099,463	17,470,534	47,569,997	12,083,098	903,472	674,042
Prepaid expenses	1,491,053	973,043	2,464,096	9,684	133,500	-
Internal balances	4,627,005	(4,627,005)	-	-	-	-
Due from others	557,062	-	557,062	27,369,736	-	75,000
Inventories	772,123	1,366,676	2,138,799	-	202,926	-
Total current assets	153,212,738	101,773,023	254,985,761	44,670,582	1,632,571	2,734,351
Noncurrent assets:						
Land held for resale	3,362,039	-	3,362,039	-	-	-
Capital assets, net of depreciation	333,536,966	637,388,623	970,925,589	6,751,855	4,217,723	-
Pension asset	13,825,512	-	13,825,512	-	-	-
Deferred charges, net	1,752,082	3,788,391	5,540,473	-	-	-
Total noncurrent assets	352,476,599	641,177,014	993,653,613	6,751,855	4,217,723	-
Total Assets	\$ 505,689,337	\$ 742,950,037	\$ 1,248,639,374	\$ 51,422,437	\$ 5,850,294	\$ 2,734,351
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 11,913,786	\$ 8,312,874	\$ 20,226,660	\$ 1,511,249	\$ 31,145	\$ 3,854
Retainage payable	52,465	1,756,113	1,808,578	-	-	-
Accrued liabilities	3,548,645	11,005,943	14,554,588	15,323,413	230,822	43,973
Other liabilities	2,013,422	122,593	2,136,015	-	-	-
Insurance claims payable	780,883	-	780,883	-	-	-
Due to school district	27,369,736	-	27,369,736	-	-	-
Unearned revenue	20,950,670	29,005	20,979,675	29,610,890	6,433	-
Taxes collected in advance	33,356,746	-	33,356,746	-	-	-
Total current liabilities	99,986,353	21,226,528	121,212,881	46,445,552	268,400	47,827
Noncurrent liabilities:						
Due within one year	15,370,001	14,010,433	29,380,434	-	168,492	-
Due in more than one year	241,421,121	304,961,518	546,382,639	4,959,433	-	-
Other liabilities due in more than one year	18,714,638	7,569,557	26,284,195	-	-	-
Total noncurrent liabilities	275,505,760	326,541,508	602,047,268	4,959,433	168,492	-
Total Liabilities	375,492,113	347,768,036	723,260,149	51,404,985	436,892	47,827
NET ASSETS						
Investment in capital assets, net of related debt	130,205,321	326,272,247	456,477,568	6,751,855	4,217,723	-
Restricted for:						
Coverage account	-	4,472,026	4,472,026	-	-	-
PFCs	-	4,101,648	4,101,648	-	-	-
MSDC	-	6,226,382	6,226,382	-	-	-
Revenue bond O&M	-	14,874,600	14,874,600	-	-	-
Revenue bond fund	-	6,692,105	6,692,105	-	-	-
Bond funds - capital improvements	-	19,124,705	19,124,705	-	-	-
Workmen's compensation	2,575,167	622,780	3,197,947	-	-	-
Cemetery and other trust funds	16,479,751	-	16,479,751	-	-	-
Library trust funds	3,116,728	-	3,116,728	-	-	-
Designated for:						
Equipment replacement	-	418,154	418,154	78,084	-	-
Restricted for debt service	-	-	-	7,030,351	-	-
Unrestricted (Deficit)	(22,179,743)	12,377,354	(9,802,389)	(13,842,838)	1,195,679	2,686,524
Total Net Assets	\$ 130,197,224	\$ 395,182,001	\$ 525,379,225	\$ 17,452	\$ 5,413,402	\$ 2,686,524

See accompanying notes.

Statement of Activities

	Expenses	Program Revenues		
		Charges for Sales and Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
General government	\$ 39,763,033	\$ 12,964,400	\$ 14,851,309	\$ -
Public safety	52,318,965	1,455,129	983,941	-
Health and sanitation	5,046,882	1,834,023	1,439,145	-
Highways and streets	26,607,881	1,738,416	2,055,444	6,201,812
Welfare	1,313,418	44,825	-	-
Education and library	7,791,145	-	125,820	-
Parks and recreation	6,767,095	689,115	1,561,614	-
Cemetery Trust	60,000	-	-	-
Investment management fee	55,177	-	-	-
Interest	4,409,099	-	-	-
Total governmental activities	<u>144,132,695</u>	<u>18,725,908</u>	<u>21,017,273</u>	<u>6,201,812</u>
Business-type activities				
Water	16,781,801	16,316,339	-	1,588,069
EPD	13,538,731	16,645,295	983,903	389,462
Aviation	65,814,560	55,359,856	4,844,795	17,325,965
Recreation	2,737,979	2,102,962	-	-
Parking	3,093,657	4,892,834	-	-
Total business-type activities	<u>101,966,728</u>	<u>95,317,286</u>	<u>5,828,698</u>	<u>19,303,496</u>
Total primary government:	<u>\$ 246,099,423</u>	<u>\$ 114,043,194</u>	<u>\$ 26,845,971</u>	<u>\$ 25,505,308</u>
Component units				
Manchester School District	\$ 173,172,044	\$ 22,936,358	\$ 25,267,198	\$ 1,701,985
Manchester Transit Authority	6,945,450	3,414,538	2,892,038	799,506
Manchester Development Corporation	26,475	-	11,941	-
Total component units	<u>\$ 180,143,969</u>	<u>\$ 26,350,896</u>	<u>\$ 28,171,177</u>	<u>\$ 2,501,491</u>
General revenues:				
Property taxes				
Auto registration fees				
Franchise fees				
Unrestricted investment earnings				
Grants and contributions not restricted to specific programs				
Miscellaneous				
Gain on disposal of assets				
Transfers				
Transfer of Capital Assets				
Transfers in				
Transfers out				
Total general revenues				
Change in net assets				
Net assets (deficits) - beginning				
Net assets - ending				
See accompanying notes.				

City of Manchester New Hampshire
For the Fiscal Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets (Deficits)						
Primary Government			Component Units			
Governmental Activities	Business-type Activities	Total	Manchester School District	Manchester Transit Authority	Manchester Development Corporation	
\$ (11,947,324)	\$ -	\$ (11,947,324)	\$ -	\$ -	\$ -	-
(49,879,895)	-	(49,879,895)	-	-	-	-
(1,773,714)	-	(1,773,714)	-	-	-	-
(16,612,209)	-	(16,612,209)	-	-	-	-
(1,268,593)	-	(1,268,593)	-	-	-	-
(7,665,325)	-	(7,665,325)	-	-	-	-
(4,516,366)	-	(4,516,366)	-	-	-	-
(60,000)	-	(60,000)	-	-	-	-
(55,177)	-	(55,177)	-	-	-	-
(4,409,099)	-	(4,409,099)	-	-	-	-
<u>(98,187,702)</u>	<u>-</u>	<u>(98,187,702)</u>				
-	1,122,607	1,122,607	-	-	-	-
-	4,479,929	4,479,929	-	-	-	-
-	11,716,056	11,716,056	-	-	-	-
-	(635,017)	(635,017)	-	-	-	-
-	1,799,177	1,799,177	-	-	-	-
-	18,482,752	18,482,752	-	-	-	-
<u>\$ (98,187,702)</u>	<u>\$ 18,482,752</u>	<u>\$ (79,704,950)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
\$ -	\$ -	\$ -	\$ (123,266,503)	\$ -	\$ -	-
-	-	-	-	160,632	-	-
-	-	-	-	-	-	(14,534)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (123,266,503)</u>	<u>\$ 160,632</u>	<u>\$ -</u>	<u>(14,534)</u>
\$ 73,227,606	\$ -	\$ 73,227,606	\$ 50,964,363	\$ -	\$ -	-
14,936,473	-	14,936,473	-	-	-	-
1,127,631	-	1,127,631	-	-	-	-
2,465,960	3,313,981	5,779,941	512,427	9,888	-	-
5,759,531	-	5,759,531	72,360,631	-	-	-
-	-	-	456,670	-	-	-
63,354	2,564,812	2,628,166	-	6,227	102,480	-
31,071	(31,071)	-	-	-	-	-
4,462,992	225,000	4,687,992	-	-	-	-
(2,829,171)	(1,858,821)	(4,687,992)	-	-	-	(43,973)
<u>99,245,447</u>	<u>4,213,901</u>	<u>103,459,348</u>	<u>124,294,091</u>	<u>16,115</u>	<u>58,507</u>	
1,057,745	22,696,653	23,754,398	1,027,588	176,747	43,973	
129,139,479	372,485,348	501,624,827	(1,010,136)	5,236,655	2,642,551	
<u>\$ 130,197,224</u>	<u>\$ 395,182,001</u>	<u>\$ 525,379,225</u>	<u>\$ 17,452</u>	<u>\$ 5,413,402</u>	<u>\$ 2,686,524</u>	

Balance Sheet
Governmental Funds

City of Manchester, New Hampshire
June 30, 2008

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 70,656,183	\$ 733,688	\$ 3,448,003	\$ 74,837,874
Restricted cash and cash equivalents	5,628,201	9,227,915	2,771,406	17,627,522
Restricted investments	-	-	22,641,552	22,641,552
Investments	559,084	-	-	559,084
Receivables, net of allowances for collection losses	21,929,416	-	6,266,568	28,195,984
Prepaid expenses	1,491,053	-	-	1,491,053
Due from other funds	7,988,185	-	-	7,988,185
Inventories	772,123	-	-	772,123
Land held for resale	3,362,039	-	-	3,362,039
Total Assets	\$ 112,386,284	\$ 9,961,603	\$ 35,127,529	\$ 157,475,416
Liabilities and Fund Equity				
Liabilities				
Accounts and warrants payable	\$ 3,174,102	\$ 1,691,094	\$ 7,048,590	\$ 11,913,786
Retainage payable	52,465	-	-	52,465
Accrued liabilities	4,450,393	-	445,204	4,895,597
Due to other funds	-	1,447,682	327,583	1,775,265
Due to Manchester School District	27,369,736	145,293	-	27,515,029
Unearned revenue	20,373,265	-	577,405	20,950,670
Deferred revenue	2,184,464	-	-	2,184,464
Taxes collected in advance	33,356,746	-	-	33,356,746
Total Liabilities	90,961,171	3,284,069	8,398,782	102,644,022
Fund Balance				
Fund balances				
Reserved for				
Encumbrances	227,010	574,240	882,405	1,683,655
Library	-	-	3,116,728	3,116,728
Cemetery funds	-	-	16,479,751	16,479,751
Inventory	772,123	-	-	772,123
Advance from other funds	2,356,706	-	-	2,356,706
Workers' compensation	2,575,167	-	-	2,575,167
Land held for resale	3,362,039	-	-	3,362,039
Designated for				
Health insurance	1,586,798	-	-	1,586,798
General liability insurance	557,655	-	-	557,655
Special revenue	1,557,822	-	-	1,557,822
Revenue stabilization	9,187,774	-	-	9,187,774
Unreserved, reported in:				
General fund	(757,981)	-	-	(757,981)
Capital projects	-	6,103,294	-	6,103,294
Special revenue	-	-	6,249,863	6,249,863
Total Fund Equity	21,425,113	6,677,534	26,728,747	54,831,394
Total Liabilities and Fund Balances	\$ 112,386,284	\$ 9,961,603	\$ 35,127,529	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	333,536,966
Pension asset created in governmental activities is not a financial resource and, therefore, is not reported in the funds.	13,825,512
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	462,858
Deferred Revenue	2,184,464
Long-term liabilities consisting of bonds payable are not due and payable in current period and, therefore, are not reported in the funds.	(275,505,760)
Deferred Issue Costs	1,752,082
Long-term liabilities consisting of accruals are not due and payable in the current period and, therefore, are not reported in the funds.	(890,292)
See accompanying notes.	<u>\$ 130,197,224</u>

**Statement of Revenues,
Expenditures and Changes in Fund Balances
Governmental Funds**

**City of Manchester, New Hampshire
Year Ended June 30, 2008**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 74,336,731	\$ -	\$ -	\$ 74,336,731
Federal and state grants and aid	10,302,400	-	13,003,209	23,305,609
Nonenterprise charges for sales and services	2,308,683	-	120,785	2,429,468
Licenses and permits	18,313,330	-	-	18,313,330
Interest	2,127,255	513,850	1,804,331	4,445,436
Contributions	-	-	985,543	985,543
Other	9,792,101	-	1,358,374	11,150,475
Total Revenues	117,180,500	513,850	17,272,242	134,966,592
Expenditures				
Current:				
General government	21,784,276	307,556	8,889,170	30,981,002
Public safety	50,765,737	-	971,027	51,736,764
Health and sanitation	3,260,400	-	1,648,427	4,908,827
Highway and streets	23,304,156	-	1,030,332	24,334,488
Welfare	1,210,875	-	90,683	1,301,558
Education	2,506,273	-	2,481	2,508,754
Parks and recreation	3,355,423	110,658	507,735	3,973,816
Cemetery Trust	-	-	60,000	60,000
Investment management fee	-	-	55,179	55,179
Capital Outlay	994,712	7,351,925	5,231,457	13,578,094
Debt service:				
Principal retirement	9,218,984	-	-	9,218,984
Interest	5,518,191	-	-	5,518,191
Total Expenditures	121,919,027	7,770,139	18,486,491	148,175,657
Excess (Deficiency) of revenues over expenditures	(4,738,527)	(7,256,289)	(1,214,249)	(13,209,065)
Other Financing Sources (Uses)				
Proceeds from sale of Capital Assets	431,873	-	-	431,873
Transfers in	2,267,563	-	2,195,429	4,462,992
Transfers out	(2,420,430)	-	(408,741)	(2,829,171)
Total Other Financing Sources (Uses)	279,006	-	1,786,688	2,065,694
Net Change in Fund Balances	(4,459,521)	(7,256,289)	572,439	(11,143,371)
Fund Balance, beginning	25,884,634	13,933,823	26,156,308	65,974,765
Fund Balance, ending	\$ 21,425,113	\$ 6,677,534	\$ 26,728,747	\$ 54,831,394

See accompanying notes.

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

**City of Manchester, New Hampshire
Year Ended June 30, 2008**

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

Net change in fund balance	\$ (11,143,371)
----------------------------	-----------------

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. This is the amount by which depreciation exceeded capital outlays in the current period.	(4,658,033)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(10,343)
--	----------

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	16,068,760
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>800,732</u>
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Change in net assets of governmental activities	<u><u>\$ 1,057,745</u></u>
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See accompanying notes.

General Fund
Statement of Revenues and Expenditures -
Budget and Actual (Budget Basis)

City of Manchester, New Hampshire
Year Ended June 30, 2008

	Original Budget	Revised Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 72,673,561	\$ 73,422,707	\$ 74,225,106	\$ 802,399
Federal and state grants and aid	7,793,942	8,043,942	7,917,289	(126,653)
Nonenterprise charges for sales and services	2,459,490	2,459,490	2,290,562	(168,928)
Licenses and permits	20,134,500	19,044,500	18,331,426	(713,074)
Interest	2,604,000	2,604,000	2,127,255	(476,745)
Other	10,269,129	10,269,129	9,792,125	(477,004)
Total Revenues	115,934,622	115,843,768	114,683,763	(1,160,005)
Expenditures				
Current:				
General government	33,244,655	32,259,723	31,981,765	277,958
Public safety	42,177,707	42,587,858	42,141,790	446,068
Health and sanitation	2,917,046	2,876,956	2,730,075	146,881
Highway and streets	20,897,840	21,496,857	21,872,044	(375,187)
Welfare	1,177,639	1,167,691	1,180,675	(12,984)
Education	2,406,159	2,377,847	2,376,757	1,090
Parks and recreation	3,040,747	3,088,861	3,218,887	(130,026)
Debt service:				
Principal retirement	9,219,000	9,219,000	9,218,984	16
Interest	5,514,500	5,514,500	5,518,191	(3,691)
Total Expenditures	120,595,293	120,589,293	120,239,168	350,125
Excess of revenues over (under) expenditures	(4,660,671)	(4,745,525)	(5,555,405)	(809,880)
Other Financing Sources (Uses)				
Transfers in	2,100,100	2,100,100	1,701,497	(398,603)
Transfers out	(1,689,429)	(1,695,429)	(1,695,429)	-
Total Other Financing Sources (Uses)	410,671	404,671	6,068	(398,603)
Revenues and Other Financing Sources Over (Under) Other Financing Uses	\$ (4,250,000)	\$ (4,340,854)	\$ (5,549,337)	\$ (1,208,483)

See accompanying notes.

Proprietary Funds
Statement of Net Assets

City of Manchester, New Hampshire
June 30, 2008

	Business-type Activities-Enterprise Funds				
	Major			Non-Major Funds	Total
	Water Works Fund	EPD Fund	Aviation Fund		
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 5,780,492	\$ 1,665,965	\$ 300	\$ 950	\$ 7,447,707
Restricted cash and cash equivalents	12,628,751	-	66,333,046	180,271	79,142,068
Receivables, net of allowances for collection losses	3,164,601	8,281,161	5,763,083	261,689	17,470,534
Prepaid items	408,383	14,458	550,202	-	973,043
Inventories	1,035,843	61,194	269,639	-	1,366,676
Total current assets:	23,018,070	10,022,778	72,916,270	442,910	106,400,028
Noncurrent assets:					
Capital assets, net, where applicable, of accumulated depreciation	104,729,536	141,707,978	373,711,614	17,239,495	637,388,623
Deferred charges	787,602	-	2,958,638	42,151	3,788,391
Total noncurrent assets:	105,517,138	141,707,978	376,670,252	17,281,646	641,177,014
Total Assets	\$ 128,535,208	\$ 151,730,756	\$ 449,586,522	\$ 17,724,556	\$ 747,577,042
Liabilities					
Current liabilities					
Accounts and warrants payable	\$ 721,124	\$ 2,274,433	\$ 5,152,902	\$ 164,415	\$ 8,312,874
Retainage payable	433,032	900,031	423,050	-	1,756,113
Accrued liabilities	668,704	258,539	7,601,320	200,931	8,729,494
Due to other funds	90,284	1,806,419	358,081	2,372,221	4,627,005
Unearned revenue	-	-	-	29,005	29,005
Bonds and notes payable	1,337,950	4,763,415	6,985,000	924,068	14,010,433
Compensated Absences	1,295,677	317,657	453,600	209,515	2,276,449
Other	63,291	-	-	59,302	122,593
Total Current liabilities	4,610,062	10,320,494	20,973,953	3,959,457	39,863,966
Noncurrent liabilities					
Bonds payable	46,538,291	19,041,590	228,342,061	10,923,786	304,845,728
Due to State of New Hampshire	-	7,569,557	-	-	7,569,557
Unearned revenue	-	-	109,356	6,434	115,790
Total Noncurrent liabilities	46,538,291	26,611,147	228,451,417	10,930,220	312,531,075
Total Liabilities	51,148,353	36,931,641	249,425,370	14,889,677	352,395,041
Net Assets					
Invested in capital assets, net of related debt	58,445,985	110,333,416	151,962,935	5,529,911	326,272,247
Restricted	12,628,751	418,154	43,485,495	-	56,532,400
Unrestricted	6,312,119	4,047,545	4,712,722	(2,695,032)	12,377,354
Total Net Assets	\$ 77,386,855	\$ 114,799,115	\$ 200,161,152	\$ 2,834,879	\$ 395,182,001

See accompanying notes.

Proprietary Funds
Combining Statement of Revenues, Expenses
and Changes in Fund Balance

City of Manchester, New Hampshire
Year Ended June 30, 2008

	Business-type Activities-Enterprise Funds				
	Major				Total
	Water Works Fund	EPD Fund	Aviation Fund	Non-major Funds	
<u>Operating Revenues</u>					
Charges for goods and services	\$ 16,152,156	\$ 14,194,577	\$ 44,224,236	\$ 6,854,030	81,424,999
Other	90,727	2,301,523	2,019,611	14,693	4,426,554
Total Operating Revenues	16,242,883	16,496,100	46,243,847	6,868,723	85,851,553
<u>Operating Expenses</u>					
Personnel services	5,740,352	3,208,826	6,940,286	2,409,603	18,299,067
Plant maintenance	520,745	1,132,938	1,228,871	3,026	2,885,580
Light/heat and power	1,596,020	2,104,278	2,666,170	360,404	6,726,872
General and administrative	3,076,031	486,715	19,795,871	1,623,936	24,982,553
Depreciation and amortization	3,505,992	5,733,568	17,246,301	819,345	27,305,206
Total Operating Expenses	14,439,140	12,666,325	47,877,499	5,216,314	80,199,278
Operating Income (Loss)	1,803,743	3,829,775	(1,633,652)	1,652,409	5,652,275
				-	
<u>Non-Operating Revenues (Expenses), net</u>					
Soundproofing program grant	-	-	4,844,795	-	4,844,795
Soundproofing program expense	-	-	(5,208,998)	-	(5,208,998)
Interest income	649,730	-	2,622,663	41,588	3,313,981
Interest expense	(2,342,661)	(872,406)	(12,181,483)	(615,324)	(16,011,874)
Passenger facility charges	-	-	6,847,879	-	6,847,879
Customer facility charges	-	-	2,268,130	-	2,268,130
Rent and other income	73,460	149,193	-	127,074	349,727
Bond issuance costs	-	118,777	(546,581)	-	(427,804)
Gain (Loss) on disposal of capital assets	2,604,312	(40,800)	1,300	-	2,564,812
Total Non-Operating Revenues (Expenses)	984,841	(645,236)	(1,352,295)	(446,662)	(1,459,352)
Net income (loss) before capital contributions and transfers	2,788,584	3,184,539	(2,985,947)	1,205,747	4,192,923
Capital Contributions	1,588,069	1,254,588	17,325,965	-	20,168,622
Transfer to general fund	(62,084)	(395,340)	-	(1,401,397)	(1,858,821)
Transfer from general fund	-	-	-	225,000	225,000
Transfer of Capital Assets	-	-	-	(31,071)	(31,071)
Total Capital Contributions and Transfers	1,525,985	859,248	17,325,965	(1,207,468)	18,503,730
Change in Net Assets	4,314,569	4,043,787	14,340,018	(1,721)	22,696,653
Fund Net Assets, beginning of year	73,072,286	110,755,328	185,821,134	2,836,600	372,485,348
Fund Net Assets, end of year	\$ 77,386,855	\$ 114,799,115	\$ 200,161,152	\$ 2,834,879	\$ 395,182,001

See accompanying notes.

Proprietary Funds
Statement of Cash Flows

City of Manchester, New Hampshire
Year Ended June 30, 2008

	Business-type Activities-Enterprise Funds				
	Major			Non-Major Funds	Total
	Water Works Fund	EPD Fund	Aviation Fund		
<u>Cash Flows from Operating Activities</u>					
Cash received from customers	\$ 16,420,997	\$ 16,385,629	\$ 46,733,342	\$ 6,831,922	\$ 86,371,890
Cash payments for goods and services	(5,824,545)	(4,308,210)	(30,060,094)	(2,650,825)	(42,843,674)
Cash payments to employees for services	(5,715,397)	(3,205,334)	(6,909,133)	(2,384,275)	(18,214,139)
Other operating revenues	73,460	149,193	-	127,074	349,727
Net Cash Provided by Operating Activities	4,954,515	9,021,278	9,764,115	1,923,896	25,663,804
<u>Cash Flows Provided by Non-Capital and Related Financing Activities</u>					
Amounts from federal & state governments for soundproofing	-	-	4,844,795	-	4,844,795
Soundproofing related expenses	-	-	(5,208,998)	-	(5,208,998)
Due to general fund	(62,084)	1,427,131	-	(988,741)	376,306
Passenger and customer facility charges	-	-	9,256,268	-	9,256,268
Cash Payment to the City	-	(16,052)	-	(1,401,397)	(1,417,449)
Interest paid on cash advances	-	-	-	(46,507)	(46,507)
Cash Payment from the City	-	-	-	225,000	225,000
Net Cash Provided by (Used in) Non-Capital & Related Financing Activities	(62,084)	1,411,079	8,892,065	(2,211,645)	8,029,415
<u>Cash Flows from Capital and Related Financing Activities</u>					
Payment of costs of issuance	-	-	(546,581)	-	(546,581)
Proceeds from State of New Hampshire Revolving Fund	-	10,291,930	-	-	10,291,930
Reimbursement of bond interest expenses	-	118,777	-	-	118,777
Deferred charges	(3,182)	-	(110,524)	-	(113,706)
Payments for State of New Hampshire liability	-	(4,587,039)	-	-	(4,587,039)
Principal paid on bonds and notes	(1,326,580)	(10,773,124)	(11,295,000)	(957,636)	(24,352,340)
Proceeds from refunding bond	-	-	30,255,000	-	30,255,000
Proceeds from notes	-	5,506,590	-	-	5,506,590
Current refunding	-	-	(30,255,000)	-	(30,255,000)
Interest paid on bonds and notes	(2,342,661)	(757,909)	(12,384,602)	(534,261)	(16,019,433)
Contributed capital by federal, state & local governments	1,588,069	1,254,588	24,231,190	-	27,073,847
Acquisition and construction of capital assets	(3,144,790)	(12,612,943)	(16,749,702)	(1,871,156)	(34,378,591)
Proceeds from sale of capital assets	2,610,037	-	1,300	-	2,611,337
Net Cash Used in Capital & Related Financing Activities	(2,619,107)	(11,559,130)	(16,853,919)	(3,363,053)	(34,395,209)
<u>Cash Flows from Investing Activities</u>					
Interest and dividends from investments	649,730	14,792	2,622,663	41,588	3,328,773
Net Cash Provided by Investing Activities	649,730	14,792	2,622,663	41,588	3,328,773
Net Increase (Decrease) in Cash and Cash Equivalents	2,923,054	(1,111,981)	4,424,924	(3,609,214)	2,626,783
Cash and Cash Equivalents at Beginning of Year	15,486,189	2,777,946	61,908,422	3,790,435	83,962,992
Cash and Cash Equivalents at End of Year	\$ 18,409,243	\$ 1,665,965	\$ 66,333,346	\$ 181,221	\$ 86,589,775

**Proprietary Funds
Statement of Cash Flows**

**City of Manchester, New Hampshire
Year Ended June 30, 2008**

Business-type Activities-Enterprise Funds

	Major				Total
	Water Works Fund	EPD Fund	Aviation Fund	Non-Major Funds	
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 1,803,743	\$ 3,829,775	\$ (1,633,652)	\$ 1,652,409	\$ 5,652,275
Adjustments to reconcile operating income (loss) to cash provided by operating activities:					
Depreciation and amortization	3,505,992	5,733,568	17,246,301	819,345	27,305,206
Non-operating revenue	73,460	149,193	-	127,074	349,727
Change in Assets and Liabilities					
Decrease (increase) in receivables	166,581	(110,471)	483,345	(54,900)	484,555
Increase in inventories	(45,650)	(4,173)	(65,191)	-	(115,014)
Decrease (increase) in prepaid expenses and other assets	23,672	3,245	(3,499)	2,332	25,750
Decrease in accounts payable	(91,992)	(480,729)	(2,757,311)	(673,701)	(4,003,733)
Increase (decrease) in accrued liabilities	(63,651)	(180,118)	(3,615,247)	18,115	(3,840,901)
Increase in compensated absences	6,676	40,310	31,153	15,123	93,262
Increase (decrease) in retainage payable	(526,133)	40,678	-	-	(485,455)
Increase in other liabilities	11,533	-	6,150	49,200	66,883
Decrease in unearned revenue	-	-	-	(31,101)	(31,101)
Increase in interfund liabilities	90,284	-	72,066	-	162,350
Net Cash Provided by Operating Activities	4,954,515	9,021,278	9,764,115	1,923,896	25,663,804
Schedule of Noncash Investing, Capital and Financing Activities					
Disposal of Capital Assets	\$ (5,725)	\$ (40,800)	\$ -	\$ (28,359)	\$ (74,884)
Transfer of Capital Assets	\$ -	\$ -	\$ -	\$ (31,071)	\$ (31,071)

Fiduciary Funds
Statement of Fiduciary Net Assets

City of Manchester, New Hampshire
Year Ended June 30, 2008

	Pension Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ 5,338,096	\$ -
Investments	160,595,133	-
Receivables, net of allowances for collection losses	175,993	1,585,915
Other assets	6,750	-
Capital assets, net, where applicable,	45,777	-
Total Assets	\$ 166,161,749	\$ 1,585,915
Liabilities		
Accounts and warrants payable	\$ 144,792	\$ -
Accrued liabilities	608,786	-
Due to others	-	1,585,915
Total Liabilities	753,578	1,585,915
Total Net Assets Held in Trust for Pension Benefits	\$ 165,408,171	\$ -

Fiduciary Trusts
Statement of Changes in Fiduciary Net Assets

City of Manchester New Hampshire
Year Ended June 30, 2008

	<u>Pension Trust Funds</u>
Additions	
Contributions	
Employer	\$ 6,414,486
Plan members	2,702,901
Total Contributions	<u>9,117,387</u>
Investment Gain	
Net realized and unrealized appreciation in fair value of investments	9,077,881
Interest	1,530,128
Dividends	4,424,453
Less investment expense	(412,685)
Net Investment Income	<u>14,619,777</u>
 Total Additions	 <u>23,737,164</u>
Deductions	
Benefits paid directly to participants	8,903,708
Refunds of employee contributions	290,668
Administrative expenses	915,420
Total Deductions	<u>10,109,796</u>
 Net Increase	 13,627,368
Net Assets Held in Trust for Pension Benefits	
Beginning of year	151,780,803
End of year	<u>\$ 165,408,171</u>

See accompanying notes.



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Notes to Financial Statements



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Note 1. Summary of Significant Accounting Policies

Reporting entity

The City of Manchester, New Hampshire, (the City) was incorporated in June of 1846 and operates as a municipal corporation governed by an elected mayor and a fourteen (14) member aldermanic board. Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Codification Section 2100 have been considered and as a result, the component units discussed below are included in the City's reporting entities because of their operational significance and financial relationship with the City.

Discretely presented component units

Manchester Development Corporation (MDC) - The MDC was created by the Board of Mayor and Aldermen (BMA) as a public corporation for the purpose of developing economic opportunities for the City. The MDC Board of Directors is comprised of twelve (12) members, all of whom shall be nominated by the Mayor and confirmed by the Board of Aldermen of the City. Separate audited financial statements are not available. MDC is presented as a governmental fund type.

Manchester School District (District or MSD) - The MSD is responsible for elementary and secondary education within the government's jurisdiction. The fourteen (14) members of the school board are elected by the voters. However, the District is fiscally dependent upon the government as the government's BMA approves the District's budget, levies taxes (if necessary) and must approve any debt issuances. Other independent auditors audited the MSD, a June 30 year-end, and their report, dated March 4, 2009, has been issued under separate cover. The District is presented as a governmental fund type.

Manchester Transit Authority (MTA) - The MTA was created by the BMA to provide a public transportation system for the citizens of the City. A five-member board appointed by the BMA oversees the MTA. Other independent auditors audited the MTA, a June 30 year-end, and their report, dated November 24, 2008, has been issued under separate cover. The MTA is presented as a proprietary fund type.

Complete financial statements of the individual component units for MDC, MSD and MTA may be obtained directly from their administrative offices.

Manchester Development Corporation	Manchester School District	Manchester Transit Authority
One City Hall Plaza	286 Commercial Street	110 Elm Street
Manchester NH 03104	Manchester NH 03101	Manchester NH 03101-2799

Blended Component Unit

City of Manchester Employees' Contributory Retirement System (MECRS) - The MECRS was created by the BMA for the purpose of administering the assets of the employees' contributory retirement system. The MECRS' Board of Trustees consists of seven members, as follows: the City Finance Officer, the Mayor, one person appointed by the Board of Aldermen, two citizens of the City - one appointed by the Mayor, one elected by the MECRS members and two MECRS members also elected by the MECRS members. Other independent auditors audited the MECRS, a December 31 year end, for the year ended December 31, 2007, and their report, dated June 10, 2008 has been issued under separate cover. MECRS is presented as a pension trust fund.

Complete financial statements of the component unit may be obtained directly from its administrative office.

City of Manchester Employees'
Contributory Retirement System
1045 Elm Street – Suite 403
Manchester NH 03101-1824

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its non-blended component units. 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. Likewise, the primary government is reported separately from certain legally separate component units, which the city is financially accountable for.

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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are 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.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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, pension and OPEB and claims and judgments, are recorded when due (matured).

Property taxes when levied for, intergovernmental revenues when the eligibility requirements have been met, licenses, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City'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 financial resources to be used for capital expenditures or for the acquisition or construction of capital facilities, improvements and/or equipment. Most of the capital outlays are financed by the issuance of general obligation bonds. Other sources include capital grants and low-interest state loans.

The City reports the following major proprietary funds:

The *Water Works Fund* accounts for the operations of the City's water service for residential, commercial and industrial entities for the City and six surrounding communities. It is independent in terms of its relationship to other City functions. Its operations are financed from special assessments and direct charges to the users of the service.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

The *Environmental Protection Division (EPD)* accounts for the operations of the City's wastewater treatment plant as well as all services related to the treatment of sewage for the City and three surrounding communities. Its operations are financed from special assessments and direct charges to the users of the service.

The *Aviation Fund* is used to account for the operations of the City's airport, which is operated by the Department of Aviation.

Additionally, the City reports the following fund types:

The *Pension Trust Funds* account for the activities of the City's two defined benefit pension plans, which accumulate resources for pension benefit payments to qualified employees.

The *Agency Funds* account for monies held as a custodian for outside groups and agencies.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this private-sector guidance for their business-type activities, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents

The City's cash and cash equivalents represent short term investments with an initial maturity of three months or less.

Investments

Investments are stated at fair value using quoted market prices. The MECRS values its alternative investments based upon the fair values as determined in good faith by the funds' managers or underlying investments' general partners. These values may not reflect the amount that would be realized upon an immediate sale due to lack of liquidity or other market conditions. Due to the uncertainty of valuation, the investment manager's estimated values may differ from the values that would have been used had a ready market existed for the fund's investments, and the difference could be material.

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year sold in the current year may have recognized as an increase or decrease in the fair value of investments reported in the prior year. Gains and losses on the sale of investments are computed using the specific identification method of determining cost. The net appreciation (depreciation) in the fair value of investments held by the Retirement System is based on the valuation of investments as of the date of the Statements of Net Assets Available for Benefits.

Risks and uncertainties

The City invests in various securities, including commercial paper and government-sponsored enterprises. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. This and other economic events have had a significant adverse impact on investment portfolios. Due to the level of risks associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position and activities.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide and proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life equal to or in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair 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. Net interest cost capitalized in the Environmental Protection Division Fund and Aviation Fund amounted to approximately \$32,000 and \$50,000, respectively, for the year ended June 30, 2008.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	15-60
Improvements	5-30
Equipment	5-15
Vehicles	3-10
Interceptors (EPD)	50
Infrastructure	20-50

Capital assets are reported as expenditures and no depreciation expense is reported in the governmental fund financial statements.

Compensated absences

City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Vacation and sick leave expenses to be paid in future periods are accrued when earned in the government-wide and proprietary fund financial statements.

The liability reported as compensated absences in the government-wide and proprietary fund financial statements includes vested and accumulated vacation leave and sick leave benefits that are not expected to be liquidated with current fiscal year available financial resources. No liability is recorded for nonvesting accumulating rights to receive sick-pay benefits. However, a liability is recognized for that portion of accumulated sick-leave benefits that it is estimated will be taken as terminal leave prior to retirement.

Long-term obligations

In the government-wide financial statements, and proprietary 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, and debt principal payments are reported as debt service expenditures.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Pension accounting

Pension Trust Funds:

Employee contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Government-wide Statements:

The net pension obligation (asset), the cumulative difference between annual pension cost and the City's contributions to the plans since 1986, is calculated on an actuarial basis consistent with the requirements of Government Accounting Standards Board Statement No. 27 and is recognized in the government wide financial statements. Expenditures are recognized when they are paid.

Funding Policy:

The City makes annual contributions based upon annual actuarial determinations.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance as they do not constitute either expenditures or liabilities.

Inventory

Inventory is stated using the moving average method, or market.

Land held for resale

The City holds property for resale. The carrying value of this property is reported at the lower of cost or net realizable value. The property was sold in October 2008 and the cost of the portion sold was charged to expenditure.

Fund Equity and Net Assets

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets or Deficits – This category represents the net assets of the City, which are not restricted for any project or other purpose. Deficits require future funding.

In the fund financial statements, fund balances of governmental funds are classified in three separate categories. The two categories, and their general meanings, are as follows:

Reserved fund balance - indicates that portion of fund equity which has been legally segregated for specific purposes or is not available for appropriations.

Unreserved designated fund balance - indicates that portion of fund equity for which the City has made tentative plans.

Undesignated and unreserved fund balance - indicates that portion of fund equity which is available for appropriation and expenditure in future periods.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities are reported in the government-wide statement of net assets. One element of that reconciliation explains that “other long-term assets are not available to pay for current period expenditures, and therefore, are not reported in the funds.” The details of the difference consisting of current assets are as follows:

Accounts receivable:		
Interest on accounts receivable	\$	462,858
Deferred charges:		
Cost of Issuance Fees		1,752,082

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of the \$275,505,760 difference consisting of long-term debt are as follows:

Bonds payable	\$ 240,109,615
Less: Deferred loss on refunding (to be amortized as interest expense)	(832,233)
Add: Deferred charge for refunding premium (to be amortized over life of debt)	1,151,924
Deferred premium on revenue bond obligation (to be amortized as interest expense)	7,401,394
Refunding premium on Series 2003B	143,961
Refunding premium on Series 2003	7,596,363
Refunding premium on Series 2004	786,336
Refunding premium on Series 2007	433,762
Compensated absences	10,357,759
Insurance claims	4,042,150
Landfill closure and post-closure care	4,314,729
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 275,505,760</u>

The details of the \$890,292 difference consisting of current accruals are as follows:

Accrued interest	\$ 1,447,354
Due to School District	<u>(557,062)</u>
Net adjustment to decrease fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 890,292</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “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.” The details of this \$4,658,033 difference are as follows:

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Capital outlay	\$ 10,589,977
Asset transfer, net	31,071
Asset retirements	(386,115)
Depreciation expense	<u>(14,892,966)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (4,658,033)</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The detail of this \$16,068,760 difference is as follows:

Principal repayments:	
General obligation debt-City portion	\$ 9,218,985
General obligation debt-MSD portion reimbursed	5,759,531
Add bond discounts, COI and premiums amortization	<u>1,090,244</u>
Net adjustment to increase net changes in fund balances - total governmental	<u>\$ 16,068,760</u>

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$800,732 difference are as follows:

Prepaid Pension Asset	\$	834,584
Deferred Professional Fees		92,181
City Retirement Contribution		(1,501,368)
Long-term liabilities incurred:		
Risk reserve		82,152
Landfill reserve		(60,055)
Compensated absences		(137,198)
Accrued interest		(318,540)
Interest receivable from MSD on bonds payable		207,512
		<hr/>
Net adjustment to decrease net changes in fund balances - total governmental	\$	<u><u>(800,732)</u></u>

Note 3. Stewardship, Compliance and Accountability

Budgets and budgetary accounting

Pursuant to the City's Charter, Section 6.01, the City adopts an annual budget for all General Fund functions and certain enterprise functions (the Water Works enterprise fund operates on a non-appropriated budgetary basis). The legal level of budgetary control is the department level. The special revenue and capital project funds are appropriated through a five-year capital improvement plan.

All portions of the annual City budget and the MSD budget are prepared under the direction of the Mayor. The Mayor establishes the procedures applicable to the preparation and adoption of the annual budget. Budgets include all proposed expenditures and the proposed use of all anticipated revenues. All departments, agencies, and officers submit detailed statements of departmental budget requests to the Mayor per established procedures.

The Mayor develops budget recommendations on appropriations and revenues and submits the recommendations to the BMA on or before the last day of March of each year. Departmental appropriations are made on a bottom-line basis. Benefits and non-departmental items are appropriated apart from the departmental budgets.

The Finance Committee of the BMA reviews the proposed budget recommendations presented by the Mayor. The BMA may increase, reduce or reject any item in the budget submitted by the Mayor. A public hearing is required to be conducted. A majority vote of the BMA is required to adopt the budget appropriation resolutions and is to be completed no later than the second Tuesday in June. The Mayor has line item veto authority.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

If the BMA fail to adopt appropriation resolutions, the budget, as originally submitted by the Mayor, shall become the budget.

If during the fiscal year the Mayor certifies, after consultation with and verification by the Finance Officer, that there are available for appropriation revenues in excess of those estimated in the budget, the BMA may make supplemental appropriations for the year up to the amount of such excess, after observing the budget procedures set forth in section 6.04 of the City Charter. There were no additional appropriations during the year.

If at any time during the fiscal year it appears probable to the Mayor, after consultation with and verification by the Finance Officer, that the revenues or fund balances available will be insufficient to finance the expenditures for which appropriations have been authorized, the Mayor shall report to the BMA without delay, indicating the estimated amount of the deficit, any remedial action taken by the Mayor and recommendations as to any other steps to be taken. The BMA shall then take such further action as it deems necessary to prevent or reduce any deficit and for that purpose it may reduce one or more appropriations.

Pursuant to the state level requirements, the budgetary level of control is established by object categories within the departmental budgets. Departmental budget transfers from one object category to another must be approved by the Finance Officer prior to approval of the BMA. The Finance Officer is responsible for establishing controls related to the management and monitoring of the budget to prevent expenditures from exceeding budgeted appropriations.

Encumbrance accounting is employed in governmental funds. On the GAAP basis, encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

The City employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statements of Revenues and Expenditures - Budgetary Basis, presents the "actual" results to provide a comparison with the budgets.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

The major differences between the budgetary basis and the GAAP basis are:

- (a) Tax revenues are recorded when invoiced (budgetary), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no firm liability exists.
- (c) State retirement contributions are paid by the State on behalf of the City and represent differences for both revenues and expenditures. The MECRS prepayment is a budgetary prepayment for FY 2009 which was approved by the BMA.

Budget/GAAP reconciliation

Reconciliation of the reported revenues and expenditures of the general fund between the budgetary basis and the GAAP basis are presented below:

	Revenues	Expenditures	Transfers In	Transfers Out
Statement of revenues and expenditures -				
budgetary basis	\$ 114,683,763	\$ 120,239,168	\$ 1,701,497	\$ 1,695,429
Central Business District	244,000	324,520	-	-
Transfer to Parking enterprise	-	-	-	725,001
Project Adjustment	-	-	78,940	-
Miscellaneous adjustment	-	(956)	-	-
Current year encumbrances	-	(227,502)	-	-
State retirement contributions	2,385,111	2,385,111	-	-
Tax revenues of 2007 recognized in 2008	1,301,173	-	-	-
Tax revenues of 2008 deferred until 2009	(1,433,547)	-	-	-
Sale of capital assets	431,873	-	-	-
Reimbursement for aggregation program - EPD	-	-	395,340	-
MECRS prepayment for FY 2009	-	(1,465,000)	-	-
WC reserve adjustment	-	182,716	-	-
CGL reserve adjustment	-	138,429	-	-
Prior year encumbrances	-	13,627	-	-
Land held for resale adjustment	-	-	29,702	-
Reimbursement for aggregation program - MWW	-	-	62,084	-
Expenditures of prior year encumbrances	-	328,914	-	-
Statement of revenues and expenditures (in conformity with GAAP)	<u>\$ 117,612,373</u>	<u>\$ 121,919,027</u>	<u>\$ 2,267,563</u>	<u>\$ 2,420,430</u>

Note 4. Cash, cash equivalents and investments

Deposits: The City has a policy that deposits can include demand and savings accounts and certificates of deposits. The City follows the state of New Hampshire which requires that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk based capital ratio.

At times the MECRS maintains cash balances in excess of the amount insured by FDIC. The MECRS has not experienced any losses in such accounts and cannot avoid at least temporary exposure to such risk when it holds cash deposits in anticipation of monthly annuity payroll obligations. The MECRS believes it is not exposed to any significant risk with respect to these accounts. At any given time, only the \$250,000 limit specified by the FDIC is guaranteed against loss.

Investments: The City's policy for investments other than pension plan investments, Municipal Revenue Bond Investments under the provisions of Chapter 33-B, and certain other Trust Fund investments follow the provisions of New Hampshire Revised Statutes Annotated (RSA) Chapter 48:16 (RSA 48:16). The City policy allows investments in the following: (1) U.S. Treasury securities maturing in less than one year; (2) fully insured or collateralized certificates of deposit at commercial banks and savings and loan associations (collateral limited to U.S. treasury bills, FNMA and GMNA securities); and (3) repurchase agreements collateralized by U.S. government obligations.

The City's policy for Municipal Revenue Bonds Investments follows Chapter 33-B of the RSA's. The investments under this chapter are governed by a resolution and/or by a trust or security agreement between the municipality and a corporate trustee which restricts the types of securities in which the applicable revenue bond proceeds can be invested. Generally these agreements allow for investments in obligations of the United States government, and certain marketable securities.

The City's policy for investments under the custodianship of the Trustees of Trust Funds include Cemetery Trust Funds RSA 31:25, Capital Reserve Funds RSA 34:5 and the Old System Pension Trust Chapter 98:4 of the Laws of 1999 follow the prudent investor guidelines which allows for various investments as long as these investments would be acquired by prudent persons of discretion and intelligence in investment matters, who are seeking a reasonable income and the preservation of capital.

The MECRS does not have a written policy in place to address custodial credit risk on investments but in practice, it minimizes such risk by holding its investments in the MECRS' name and not in the name of the custodian for benefit of the MECRS.

Interest Rate Risk: The City limits its exposure to fair value losses arising from changes in interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Interest rate risk associated with an adverse affect of changes in the fair market value of fixed income securities is not addressed in policy by the MECRS. While policies do exist to limit the percentage of market value in a single issue at any one time and of the total percentage held of any issuer's debt instrument, the duration of the remaining life of individual securities is not subject to any limitations and may therefore introduce a measure of Interest Rate Risk.

Concentrations: The City's policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific entity.

The MECRS' Statement of Investment Objectives, Policies and Guidelines prohibit more than 5% at cost of any security as a percentage of any funds held by the MECRS. In addition, no more than 5% of the outstanding shares of any one corporation can be held by the MECRS. Taken together, these guidelines mitigate the magnitude of risk and loss attributable to a single issuer.

Library Trust Fund

Vanguard Admiral GNMA FD #536	\$	308,901
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Old System Pension Trust Fund

U.S. Treasury Note	\$	1,062,209
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Cemetery Trust

U.S. Treasury Note	\$	1,574,606
U.S. Treasury Note	\$	1,828,681
U.S. Treasury Note	\$	1,468,359

Expendable Trust

U.S. Treasury Note	\$	768,925
U.S. Treasury Note	\$	724,463
Federal Home Loan Mortgage Corp.	\$	573,135
Federal National Mortgage Assn.	\$	688,765

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

The following represents the fair value of investments held that represent 5% or more of the City's investments:

MECRS Pension Trust	
Income Research Mgt. (Core Bonds Fund)	\$ 12,430,293
Loomis Sayles (Fixed Income Fund)	12,922,532
City of London	12,606,017
Mellon Capital EB (Global Tactical Assets)	25,038,573
Cadence Capital (US Large Cap Growth)	14,869,308
SSGA (US Large Cap Value Fund)	14,956,939
Vanguard Admiral Fund	13,815,960

Custodial credit risk:

Deposits: This is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2008, \$12,335 of the City's bank balance of \$186,378,577 cash and cash equivalent total was uninsured and uncollateralized. The City has steadfastly maintained sufficient collateralization of its funds to prevent losses that might be attributable to failures at individual institutions.

In accordance with Investment Policy, these funds are secured by third party perfected arrangements and safekeeping procedures have been structured to assure prudence in protection of the City principal.

Foreign currency risk:

Risk associated with fluctuation in the exchange rate between U.S. dollars and the base currency in other countries, while it exists, can be mitigated by policies which the MECRS has in place. Forward purchase or sales of currencies, including cross currency hedges, are permitted to protect or enhance the U.S. dollar value of the account. The use of derivative instruments such as currency futures or options for currency is also permitted upon completion of any necessary disclosure or other documentation. No speculative currency hedging is permitted.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Investment Policy:

The MECRS' Board of Trustees investment objectives and risk tolerance are intended to achieve a maximum total return with emphasis on preservation of capital in real terms. The investment mix is designed to participate in rising markets, with defensive action expected to an even greater degree in declining markets. Total return includes interest, dividends, and realized / unrealized gains or losses from investments.

The Board's investment policy permits fund assets to be invested in U.S. and non-U.S. equities, U.S. and non-U.S. fixed income securities and equity real estate commingled funds. Asset allocations among various classes are:

	<u>Policy Mix</u>	<u>Current Mix</u>		<u>Policy Mix</u>	<u>Current Mix</u>
TAA	17.00%	17.31%	Hedge Funds	10.00%	9.34%
Large Cap Equity	20.00%	20.94%	Private Equity	5.00%	1.29%
Mid / Small Equity	10.00%	10.29%	Fixed Income	18.00%	17.25%
International Equity	9.00%	8.68%	Real Assets	5.00%	6.98%
Emerging Markets	4.00%	5.75%	Cash	2.00%	2.17%

Investments: This 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.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Cash and investments of the City consist of the following at June 30, 2008:

Cash and Cash Equivalents		
Deposits with Financial Institutions	\$	57,540,251
Municipal Backed Investment Fund		17,257,749
Repurchase Investments		104,540,953
CR Pension Cash		5,054,314
Total Cash and Cash Equivalents		<u>\$ 184,393,267</u>
Investments		
U.S. Government Agencies		559,084 **
Total Investments		<u>559,084</u>
Library Trust Funds:		
U.S. Treasury Notes		482,897 ***
U.S. Government Agencies		334,040 ***
Corporate Bonds		373,878 ***
Common Stocks		1,344,616 ***
Equity Mutual Funds		128,566
Fixed Income Mutual Funds		308,901
Total Library Trust Funds		<u>2,972,898</u>
Cemetery Trust Funds:		
U.S. Treasury Notes		4,983,653 ***
Corporate Bonds		958,512 ***
Mutual Funds		9,532,852
Total Cemetery Trust Funds		<u>15,475,017</u>
Expendable Trust Funds:		
U.S. Treasury Notes		1,590,641 ***
Corporate Bonds		303,387 ***
Mutual Funds		2,299,609
Total Expendable Trust Funds		<u>4,193,637</u>
Old System Pension Trust Fund:		
U.S. Treasury Notes		2,574,533 ***
Corporate Bonds		3,813,768 ***
Mortgage Backed		1,646,828 ***
Mutual Funds		7,799,463
Total Old System Pension Trust Fund		<u>15,834,592</u>
City Retirement System Investments, at fair value		
Equity funds		43,630,861
International equity		12,098,634
Alternative equity		1,102,196
Hedge funds		14,833,109
Fixed income		25,352,826
Emerging market funds		12,606,017
Real estate		4,059,382
Timber funds		6,038,855
Specialty investments		25,038,661
Total City Retirement System		<u>144,760,541</u>
Total Investments	\$	<u>183,795,769</u>
Total Cash and Investments	\$	<u>368,189,036</u>

** Uninsured and unregistered, with securities held by the counterparty's agent in the City's name.

*** Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Assets

Cash and cash equivalents	\$ 82,285,581
Restricted cash	96,769,590
Investments	559,084
Restricted Investments	22,641,552
	<u>202,255,807</u>

Pension Trust Funds

Cash and cash equivalents	5,338,096
Investments	160,595,133
	<u>165,933,229</u>

Total \$ 368,189,036

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the exposure of the entity's debt type investments to this risk using the segmented time distribution model is as follows:

Type of Investment	Market Value	Investment Maturities (in Years)			
		Less Than 1 Year	1 - 5 Years	6 - 10 Years	Over 10 Years
US Treasury Notes	\$ 9,631,724	\$ 617,993	\$ 6,037,470	\$ 2,976,261	\$ -
US Government Agencies	893,124	610,006	283,118	-	-
Corporate Bonds	5,449,545	200,501	3,511,245	1,405,393	332,406
Mortgage Backed	1,646,828	-	99,364	-	1,547,464
Fixed Income Mutual Fund	308,901	308,901	-	-	-
Fixed Income Funds	25,352,826	-	12,430,293	12,922,533	-
Municipal Backed Investment Fund	17,257,749	17,257,749	-	-	-
Repurchase Investment	104,540,953	104,540,953	-	-	-
Total	<u>\$ 165,081,650</u>	<u>\$ 123,536,103</u>	<u>\$ 22,361,490</u>	<u>\$ 17,304,187</u>	<u>\$ 1,879,870</u>

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Credit Risk: Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. Presented below is the rating for each debt type investment.

Average Rating	Corporate Bonds	Mortgage Backed	US Government Obligations	Repurchase Investment	Fixed Income Mutual fund	Municipal Backed Investment Fund	Fixed Income Funds
AAA	\$ 2,876,149	\$ 1,646,828	\$ 10,524,848	\$ 104,540,953	\$ -	\$ 17,257,749	\$ -
AA	418,303	-	-	-	-	-	-
AA+	234,847	-	-	-	-	-	12,430,293
AA-	559,302	-	-	-	-	-	-
A+	702,266	-	-	-	-	-	-
A	463,010	-	-	-	-	-	-
A-	145,165	-	-	-	-	-	12,922,533
BBB	50,503	-	-	-	-	-	-
Unrated	-	-	-	-	308,901	-	-
	<u>\$ 5,449,545</u>	<u>\$ 1,646,828</u>	<u>\$ 10,524,848</u>	<u>\$ 104,540,953</u>	<u>\$ 308,901</u>	<u>\$ 17,257,749</u>	<u>\$ 25,352,826</u>

Note 5. Taxes and Abatements

The principal tax of the City is the tax on real property. The State has no cap or limit as to the rate or amount of tax a municipality may raise. The municipality’s annual property tax rate is established by the Commissioner of the Department of Revenue Administration of the State, based on reports filed with the State. A single tax is levied for general, county and school purposes. The “assessment year” for taxing purposes runs from April 1 to March 31 of the following year.

The City bills and collects its property taxes in two installments. The levy dates are June 1 and November 1 and the due dates for these semi-annual tax billings are July 1 and December 1. Property taxes are recorded as a receivable when billed, net of estimated allowance for abatements.

Real property (land and buildings) is subject to a lien for the taxes assessed upon it (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). The City places a lien on delinquent property taxes prior to May 1 of the following assessment year. From the date of the tax lien, a two-year period of redemption is allowed the owner, during which time payment of taxes, interest and costs will be accepted and the lien released.

Interest accrues on delinquent taxes at a rate of 12 percent per annum from the due date to the date of payment. During the redemption period, 18 percent interest per annum is charged. Beyond the two-year period of redemption the City has the right to foreclose on properties for which taxes have not been paid. Properties are deeded to the City unless either the lien has been sold by the City, or the City has notified the tax collector that it will not accept the deed because acceptance could result in liability under environmental statutes imposing strict liability on

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

owners. Except for any paramount federal lien and subject to bankruptcy and insolvency laws, tax liens take precedence over all other liens, and tax collector's deeds are free and clear of all encumbrances.

In December 1997, the New Hampshire Supreme Court declared that the property tax to fund education is a State tax, and therefore must be administered in a manner that is equal in valuation and uniform in rate throughout the State.

Chapter 17 of the Laws of 1999 became effective in 1999. The law includes a definition of "adequate education" for New Hampshire schools and establishes an "Education Trust Fund" and a formula for providing state financial assistance to local school districts.

The primary means of State funding for the Education Trust fund is a uniform statewide property tax under which some of the levies from more prosperous ("property rich" or "donor") communities will be collected by the State and redistributed to less affluent ("property poor" or "recipient") school districts. The law initially established a uniform tax rate of \$6.60 per thousand of total equalized value (not including utility property or local exemptions) but has been adjusted to \$2.14 for 2008. This state aid property tax is assessed and collected in virtually the same manner in which property taxes have been administered in the past with one primary exception, donor communities will be required to send amounts in excess of what is required locally for an adequate education to the State for redistribution to recipient districts. The MSD is a recipient district.

Note 6. Receivables

Primary government

	General	Water Works	EPD	Aviation	Nonmajor governmental	Nonmajor business type	Total
Due from Warrants	\$ 17,769,015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,769,015
Due from State of NH & other local governments	2,434,919	-	2,618,607	186,924	192,688	-	5,433,138
Prior year tax liens	475,916	-	-	-	-	-	475,916
Tax titles	1,405,962	-	-	-	-	-	1,405,962
Due from federal government	152,194	-	-	3,403,663	398,286	-	3,954,143
Accounts receivable-trade	2,184,787	2,979,524	4,823,167	1,434,281	-	261,689	11,683,448
Notes receivable	-	-	-	-	5,675,594	-	5,675,594
Other	1,656	185,077	839,387	738,215	-	-	1,764,335
Total gross receivables	24,424,449	3,164,601	8,281,161	5,763,083	6,266,568	261,689	48,161,551
Allowance for collection losses	(2,495,033)	-	-	-	-	-	(2,495,033)
Total net receivables	\$ 21,929,416	\$ 3,164,601	\$ 8,281,161	\$ 5,763,083	\$ 6,266,568	\$ 261,689	\$ 45,666,518

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 7. Interfund Receivables, Payables and Transfers

Due from/to other funds consist of the following at June 30, 2008:

Receivable Fund	Payable Fund	Amount
General Fund	Agency	\$ 1,585,915
	Capital projects	1,447,682
	Special Revenue:	
	HUD Section 108	130,715
	CDBG	113,619
	Other grants	83,249
	Enterprise Funds:	
	Water	90,284
	Aviation	358,081
	EPD	1,806,419
	Recreation	2,356,706
	Parking	15,515
		<u>\$ 7,988,185</u>

The balance of \$1,447,682 due from Capital Projects to the general fund is the result of a short-term advance. The balance of \$2,356,706 due from the Recreation Fund is a long-term advance as it will not be paid to the General Fund in the short-term. The remaining outstanding balances resulted from the time lag between the dates payments occur between funds for various activities, and are expected to be collected within one year.

Interfund transfers during the year ended June 30, 2008 were as follows:

	Transfers From Other Funds	Transfers To Other Funds
General Fund	\$ 2,267,563	\$ 2,420,430
Other Funds	2,195,429	408,741
EPD Fund	-	395,340
Water Fund	-	62,084
Parking Fund	225,000	1,401,397
Sub-totals	<u>\$ 4,687,992</u>	<u>\$ 4,687,992</u>

Transfers are used to account for unrestricted revenues collected mainly in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 8. Capital Assets

Governmental activities

Changes in the governmental capital assets for the year ended June 30, 2008, were as follows:

	Balance June 30, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
Capital assets, not being depreciated					
Land	\$ 14,337,955	\$ -	\$ -	\$ -	\$ 14,337,955
Construction-in-Progress	30,492,645	4,702,516	-	(33,236,227)	1,958,934
Total capital assets, not being depreciated	44,830,600	4,702,516	-	(33,236,227)	16,296,889
Capital assets, being depreciated					
Buildings	313,342,134	223,793	(1,152,344)	13,995,577	326,409,160
Improvements other than buildings	24,594,494	147,373	-	638,715	25,380,582
Equipment	9,272,699	397,694	(7,460)	153,474	9,816,407
Vehicles	20,617,915	1,469,547	(659,099)	-	21,428,363
Infrastructure	59,774,325	4,246,175	-	18,448,461	82,468,961
Total capital assets, being depreciated	427,601,567	6,484,582	(1,818,903)	33,236,227	465,503,473
Less accumulated depreciation					
Buildings	81,727,039	9,669,275	(766,735)	-	90,629,579
Improvements other than buildings	7,756,494	1,009,697	-	-	8,766,191
Equipment	5,460,578	784,356	(6,954)	-	6,237,980
Vehicles	15,040,008	1,518,582	(659,099)	-	15,899,491
Infrastructure	24,253,049	2,477,106	-	-	26,730,155
Total accumulated depreciation	134,237,168	15,459,016	(1,432,788)	-	148,263,396
Governmental Activities Capital Assets, Net	\$ 338,194,999	\$ (4,271,918)	\$ (386,115)	\$ -	\$ 333,536,966

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Business-type activities

Changes in the business-type capital assets for the year ended June 30, 2008, were as follows:

	Balance June 30, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
Capital assets, not being depreciated					
Land	\$ 44,655,016	\$ -	(5,725)	\$ 5,215,301	\$ 49,864,592
Construction-in-Progress	56,412,652	30,100,930	-	(69,854,647)	16,658,935
Total capital assets, not being depreciated	101,067,668	30,100,930	(5,725)	(64,639,346)	66,523,527
Capital assets, being depreciated					
Buildings	390,956,636	1,465,963	(368,726)	10,835,582	402,889,455
Improvements other than buildings	277,340,200	962,883	-	46,069,647	324,372,730
Equipment & vehicles	99,377,828	1,848,814	(1,565,407)	7,734,117	107,395,352
Total capital assets, being depreciated	767,674,664	4,277,660	(1,934,133)	64,639,346	834,657,537
Less accumulated depreciation					
Buildings	119,812,471	10,526,691	(318,302)	-	130,020,860
Improvements other than buildings	80,130,468	12,846,771	-	-	92,977,239
Equipment & vehicles	38,960,523	3,377,779	(1,543,960)	-	40,794,342
Less total accumulated depreciation	238,903,462	26,751,241	(1,862,262)	-	263,792,441
Business-type Total Capital Assets, Net	\$ 629,838,870	\$ 7,627,349	\$ (77,596)	\$ -	\$ 637,388,623

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Discretely reported component units

Capital assets activity in the School District at June 30, 2008, consisted of the following:

	Balance June 30, 2007	Increases	Balance June 30, 2008
Capital assets, not being depreciated			
Land	\$ 169,400	-	\$ 169,400
Total capital assets, not being depreciated	<u>169,400</u>	<u>-</u>	<u>169,400</u>
Capital assets, being depreciated			
Portable classrooms	1,047,602	-	1,047,602
Improvements	172,068	-	172,068
Instruments	183,460	34,787	218,247
Other machinery & equipment	12,808,326	1,568,959	14,377,285
Total capital assets, being depreciated	<u>14,211,456</u>	<u>1,603,746</u>	<u>15,815,202</u>
Total all capital assets	<u>14,380,856</u>	<u>1,603,746</u>	<u>15,984,602</u>
Less accumulated depreciation			
Portable classrooms	243,804	34,920	278,724
Improvements	11,472	5,736	17,208
Instruments	37,549	3,479	41,028
Other machinery & equipment	7,670,393	1,225,394	8,895,787
Less total accumulated depreciation	<u>7,963,218</u>	<u>1,269,529</u>	<u>9,232,747</u>
Total Capital Assets being depreciated, Net	<u>\$ 6,417,638</u>	<u>\$ 334,217</u>	<u>\$ 6,751,855</u>

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Capital asset activity in the MTA at June 30, 2008, consisted of the following:

	Balance			Balance
	June 30, 2007	Additions	Retirements	June 30, 2008
Capital assets, not being depreciated				
Land	\$ 129,109	-	-	\$ 129,109
Total capital assets, not being depreciated	129,109	-	-	129,109
Capital assets, being depreciated				
Buildings	1,807,598	-	-	1,807,598
Buses	7,498,152	1,172,883	(446,578)	8,224,457
Equipment	1,771,460	4,679	-	1,776,139
Total capital assets being depreciated	11,077,210	1,177,562	(446,578)	11,808,194
Less accumulated depreciation	7,357,278	808,147	(445,845)	7,719,580
Total Capital Assets being depreciated, Net	\$ 3,849,041	\$ 369,415	\$ (733)	\$ 4,217,723

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General	\$ 3,575,586
Public safety	1,092,820
Highways and streets	3,018,960
Health and welfare	127,254
Education and library	5,252,662
Parks	1,823,537
Cemetery	2,147
Total depreciation expense – governmental activities	<u>\$ 14,892,966</u>

Business-type Activities:

Water Works	\$ 3,474,540
EPD	5,733,568
Aviation	16,723,788
Recreation	383,377
Parking	435,968
Total depreciation expense – business-type activities	<u>\$ 26,751,241</u>

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 9. Unearned Revenue/Deferred Revenue

Governmental funds recognize deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also recognize unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue and deferred revenue reported in the governmental funds were as follows:

	Unearned Revenue	Deferred Revenue
	<hr/>	
General Fund:		
Taxes and accrued interest on delinquent property taxes	\$ -	\$ 1,909,464
Advanced tax collections	17,321,034	-
Gatsas (Livingston Park) receivable	-	275,000
Impact fees	3,052,231	-
Nonmajor funds	577,405	-
	<hr/>	
Total deferred/unearned revenue	\$ 20,950,670	\$ 2,184,464
	<hr/> <hr/>	

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 10. Long-Term Debt

Below is a listing of all the debt outstanding at June 30, 2008:

Issuer	Date of Issue	Interest Rate(s)(%)	Original Amounts	Maturity Dates	Annual Payment	Balance June 30, 2008
GO Series 1989	December-89	6.875	\$ 1,135,000	2009 - 2010	\$ 40,000 - 45,000	\$ 85,000
GO Series 1990 BB_C	July-90	7.10	700,000	2009 - 2011	35,000	105,000
GO Series 1990 BB_F	December-90	6.75	1,300,000	2009 - 2011	65,000	195,000
GO Series 1993	July-93	5.25 - 5.375	20,290,000	2009 - 2011	415,000 - 1,230,000	2,200,000
SRF 1995	October-94	4.168	20,840,578	2009 - 2015	1,169,437 - 1,494,111	9,283,787
Airport Series 1998 A	March-98	4.00 - 5.00	99,055,000	2009 - 2026	695,000 - 6,910,000	80,080,000
Airport Series 1998 B	March-98	4.10	19,145,000	2009	2,455,000	2,455,000
GO Series 1999	June-99	5.00	41,570,000	2009	2,470,000	2,470,000
SRF 2001	January-00	2.79	7,842,439	2009 - 2010	784,244	1,568,488
Airport Series 2000 A	April-00	5.00 - 5.375	46,010,000	2011 - 2015	620,000 - 1,640,000	6,690,000
Airport Series 2000 B	April-00	5.125 - 5.25	7,430,000	2009 - 2011	710,000 - 1,260,000	3,170,000
GO Series 2001 A	November-01	4.00 - 5.00	23,415,000	2009 - 2014	70,000 - 1,490,000	4,485,000
GO Series 2001 B	November-01	3.75 - 4.50	16,565,000	2009 - 2016	950,000 - 1,615,000	11,335,000
POB Series 2001 C	November-01	5.36 - 6.22	20,810,000	2009 - 2031	320,000 - 850,000	15,150,000
Airport Series 2002 A	June-02	4.00 - 5.125	35,740,000	2009 - 2030	895,000 - 2,380,000	32,460,000
Airport Series 2002 B	June-02	5.00	7,010,000	2030 - 2032	1,610,000 - 2,765,000	7,010,000
SRF 2004 2	June-03	1.165	2,314,846	2009	473,756	473,756
School Series 2003	July-03	3.875 - 5.25	101,410,000	2009 - 2028	1,445,000 - 4,565,000	30,655,000
SRF 2004 1	July-03	1.165	2,038,820	2009	417,264	417,264
SRF Landfill	July-03	3.728	13,221,166	2009 - 2024	661,058	10,576,933
Water Series 2003	November-03	4.00 - 5.00	38,345,000	2010 - 2035	175,000 - 2,950,000	38,345,000
GO Series 2003 A	December-03	4.00 - 5.00	34,265,000	2013 - 2029	330,000 - 3,075,000	34,265,000
GO Series 2003 B	December-03	4.00 - 5.00	25,495,000	2009 - 2020	1,230,000 - 2,690,000	24,030,000
GO Series 2003 C	December-03	3.55 - 5.75	27,760,000	2009 - 2029	80,000 - 3,470,000	18,125,000
GO Series 2004	September-04	3.125 - 5.25	11,730,000	2009 - 2019	1,010,000 - 2,040,000	11,540,000
School Series 2004	October-04	3.60 - 5.50	61,970,000	2009 - 2028	2,000,000 - 5,745,000	60,785,000
SRF 2005	August-04	1.153	4,870,047	2009 - 2010	985,106 - 996,459	1,981,564
Airport Series 2005 A	July-05	3.00 - 5.00	17,110,000	2009 - 2027	165,000 - 3,135,000	16,615,000
Airport Series 2005 B	July-05	3.05	59,215,000	2011 - 2030	300,000 - 10,545,000	59,215,000
SRF 2007	December-05	3.27	2,970,000	2007 - 2021	166,957 - 245,638	2,651,778
GO Series 2007	February-07	4.00 - 5.00	34,845,000	2007 - 2022	1,525,000 - 3,200,000	33,045,000
SRF 2008 1	July-07	1.09	2,453,435	2009 - 2012	490,687	1,962,748
SRF 2008 2	July-07	3.488	3,426,462	2009 - 2028	171,323	3,426,462
SRF 2008 3	January-08	3.488	4,412,033	2009 - 2028	220,602	4,412,033
Airport Series 2008	June-08	4.38	30,255,000	2009 - 2022	1,575,000 - 2,855,000	30,255,000
						561,519,813
Less amount representing business-type activities						321,410,198
						<u>\$ 240,109,615</u>

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Primary government

The debt service requirements of the City's outstanding General Obligation (GO) bonds, revenue bonds and notes payable at June 30, 2008 are as follows:

Governmental long-term debt:

Fiscal year	Principal	Interest	Total
2009	15,370,001	11,587,875	\$ 26,957,876
2010	13,974,088	10,918,741	24,892,829
2011	14,374,625	10,312,655	24,687,280
2012	12,810,963	9,677,071	22,488,034
2013	14,142,943	9,055,491	23,198,434
2014-2018	68,553,711	35,637,796	104,191,507
2019-2023	56,320,160	19,604,627	75,924,787
2024-2028	42,332,485	7,052,325	49,384,810
2029-2031	2,230,639	149,512	2,380,151
Debt Service Requirement	240,109,615	113,996,093	354,105,708
Add Net Bond Premium	16,681,507	-	16,681,507
Total Governmental Activities	\$ 256,791,122	\$ 113,996,093	\$ 370,787,215

Business-type Activities:

Fiscal year	Principal	Interest	Total
2009	\$ 14,010,433	\$ 14,238,211	\$ 28,248,644
2010	13,035,881	14,364,943	27,400,824
2011	12,176,053	12,856,275	25,032,328
2012	12,413,427	12,349,018	24,762,445
2013	12,586,867	11,796,073	24,382,940
2014-2018	65,716,395	50,265,189	115,981,584
2019-2023	74,658,582	35,237,588	109,896,170
2024-2028	82,443,197	18,002,629	100,445,826
2029-2033	28,609,363	4,650,339	33,259,702
2033-2035	5,760,000	291,500	6,051,500
Debt Service Requirement	321,410,198	174,051,765	495,461,963
Add Net Bond Premium	1,350,053	-	1,350,053
Less Deferred Loss	(3,904,090)	-	(3,904,090)
Total Business-type Activities	\$ 318,856,161	\$ 174,051,765	\$ 492,907,926

Interest rates for the City's outstanding GO bonds range from 3.125% to 6.22%. At June 30, 2008, the City's legal debt limit was \$1,003,185,398. Authorized, unissued financing resolutions as of June 30, 2008 totaled \$47,331,612.

The largest outstanding balance is represented by EPD Enterprise Funds in the amount of \$39,556,612. The large majority of these funds will be utilized for CSO Projects of various sizes for locations throughout the City, as well as the replacement of the sludge dewatering equipment and secondary clarifier at the treatment plant. These projects will be financed primarily through

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

the State of New Hampshire Department of Environmental Services Sewer Revolving Fund. EPD continues to pursue an aggressive path with the scheduled continuance of these mandated projects.

The remaining outstanding balance will serve to finance new money in the traditional fashion which is the issuance of Public Improvement General Obligation Bonds. This is currently listed in the amount of \$7,775,000 and is comprised of Phase 3 of the Reconstruction of Granite Street and renovations of the Manchester School of Technology.

In prior years, the City defeased certain GO and other bonds by placing the securities purchased with the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service payments of the refunded bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements. On June 30, 2008, \$23,120,000 of outstanding GO Bonds and \$63,170,000 of School Revenue Bonds are considered defeased.

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Balance			Balance	
	June 30, 2007	Increases	Decreases	June 30, 2008	Due within One year
Governmental activities:					
General Obligation Debt - City	\$ 122,180,496	\$ -	\$ 9,218,985	112,961,511	\$ 9,469,389
Revenue Bonds Payable - MSD	94,035,000	-	2,595,000	91,440,000	2,730,000
General Obligation Bonds Payable - MSD	38,872,635	-	3,164,531	35,708,104	3,170,612
Premiums (Discounts)	17,771,751	-	1,090,244	16,681,507	1,090,244
	<u>272,859,882</u>	<u>-</u>	<u>16,068,760</u>	<u>256,791,122</u>	<u>16,460,245</u>
Compensated absences	10,494,957	-	137,198	10,357,759	2,589,440
Insurance claims	5,461,366	12,237,590	12,875,923	4,823,033	4,823,033
Landfill post-closure care	4,374,785	-	60,056	4,314,729	-
	<u>\$ 293,190,990</u>	<u>\$ 12,237,590</u>	<u>\$ 29,141,937</u>	<u>\$ 276,286,643</u>	<u>\$ 23,872,718</u>
Business-type activities					
General Obligation Debt	\$ 42,166,981	\$ 10,291,930	\$ 7,343,713	45,115,198	\$ 7,025,433
Revenue Bonds	287,590,000	30,255,000	41,550,000	276,295,000	6,985,000
Premiums (Discounts)	(2,921,272)	-	(367,235)	(2,554,037)	(367,235)
	<u>\$ 326,835,709</u>	<u>\$ 40,546,930</u>	<u>\$ 48,526,478</u>	<u>\$ 318,856,161</u>	<u>\$ 13,643,198</u>

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

The EPD Enterprise Fund has eight loan agreements with original principal balances amounting to \$51,041,800 with the State of New Hampshire, State Water Pollution Control Revolving Fund (SRF) program for the purpose of financing certain projects in connection with the expansion of the wastewater treatment facility and water pollution abatement projects.

Additionally, several projects are currently utilizing the services of the SRF. These projects are in various stages of the construction or completion phase of the project. Total unamortized indebtedness as of June 30, 2008 is \$20,840,578 for EPD and CSO projects.

The City has pledged future airport revenues, net of specified operating expenses, to repay \$228,000,000 in airport revenue bonds. Proceeds from the bonds were used for various airport construction projects. The bonds are payable solely from the airport net revenues and are payable through 2032. The current year coverage ratio is 1.89. The total principal and interest remaining to be paid on the bonds is \$365,825,746. Principal and interest paid for the current year and total customer net revenues were \$23,679,602 and \$26,927,084, respectively.

The Department of Aviation (the DA) Enterprise Fund entered into a twenty-year interest rate swap agreement for its Series 2001 \$38,340,000 variable rate demand general airport revenue bonds. These bonds were refunded in June of 2008. The Refunding Series 2008 \$30,255,000 is also a variable rate demand general airport revenue bond with a fourteen-year interest rate swap agreement. Based on the swap agreement, the DA owes the counterparty interest calculated at a fixed rate of 4.38%. In return, the counterparty owes the DA interest based on a variable rate that matches the rate required by the bonds. Only the net difference in interest payments is actually exchanged with the counterparty. The \$30,255,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

The DA continues to pay interest to the 2008 bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the DA effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds are based on the fixed rate.

At June 30, 2008, the swap agreement resulted in a cumulative unfavorable fair value of \$1.1 million based on dealer quoted prices, and accordingly, the fair value of the swap was recorded in accrued liabilities and additional interest expense in the related accompanying financial statements.

Manchester Housing and Redevelopment Authority

In March 2000, the Manchester Housing and Redevelopment Authority, New Hampshire the (MHRA) issued \$49,772,909 in revenue bonds (the Bonds) to finance, in part, the construction of the Manchester Civic Center (now the Verizon Wireless Arena) (the Arena). The MHRA is a public body, corporate and politic, established pursuant to Chapter 203 of the New Hampshire Revised Statutes. The MHRA is not a component unit of the City within the meaning of GASB Codification Section 2100.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

The Bonds issued by the MHRA to finance the construction of the Arena are secured, to a degree, by revenues to be paid by the City pursuant to a Financing Agreement between the City and the MHRA (the Financing Agreement). At the time of the issuance of the Bonds, MHRA assigned all of its rights under the Financing Agreement to a corporate trustee, to be held, in trust, for the benefit of the holders of the Bonds from time to time. Under the terms of the Financing Agreement, the City is to make payment of meals and rooms tax revenues received by it from the State of New Hampshire, pursuant to RSA 78-A:26, but only to the extent that (i) such funds are actually received by the City from this source, in excess of \$454,927 in any given year, and (ii) that the City's Board of Mayor and Aldermen (the BMA) actually appropriates such funds in each year to make such payments. The City's payments under the Financing Agreement are not secured by its full faith and credit. The Financing Agreement stipulates that the Mayor will include an appropriation request in the annual budget submission to the City's Board of Mayor and Aldermen, payable from the meals and rooms tax imposed by the State and paid to the City in excess of \$454,927 in each fiscal year in an amount sufficient to make the payments required under the Financing Agreement. There is, however, no assurance that the BMA will appropriate such funds on an annual basis, or that sufficient meals and rooms tax revenues will be received by the City to make scheduled payments under the Financing Agreement. Pursuant to New Hampshire law, the Bonds do not constitute indebtedness of the City of Manchester.

In the event that either (i) the City does not receive meals and rooms tax revenues sufficient to make payments under the Financing Agreement, or (ii) that the BMA should determine not to appropriate meals and rooms tax revenues to make payments under the Financing Agreement (each an Event of Early Termination), holders of the Bonds may look only to certain reserve funds and to an insurance policy provided by American Capital Access Financial Guaranty Corporation for the payment of scheduled installments of principal and interest on the Bonds. An Event of Early Termination does not constitute a default by the City under the Financing Agreement. Holders of the Bonds have no security interest, mortgage, or other claim or interest in the Arena to secure the repayments of the Bonds.

Title to the facility remains with the City of Manchester. Consequently, the Arena is included as an asset in the City's financial statements. The City treated the donation of the asset from MHRA as a non-exchange transaction and recorded the asset at construction cost as the estimated fair market value at the time of the donation. The recording of the asset and not the revenue bonds discussed above within governmental activities, in the opinion of the auditors is not in accordance with accounting principles generally accepted in United States of America.

Due to the uncertainty of the state meals and rooms tax revenue formula, the City is not including these unknown funds as either revenues or receivables. Similarly, since the non-funding clause in the Financing Agreement provides annual lease payments which are contingent upon the items discussed in the second paragraph, the City has not included any future payments pursuant to the Financing Agreement. Accruals for the general or unspecified business risks (reserves for general contingencies) are not permitted per FASB 5. The BMA may at any time, at its sole discretion, decide not to appropriate meals and rooms tax revenue funds.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 11. Employee Benefit Plans

All full-time employees of the City participate in one of the City's pension plans or the New Hampshire Retirement System (NHRS).

City Plans

The vast majority of employees of the City participate in the City's pension plan known as the City of Manchester Employees' Contributory Retirement System or MECRS. Certain employees of the City participate in a prior pension plan known as the Old System. In addition, a limited number of former police and fire department employees covered by the NHRS also qualify for supplementary benefits that are administered and paid for by the City.

SCHEDULE OF PLAN NET ASSETS

	MECRS Pension Trust	Old System Pension Trust	Total
Assets			
Cash and cash equivalents	\$ 5,054,314	\$ 283,782	\$ 5,338,096
Investments	144,760,541	15,834,592	160,595,133
Receivables, net of allowances for collection losses	82,860	93,133	175,993
Other assets	6,750	-	6,750
Property and equipment, net where applicable, of accumulated depreciation	45,777	-	45,777
Total Assets	149,950,242	16,211,507	166,161,749
Liabilities			
Accounts and warrants payable	144,792	-	144,792
Accrued liabilities	608,786	-	608,786
Total Liabilities	753,578	-	753,578
Net Assets Held in Trust for Pension Benefits	\$ 149,196,664	\$ 16,211,507	\$ 165,408,171

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

SCHEDULE OF CHANGES OF PLAN NET ASSETS

	MECRS Pension Trust	Old System Pension Trust	Total
Additions			
Contributions			
Employer	\$ 6,414,486	\$ -	\$ 6,414,486
Plan members	2,702,901	-	2,702,901
Total Contributions	9,117,387	-	9,117,387
Investment Gain (Loss)			
Net realized and unrealized appreciation (loss) in fair value of investments	10,753,468	(1,675,587)	9,077,881
Interest	138,368	1,391,760	1,530,128
Dividends	4,424,453	-	4,424,453
Less investment expense	(412,685)	-	(412,685)
Net Investment Income (Loss)	14,903,604	(283,827)	14,619,777
Total Additions (Reductions)	24,020,991	(283,827)	23,737,164
Deductions			
Benefits paid directly to participants	7,139,687	1,764,021	8,903,708
Refunds of employee contributions	290,668	-	290,668
Administrative expenses	842,969	72,451	915,420
Total Deductions	8,273,324	1,836,472	10,109,796
Net Decrease	15,747,667	(2,120,299)	13,627,368
Net Assets Held in Trust for Pension Benefits			
Beginning of year	133,448,997	18,331,806	151,780,803
End of year	\$ 149,196,664	\$ 16,211,507	\$ 165,408,171

New System

In 1974, the City established a single-employer public employee retirement system (the MECRS) to provide pension benefits to employees other than firefighters, police officers, teachers and employees previously covered under the Old System described below. Manchester School District administration employees are covered under this plan.

All covered employees hired after January 1, 1974 are required to participate in the MECRS as a condition of employment. Employees are 100% vested after five years of service. The retirement benefit is calculated at 1-1/2% of final average total compensation during the highest three years of service in the last ten years of service (hereafter average compensation), multiplied by the years of service prior to January 1, 1999 plus 2% after January 1, 1999 of average compensation multiplied by the years of service after January 1, 1999. There is a minimum benefit of 50% of average compensation for employees hired prior to January 1, 1974 who complete 20 years of

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

service and attain age 60 before retirement or have combined age and years of service over specified amounts. All eligible employees are required to contribute 2-½% of their salaries to the MECRS prior to January 1, 1999 and 3-¾ % of their salaries after January 1, 1999. If an employee leaves covered employment or dies before five years of service, accumulated employee contributions and earnings thereon at rates determined annually by the MECRS Board of Trustees (5%, for the periods ended June 30, 2008 and 2007) are refunded. The City is required to contribute the remaining amounts necessary to finance the benefits for its employees. Benefit provisions and contribution requirements are established by the City and may be amended only by the BMA, subject to approval of the voters of the City through referendum.

Membership in the Plan consisted of the following at December 31, 2007, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	569
Terminated vested members	99
Active members	<u>1,325</u>
Total Participants	<u>1,993</u>

The City's plans, by policy, (i) require annual actuarial valuations, with yearly updates, and (ii) require annual City contributions based on actuarial determinations. During the year of actuarial valuation, the City has historically contributed the annual required contribution (ARC) of the pension plan. Any difference between the ARC and the actual contribution made has been settled by the next actuarial valuation date, and thus the City has never actually had, or had need to report, a net pension obligation (NPO).

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Valuation	Fiscal	Annual Required Contribution (ARC) as a Percentage of Valuation	Annual Required Contribution (ARC) as a Percentage of Valuation	Actual Contributions
Year Ended December 31	Year Ended June 30 *	Payroll-Pension	Payroll-Health	
2006	2008	13.27%	1.24%	N/A
2005	2007	10.63%	1.41%	N/A
2004	2006	8.72%	N/A	\$5,413,826
2003	2005	8.76%	N/A	3,950,981

* Effective June 30, 2004, contributions were determined on a percent-of-payroll basis by multiplying the ARC rate by the actual profit.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

SCHEDULE OF FUNDING PROGRESS - PENSION TRUSTS

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Unfunded		Funded Ratio (a)/(c)	Annual Covered Payroll	Liability to Covered Payroll
		Actuarial Accrued Liability (Surplus) (b)	Actuarial Accrued Liability (c)			
12/31/2007 *	\$139,962,942	59,347,157	199,370,099	70.2%	48,556,218	122.2%
12/31/2006	126,293,879	46,244,869	172,538,747	73.2%	47,537,456	97.3%
12/31/2006	113,856,253	34,059,414	147,915,666	77.0%	47,233,321	72.1%
12/31/2005	103,826,765	22,520,228	126,346,993	82.2%	45,027,930	50.0%
12/31/2004	95,297,689	20,954,959	116,252,648	81.9%	41,998,187	49.9%
12/31/2003	89,755,853	16,364,857	106,120,710	84.5%	38,940,104	42.0%

* After phased in COLA increase

Additional information as of the latest actuarial valuation follows:

Valuation Date:	December 31, 2007
Actuarial Cost Method:	Entry Age Normal
Investment Net Rate of Return:	7.5%
Projected Salary Increases:	4.0% - 14.4%
Amortization Method:	Level percent of payroll
Asset Valuation Method:	5 year smoothed market
Inflation Rate:	4.0%
Remaining Amortization Period	26 years

Medical Sub-Trust Section 401(h) Benefits

Beginning in 2006, following the November 2005 ratification by City referendum of Chapter 41 Laws of 2005, the Retirement System began operating a Retiree Health Insurance Trust pursuant to the provisions of Internal Revenue Code Section 401(h). In March of 2006, the member contribution rate increased by 1.25% to accumulate assets from which to pay benefits and on July 1, 2006, the System began providing health insurance subsidies to both new and existing retirees based upon their creditable service at retirement. The benefit is limited to members who continue to obtain their health insurance through the City's health insurance plan after they retire. The benefit amount for those already retired on March 1, 2006 was equal to 50% of the amount paid to those retiring after that date. As of July 1, 2007, the City's employer contribution rate which helps fund the benefit decreased from 1.41% to 1.24% based upon revised assumptions.

Contributions to the sub-trust are commingled with those of the pension trust and are invested in aggregate. All assets are invested as prescribed in the organization's investment guidelines. Under no circumstances are the contributions made by the employee available for refund and in

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

the event of termination, such contributions forfeit to the Plan. Assets of the sub-trust are available solely for the payment of subsidy benefits to qualified members of the Plan. Should the Plan be discontinued, assets in excess of those required to meet ongoing benefit obligations of the plan would revert to the employer.

Old System

Prior to January 1, 1974, all eligible City employees participated in the Old System, a single employer contributory public employee retirement system (PERS). All employees hired before January 1, 1974 were given the option to remain in the Old System or participate in the MECRS. The Old System was replaced by the MECRS and only operates to cover the remaining participants. All employees covered under the Old System are fully vested. Benefits under the Old System are limited to retirement benefits without death benefits to survivors. Benefits are recognized as expenditures of the General Fund on a pay-as-you-go basis. At June 30, 2008, the Old System membership consisted of:

Members currently receiving benefits	142
Active Vested Members	<u>16</u>
Total Members	<u>158</u>

Plan Year ended June 30,	Annual Required Contributions	Percentage contributed
2008	\$ -	0.0%
2007	48,508	0.0%
2006	124,659	0.0%
2005	71,571	0.0%

The City's annual pension cost and net pension obligation to the Plan for the current year were:

Annual required contribution	\$ -
Interest on net pension obligation	(1,099,507)
Adjustment to annual required contribution	<u>1,934,091</u>
Annual pension cost	834,584
Less contributions made	<u>-</u>
Increase in net pension obligation (asset)	834,584
Net pension obligation (asset) beginning of year	(14,660,096)
Net pension obligation (asset) end of year	<u>\$ (13,825,512)</u>

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Three year trend information

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation (Asset)</u>
6/30/2008	\$834,584	0.0 %	\$(13,825,512)
6/30/2007	818,868	0.0 %	(14,660,096)
6/30/2006	838,913	0.0 %	(15,478,964)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Assets	Actuarial Accrued Liability (AAL) P.U.C.	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2008	\$ 16,210,784	\$ 16,646,708	\$ 435,924	97.38 %	\$ 882,731	49.38 %
7/1/2007	18,331,806	17,771,369	(560,437)	103.15	907,546	(61.75)
7/1/2006	18,207,702	18,596,488	388,786	97.91	881,317	44.11
7/1/2005	18,962,145	20,011,713	1,049,568	94.76	1,077,069	97.45
7/1/2004	19,705,567	20,335,101	629,534	96.90	1,047,706	60.09
7/1/2003	18,843,721	20,631,992	1,788,271	91.33	987,984	181.00

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.50 %
Projected salary increases	4.50 %

NHRS Related Supplementary Benefits Plan

The City pays supplementary benefits of up to 50% of the last annual wage for any City employee who participates in the NHRS, was hired before June 30, 1972, and does not receive a pension benefit from the NHRS equal to at least 50% of the last annual wage. The unfunded pension obligation related to this benefit at June 30, 2008 was \$292,737.

At June 30, 2008, the membership consisted of:

Members currently receiving benefits

31

New Hampshire Retirement System

The City contributes to the NHRS a cost-sharing, multiple-employer defined benefit pension plan administered by the state retirement board. The NHRS provides retirement and disability and death benefits to plan members and beneficiaries. Revised Statutes Annotated 100-A:16-a of New Hampshire Law assigns the system the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The NHRS issues a publicly available financial report which can be obtained through the New Hampshire Retirement System at 4 Chennel Drive, Concord, New Hampshire 03301-8509.

NHRS members are required to contribute 9.30% of annual covered compensation to the pension plan. The City makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16 and ranges from 9.68% to 14.36% of covered compensation.

The City's contributions to the system, consisting of firefighters and police officers, for the years ended June 30, 2008, 2007 and 2006 were \$4,431,844, \$3,647,384, and \$3,498,933, respectively, and were equal to the required contributions. For the years ended June 30, 2008, 2007 and 2006, the City has recognized both revenue and expenditures of \$2,385,111, \$1,964,847, and \$1,888,062, respectively, on behalf of contributions made by the State to the NHRS.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 12. Contingent Liabilities and Risk Management

There are various claims and legal actions pending against the City for which provision has been made in the financial statements. In the opinion of the City Solicitor and other City officials, losses arising from these claims and legal actions, if any, will not have a material adverse effect on the City.

The City has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be significant.

The City's insurance coverage consists of both self-insured programs and policies maintained with various carriers. Coverage has not been materially reduced nor have settled claims exceeded commercial coverage in any of the past three years.

Changes in the balances of claims liabilities recorded by the City during the past two years are as follows:

Fiscal Year Ended	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
2008	\$5,461,366	\$12,237,590	\$12,875,923	\$4,823,033
2007	\$4,204,947	\$10,931,756	\$ 9,675,337	\$5,461,366

Accident and Health

Accident and health claims are administered through a private carrier. The City is self-insured under this program. The City maintains a stop-loss policy with limits of \$100,000 per year, per claim and a 115% aggregate for the entire cost.

Property

Property insurance is maintained with a commercial insurer and provides for a deductible of \$100,000 for each claim and an overall coverage limit of \$100,000,000.

General Liability

Liability claims are administered through a private carrier. The City is self-insured under this program, except for the Aviation Fund which maintains a liability insurance policy which provides coverage generally up to \$100,000,000 for each occurrence and in the aggregate in any one annual period of insurance. State law generally limits a city's liability for an incident to

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

\$150,000 per individual and \$500,000 per incident. \$605,000 was recorded in the government wide statements for fiscal year 2008 as the City's estimated liabilities for unsettled claims.

Worker's Compensation

Worker's compensation claims are administered through a private carrier. The City is self-insured under this program for all City employees. There is no limit per employee. \$3,212,000 was recorded in the government wide statements as the City's estimated liability for all types of claims incurred in 2008 or prior, which have not been settled.

Department of Aviation

The DA has comprehensive airport liability insurance policies with insurance companies, which provide coverage generally up to \$100,000,000 for each occurrence and in the aggregate in any one annual period of insurance. Claims are subject to a deductible amount of \$1,000 for each occurrence up to a maximum of \$5,000 during any one annual insurance period. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

Regulatory

The City was issued an Administrative Order against it by the United States Environmental Protection Agency (EPA), ordering the City to evaluate and plan for appropriate treatment of combined sewer over flows pursuant to the Federal Clean Water Act. The City believes it is in compliance with the Administrative Order and is working with Federal and State authorities in dealing with combined sewer overflows from its publicly-owned treatment works. As of June 30, 2008, there is no pending claim by the EPA or the State.

The EPD completed the Long-Term Control Plan for Combined Sewer Overflows in 1998 and entered into negotiations with EPA. The project is estimated to cost \$85 to \$140 million. The City has signed a consent order with EPA and NHDES to address the first phase of the CSO Remediation over an 11-year period at an estimated cost of \$59 million. EPD has initiated the CSO projects as required by the City's Consent Order. To date, all eligible CSO work has been awarded SRF loans and 20% State grants. At the conclusion of Phase I, the City and EPA will reassess CSO activity and evaluate the need for Phase II.

Note 13. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations required the City to place final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The \$4,314,729 reported as landfill closure and postclosure care liability at June 30, 2008 represents the cumulative amount reported to date based on use of 100 percent of the estimated capacity of the landfill. The City closed the landfill on June 28, 1996. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 14. Fund Deficits

As of June 30, 2008, the CDBG, Other Grants funds and the Recreation Fund had fund deficits in the amounts of \$532,096, \$331,633 and \$1,130,326, respectively.

The City anticipates financing the deficits through future revenues.

Note 15. Issued But Not Effective Professional Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2008 that have effective dates that may impact future financial presentations. Management is currently assessing the impact, if any, that the adoption of these standards will have on future financial statements of the City.

- ◆ GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," issued December 1, 2006, will be effective for the City beginning with its fiscal year June 30, 2009, but the liability should be measured at July 1, 2008 so that beginning net assets can be restated. This Statement identifies the circumstances under which a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted, if the pollution poses an imminent danger to the public or the environment, if the government has violated a pollution prevention permit or license, if the government has been named as a responsible party for cleaning up the pollution, if the government began to clean up the pollution, and if the government is named in a lawsuit. In addition, it provides disclosure information about their pollution obligations associated with clean-up efforts.

- ◆ GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets," issued June, 2007. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, "Basic Financial Statements - and Management's Discussion and analysis - for State and Local Governments." This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

- ◆ GASB Statement No. 52, “Land and Other Real Estate Held as Investment by Endowments”. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2008.

- ◆ GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

Note 16. Subsequent Event

To help address the State's growing financial deficit, on November 21, 2008 the Governor of New Hampshire directed the Department of Environmental Services (DES) to institute a moratorium for the remainder of fiscal year 2009 on their "State Aid Grant" program administered by their wastewater division. This moratorium was retroactive to all State Aid Grants that may have been submitted, but have not been approved by the Governor and Executive Council. In anticipation of this moratorium, DES had not been forwarding any State Aid Grant requests to the Governor and Executive Council since mid-2008. As a result of this moratorium and the associated delays in processing grant requests, EPD has 13 grant submittals totaling almost \$4.0 million in reimbursements unapproved. Out of the \$4.0 million in grant submittals, about \$1.5 million were scheduled to be reimbursed during fiscal year 2009. While DES has indicated that EPD's grant submittals are in line for reimbursement, there are no guarantees that the state Aid Grant program will be reinstated in fiscal year 2010.

**Supplemental and Combining Nonmajor
Fund Statements and Schedules**



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General Fund

General Fund

The general fund is the principal fund of the City and is used to account for all activities of the City, except those required to be accounted for in another fund. The general fund accounts for the normal recurring activities of the City (i.e., general government, public safety, public works, health, social services, recreation, education, etc.). These activities are funded principally by property taxes, user fees and grants from other governmental units.

**General Fund
Comparative Balance Sheets**

**City of Manchester, New Hampshire
June 30, 2008**

	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 70,656,183	\$ 74,561,583
Restricted cash and cash equivalents	5,628,201	9,228,443
Investments	559,084	549,682
Receivables, net of allowances for collection losses	21,929,416	22,264,508
Prepaid items	1,491,053	1,067
Due from other funds	7,988,185	5,792,937
Inventories	772,123	731,730
Land held for resale	3,362,039	3,332,338
Total Assets	<u>\$ 112,386,284</u>	<u>\$ 116,462,288</u>
<u>Liabilities and Fund Equity</u>		
Liabilities		
Accounts and warrants payable	\$ 3,174,102	\$ 3,603,363
Retainage payable	52,465	36,121
Accrued liabilities	3,669,510	3,702,882
Insurance claims payable	780,883	967,032
Due to Manchester School District	27,369,736	26,139,706
Unearned revenue	20,373,265	20,440,093
Deferred revenue	2,184,464	2,190,956
Taxes collected in advance	33,356,746	33,497,501
Total Liabilities	<u>90,961,171</u>	<u>90,577,654</u>
Fund Equity		
Fund balances		
Reserved for		
Encumbrances	227,010	375,562
Inventory	772,123	731,730
Advance from other funds	2,356,706	-
Workers' compensation	2,575,167	2,687,771
Land held for resale	3,362,039	3,332,338
Designated for		
Health insurance	1,586,798	1,500,338
Special revenue	1,557,822	5,408,382
Revenue stabilization	9,187,774	10,939,699
General liability insurance	557,655	603,232
Unreserved		
Undesignated fund balance	(757,981)	305,582
Total Fund Equity	<u>21,425,113</u>	<u>25,884,634</u>
Total Liabilities and Fund Equity	<u>\$ 112,386,284</u>	<u>\$ 116,462,288</u>

**General Fund
Comparative Statements of Revenues,
Expenditures and Changes in Fund Balances**

**City of Manchester, New Hampshire
Year Ended June 30, 2008**

	<u>2008</u>	<u>2007</u>
<u>Revenues</u>		
Taxes	\$ 74,336,731	\$ 73,363,164
Federal and state grants and aid	10,302,400	9,397,693
Nonenterprise charges for sales and services	2,308,683	2,498,543
Licenses and permits	18,313,330	19,068,754
Interest	2,127,255	2,438,924
Other	9,792,101	9,398,749
Total Revenues	117,180,500	116,165,827
<u>Expenditures</u>		
Current:		
General Government	21,784,276	22,621,758
Public safety	50,765,737	47,365,916
Health and sanitation	3,260,400	3,079,173
Highway and streets	23,304,156	21,279,800
Welfare	1,210,875	1,281,179
Education	2,506,273	2,647,160
Parks and recreation	3,355,423	3,563,914
Capital Outlay	994,712	-
Debt service:		
Principal retirement	9,218,984	8,209,680
Interest	5,518,191	5,144,530
Total Expenditures	121,919,027	115,193,110
Excess of revenues over expenditures	(4,738,527)	972,717
<u>Other Financing Sources (Uses)</u>		
Proceeds from sale of capital assets	431,873	-
Transfers in	2,267,563	2,625,048
Transfers out	(2,420,430)	(3,030,090)
Total Other Financing Sources (Uses)	279,006	(405,042)
Net Change in Fund Balance	(4,459,521)	567,675
Fund Balance, beginning of year	25,884,634	25,316,959
Fund Balance, end of year	\$ 21,425,113	\$ 25,884,634

**General Fund
Schedule of Revenues and Transfers in-
Budget and Actual (Budget Basis)**

**City of Manchester, New Hampshire
Year Ended June 30, 2008**

	Original Budget	Revised Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes				
Property tax	\$ 70,963,561	\$ 71,752,707	\$ 72,046,727	\$ 294,020
Miscellaneous taxes	72,000	32,000	135,052	103,052
Interest and penalties	538,000	538,000	915,694	377,694
Cable franchise fees	1,100,000	1,100,000	1,127,633	27,633
Total Taxes	72,673,561	73,422,707	74,225,106	802,399
Federal and State Grants and Aid				
Federal grants	227,000	227,000	285,420	58,420
Payments in lieu of taxes	875,472	1,125,472	1,252,962	127,490
State Grants	6,691,470	6,691,470	6,378,907	(312,563)
Total Federal and State Grants and Aid	7,793,942	8,043,942	7,917,289	(126,653)
<u>Nonenterprise Charges for Sales and Services</u>				
General revenues	143,695	143,695	147,986	4,291
Public safety	174,150	174,150	173,458	(692)
Highway	615,500	615,500	575,256	(40,244)
Sanitation	20,000	20,000	24,351	4,351
Health	-	-	13,005	13,005
Cemetery, Parks & Recreation	292,795	292,795	315,924	23,129
Zoning board	27,000	27,000	28,855	1,855
Parking violations	11,000	11,000	12,065	1,065
Court fines	90,000	90,000	34,818	(55,182)
Fees	990,350	990,350	870,805	(119,545)
Witness fees	95,000	95,000	94,039	(961)
Total Nonenterprise Charges for Sales and Services	2,459,490	2,459,490	2,290,562	(168,928)

**General Fund
Schedule of Revenues and Transfers in-
Budget and Actual (Budget Basis)**

**City of Manchester, New Hampshire
Year Ended June 30, 2008**

	Original Budget	Revised Budget	Actual	Variance with Final Budget Positive (Negative)
Licenses and Permits				
Auto registrations	17,096,000	16,156,000	15,776,917	(379,083)
Licenses	470,500	470,500	480,926	10,426
Permits	2,568,000	2,418,000	2,073,583	(344,417)
Total Licenses and Permits	20,134,500	19,044,500	18,331,426	(713,074)
Interest				
Income from invested funds	2,604,000	2,604,000	2,127,255	(476,745)
Other Revenues				
Reimbursements	1,133,776	1,133,776	950,061	(183,715)
Rentals & Leases	760,200	760,200	799,448	39,248
School chargebacks	8,237,915	8,237,915	7,955,933	(281,982)
Miscellaneous	137,238	137,238	86,683	(50,555)
Total Other Revenues	10,269,129	10,269,129	9,792,125	(477,004)
Total Revenues	\$ 115,934,622	\$ 115,843,768	\$ 114,683,763	\$ (1,160,005)
Transfers in	2,100,100	2,100,100	1,701,497	(398,603)
Total Transfers in	2,100,100	2,100,100	1,701,497	(398,603)
Total Revenues and Transfers in	\$ 118,034,722	\$ 117,943,868	\$ 116,385,260	\$ (1,558,608)

General Fund
Schedule of Expenditures, Encumbrances and
Other Financing Uses - Budget and Actual 2008 (Budget Basis)

City of Manchester, New Hampshire
Year Ended June 30, 2008

	2008 Original Budget	2008 Revised Budget	2008 Total Commitments	Commitments vs Revised Budget Variance
General Government				
Aldermen	\$ 76,903	\$ 76,903	\$ 74,956	\$ 1,947
Assessors	681,286	671,315	706,270	(34,955)
Building	1,331,983	1,393,526	1,389,996	3,530
City Clerk	1,198,393	1,183,680	1,198,658	(14,978)
City Solicitor	1,144,540	1,128,896	1,235,445	(106,549)
Civic Contribution	152,700	152,700	170,992	(18,292)
Conservation	8,400	8,400	2,969	5,431
Economic Development Office	329,799	325,680	331,000	(5,320)
Elderly Services	269,226	265,880	278,835	(12,955)
Finance	1,154,777	1,141,631	1,024,738	116,893
Information Systems	1,622,731	1,646,869	1,698,050	(51,181)
Mayor	251,693	247,942	250,497	(2,555)
MCTV	390,000	440,000	440,000	
Nondepartmental	15,170,843	13,933,041	13,514,503	418,538
Non-city Program	68,817	68,817	69,279	(462)
Human Resources	887,468	971,065	993,694	(22,629)
Planning	866,215	988,429	987,196	1,233
Building Maintenance	6,481,049	6,463,372	6,413,107	50,265
Tax Collector	628,099	629,880	645,076	(15,196)
Youth Services	529,733	521,697	556,504	(34,807)
Total General Government	33,244,655	32,259,723	31,981,765	277,958
Public Safety				
Fire	20,589,862	20,575,412	20,075,573	499,839
Police	21,587,845	22,012,446	22,066,217	(53,771)
Total Public Safety	42,177,707	42,587,858	42,141,790	446,068
Health and Sanitation				
Health	2,917,046	2,876,956	2,730,075	146,881
Total Health and Sanitation	2,917,046	2,876,956	2,730,075	146,881
Highway and Streets				
Highway	20,897,840	21,496,857	21,872,044	(375,187)
Total Highway and Streets	20,897,840	21,496,857	21,872,044	(375,187)
Welfare				
Welfare	1,177,639	1,167,691	1,180,675	(12,984)
Total Welfare	1,177,639	1,167,691	1,180,675	(12,984)
Education				
Library	2,406,159	2,377,847	2,376,757	1,090
Total Education	2,406,159	2,377,847	2,376,757	1,090
Parks and Recreation				
Parks & Recreation	3,040,747	3,088,861	3,218,887	(130,026)
Total Parks and Recreation	3,040,747	3,088,861	3,218,887	(130,026)
Debt Service				
Principal retirement	9,219,000	9,219,000	9,218,984	16
Interest	5,514,500	5,514,500	5,518,191	(3,691)
Total Debt Service	14,733,500	14,733,500	14,737,175	(3,675)
Total Expenditures	120,595,293	120,589,293	120,239,168	350,125
Other Financing Uses				
Community improvement program	1,689,429	1,695,429	1,695,429	-
Total Other Financing Uses	1,689,429	1,695,429	1,695,429	-
Total Expenditures and Other Financing Uses	\$ 122,284,722	\$ 122,284,722	\$ 121,934,597	\$ 350,125



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Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for revenues legally restricted for specific expenditures.

HUD Section 108 Fund

To account for Housing and Urban Development Programs that qualify for funding under Section 108.

Cash Special Projects Fund

To account for cash funded special programs, administered by City Departments.

CDBG

To account for various Community Development Block Grant funded programs.

Other Grant Fund

To account for all other Federal, State and Private grants for special programs administered by City Departments.

Civic Center

To account for a portion of the Meals and Rooms Tax distribution from the State of New Hampshire to help fund a City owned civic center.

Revolving Loan Fund

To account for a loan program funded by CDBG funds.

Expendable Trust Fund

To account for contributions and income received from various revenue sources for non-capital and capital reserve funds.

Permanent Funds

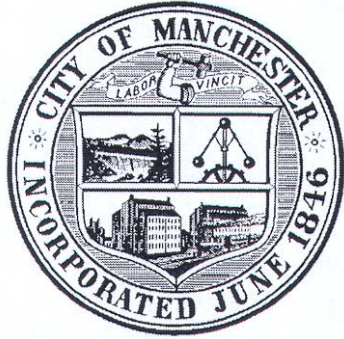
Permanent funds are to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Cemetery Trust Fund

To account for assets, contributions and income earned on investments used to maintain the City's cemeteries and endowment funds, as well as for other purposes deemed appropriate by the Trustees.

Library Trust Fund

To account for contributions and income earned on investments used to maintain the City's library. The principal of the Trust is preserved with income used to add to the City's library resources.



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Nonmajor Governmental Funds
Combining Balance Sheet

	Special Revenue			
	HUD Section 108 Fund	Cash Special Projects Fund	CDBG Fund	Other Grants Fund
Assets				
Cash and cash equivalents	\$ 487,761	\$ 900,610	\$ -	\$ -
Restricted cash and cash equivalents	-	-	-	577,404
Restricted investments	-	-	-	-
Receivables, net of allowances for collection losses	5,391,954	-	3,882	587,092
Total Assets	5,879,715	900,610	3,882	1,164,496
Liabilities and Fund Equity				
Liabilities				
Accounts and warrants payable	5,749,000	258,630	418,971	620,371
Accrued liabilities	-	5,712	3,388	215,104
Due to other Funds	130,715	-	113,619	83,249
Unearned Revenue	-	-	-	577,405
Total Liabilities	5,879,715	264,342	535,978	1,496,129
Fund Equity				
Fund balances				
Reserved for				
Cemetery and Other Trust Funds	-	-	-	-
Library Trust Funds	-	-	-	-
Encumbrances	-	35,942	60,031	294,397
Unreserved				
Undesignated fund balance	-	600,326	(592,127)	(626,030)
Total Fund Equity (Deficit)	-	636,268	(532,096)	(331,633)
Total Liabilities and Fund Equity	\$ 5,879,715	\$ 900,610	\$ 3,882	\$ 1,164,496

City of Manchester, New Hampshire

June 30, 2008

Special Revenue			Permanent Funds		Total
Civic Center Fund	Revolving Loan Fund	Expendable Trust Fund	Cemetery Trust	Library Trust	
\$ -	\$ 2,000	\$ 1,020,684	\$ 1,004,725	\$ 32,223	\$ 3,448,003
1,876,442	220,064	-	-	97,496	2,771,406
-	-	4,193,637	15,475,017	2,972,898	22,641,552
-	265,995	2,245	1,289	14,111	6,266,568
1,876,442	488,059	5,216,566	16,481,031	3,116,728	35,127,529
338	-	-	1,280	-	7,048,590
-	221,000	-	-	-	445,204
-	-	-	-	-	327,583
-	-	-	-	-	577,405
338	221,000	-	1,280	-	8,398,782
-	-	-	16,479,751	-	16,479,751
-	-	-	-	3,116,728	3,116,728
492,035	-	-	-	-	882,405
1,384,069	267,059	5,216,566	-	-	6,249,863
1,876,104	267,059	5,216,566	16,479,751	3,116,728	26,728,747
\$ 1,876,442	\$ 488,059	\$ 5,216,566	\$ 16,481,031	\$ 3,116,728	\$ 35,127,529

**Nonmajor Governmental Funds
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances**

	Special Revenue			
	HUD Section 108 Fund	Cash Special Projects Fund	CDBG Fund	Other Grant Fund
Revenues				
Federal and state grants and aid	\$ -	\$ -	\$ 2,496,160	\$ 6,345,947
Nonenterprise charges for sales and services	-	-	-	120,785
Interest	-	-	-	2,888
Contributions	-	-	-	-
Net depreciation in fair value of securities	-	-	-	-
Other	-	-	-	1,785,938
Total Revenues	-	-	2,496,160	8,255,558
Expenditures				
Current:				
General government	-	401,000	1,952,855	2,166,987
Public safety	-	160,956	51,868	758,203
Health and sanitation	-	-	54,889	1,593,538
Highway and streets	-	541,218	341,619	147,495
Welfare	-	12,250	-	78,433
Education	-	-	-	2,481
Parks and recreation	-	148,519	151,529	65,475
Cemetery Trust	-	-	-	-
Investment management fee	-	-	-	-
Capital Outlay	-	644,920	344,327	4,242,210
Total Expenditures	-	1,908,863	2,897,087	9,054,822
Excess (deficiency) of revenues over expenditures	-	(1,908,863)	(400,927)	(799,264)
Other Financing Sources (Uses)				
Transfers in	-	1,695,429	-	500,000
Transfers out	-	(108,641)	-	-
Total Other Financing Sources (Uses)	-	1,586,788	-	500,000
Net Change in Fund Balance	-	(322,075)	(400,927)	(299,264)
Fund Balance (Deficit), beginning of year	-	958,343	(131,168)	(32,368)
Fund Balance (Deficit), end of year	\$ -	\$ 636,268	\$ (532,095)	\$ (331,632)

City of Manchester, New Hampshire
Year Ended June 30, 2008

Special Revenue			Permanent Funds		
Civic Center Fund	Revolving Loan Fund	Expendable Trust Fund	Cemetery Trust	Library Trust	Total
\$ 4,161,102	\$ -	\$ -	\$ -	\$ -	\$ 13,003,209
-	-	-	-	-	120,785
43,212	24,970	304,558	1,314,487	114,216	1,804,331
-	-	-	859,723	125,820	985,543
-	-	-	(1,862,564)	(116,912)	(1,979,476)
498,313	-	1,053,599	-	-	3,337,850
4,702,627	24,970	1,358,157	311,646	123,124	17,272,242
4,212,555	-	31,107	-	124,666	8,889,170
-	-	-	-	-	971,027
-	-	-	-	-	1,648,427
-	-	-	-	-	1,030,332
-	-	-	-	-	90,683
-	-	-	-	-	2,481
142,212	-	-	-	-	507,735
-	-	-	60,000	-	60,000
-	-	-	35,361	19,818	55,179
-	-	-	-	-	5,231,457
4,354,767	-	31,107	95,361	144,484	18,486,491
347,860	24,970	1,327,050	216,285	(21,360)	(1,214,249)
-	-	-	-	-	2,195,429
-	-	-	(300,100)	-	(408,741)
-	-	-	(300,100)	-	1,786,688
347,860	24,970	1,327,050	(83,815)	(21,360)	572,439
1,528,245	242,089	3,889,515	16,563,565	3,138,087	26,156,308
\$ 1,876,105	\$ 267,059	\$ 5,216,565	16,479,750	3,116,727	\$ 26,728,747



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Nonmajor Proprietary Funds

Enterprise Funds

Enterprise Funds are used to account for the operations of the City that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis will be recovered or financed primarily through user charges.

Recreation Fund

To account for certain operations of the Parks and Recreation Department related to the revenue generating recreational facilities owned by the City. These facilities included a ski area, a golf course, a stadium and two ice skating rinks.

Parking Fund

To account for the operations of the City's Parking Management and Operations, established as a division within the Economic Development office.

Nonmajor Proprietary Funds
 Combining Statement of Net Assets

City of Manchester, New Hampshire
 June 30, 2008

	Business-type Activities-Enterprise Funds		
	Non-Major		Total
	Recreation Fund	Parking Fund	
Assets			
Current assets:			
Cash and Cash Equivalents	\$ 350	\$ 600	\$ 950
Restricted cash and cash equivalents	150,378	29,893	180,271
Receivables, net of allowances for collection losses	77,793	183,896	261,689
Total current assets:	228,521	214,389	442,910
Noncurrent assets:			
Capital assets, net, where applicable, of accumulated depreciation	7,577,119	9,662,376	17,239,495
Deferred charges	42,151	-	42,151
Total noncurrent assets:	7,619,270	9,662,376	17,281,646
Total Assets	\$ 7,847,791	\$ 9,876,765	\$ 17,724,556
Liabilities			
Current liabilities			
Accounts and warrants payable	\$ 72,022	\$ 92,393	\$ 164,415
Accrued liabilities	87,940	112,991	200,931
Due to other funds	2,356,706	15,515	2,372,221
Unearned revenue	29,005	-	29,005
Bonds and notes payable	387,496	536,572	924,068
Compensated absences	209,515	-	209,515
Other	12,109	47,193	59,302
Total Current liabilities	3,154,793	804,664	3,959,457
Noncurrent liabilities			
Bonds payable	5,816,890	5,106,896	10,923,786
Deferred Revenue	6,434	-	6,434
Total Noncurrent liabilities	5,823,324	5,106,896	10,930,220
Total Liabilities	8,978,117	5,911,560	14,889,677
Net Assets			
Invested in Capital Assets, net of related debt	1,511,003	4,018,908	5,529,911
Unrestricted	(2,641,329)	(53,703)	(2,695,032)
Total Net Assets	\$ (1,130,326)	\$ 3,965,205	\$ 2,834,879

Nonmajor Proprietary Funds
Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets (Deficits)

City of Manchester, New Hampshire
Year Ended June 30, 2008

	Business-type Activities-Enterprise Funds		
	Recreation Fund	Parking Fund	Total
<u>Operating Revenues</u>			
Charges for goods and services	\$ 1,975,679	\$ 4,878,351	\$ 6,854,030
Other	210	14,483	14,693
Total Operating Revenues	1,975,889	4,892,834	6,868,723
Total Operating Expenses	2,424,092	2,792,222	5,216,314
Operating Income (Loss)	(448,203)	2,100,612	1,652,409
<u>Non-Operating Revenues (Expenses), net</u>			
Interest income	-	41,588	41,588
Interest expense	(313,888)	(301,436)	(615,324)
Rent and other income	127,074	-	127,074
Total Non-operating Revenues (Expenses)	(186,814)	(259,848)	(446,662)
Net Income (Loss)	(635,017)	1,840,764	1,205,747
Transfer to general fund	-	(1,401,397)	(1,401,397)
Transfer from general fund	-	225,000	225,000
Transfer of Capital Assets	-	(31,071)	(31,071)
Total Transfers	-	(1,207,468)	(1,207,468)
Change in Net Assets	(635,017)	633,296	(1,721)
Fund Net Assets (Deficit), beginning of year	(495,309)	3,331,909	2,836,600
Fund Net Assets (Deficit), end of year	\$ (1,130,326)	\$ 3,965,205	\$ 2,834,879

Nonmajor Proprietary Funds
Statement of Cash Flows

City of Manchester, New Hampshire
Year Ended June 30, 2008

	Business-type Activities-Enterprise Funds		
	Recreation Fund	Parking Fund	Total
<u>Cash Flows from Operating Activities</u>			
Cash received from customers	\$ 1,928,056	\$ 4,903,866	\$ 6,831,922
Cash payments for goods and services	(1,218,027)	(1,432,798)	(2,650,825)
Cash payments to employees for services	(1,490,911)	(893,364)	(2,384,275)
Other operating revenues	127,074	-	127,074
Net Cash (Used in) Provided by Operating Activities	(653,808)	2,577,704	1,923,896
<u>Cash Flows from Non-Capital and Related Financing Activities</u>			
Due to general fund	923,691	(1,912,432)	(988,741)
Cash payment to the City	-	(1,401,397)	(1,401,397)
Interest paid on cash advances	(46,507)	-	(46,507)
Cash payment from the City	-	225,000	225,000
Net Cash (Used in) Provided by Non-Capital & Related Financing Activities	877,184	(3,088,829)	(2,211,645)
<u>Cash Flows from Capital and Related Financing Activities</u>			
Principal paid on bonds	(409,205)	(548,431)	(957,636)
Interest paid on bonds	(269,430)	(264,831)	(534,261)
Acquisition and construction of capital assets	(1,194,616)	(676,540)	(1,871,156)
Net Cash Used in Capital & Related Financing Activities	(1,873,251)	(1,489,802)	(3,363,053)
<u>Cash Flows from Investing Activities</u>			
Interest and dividends from investments	-	41,588	41,588
Net Cash Provided by Investing Activities	-	41,588	41,588
Net Decrease in Cash and Cash Equivalents	(1,649,875)	(1,959,339)	(3,609,214)
Cash and Cash Equivalents at Beginning of Year	1,800,603	1,989,832	3,790,435
Cash and Cash Equivalents at End of Year	\$ 150,728	\$ 30,493	\$ 181,221
Reconciliation of operating profit (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (448,203)	\$ 2,100,612	\$ 1,652,409
Adjustments to reconcile operating profit (loss) to cash provided by operating activities:			
Depreciation and amortization	383,377	435,968	819,345
Non-operating revenue	127,074	-	127,074
Change in Assets and Liabilities			
Increase in receivables	(18,739)	(36,161)	(54,900)
Decrease in prepaid expenses and other assets	2,332	-	2,332
Decrease in accounts payable	(664,939)	(8,762)	(673,701)
Increase (decrease) in accrued liabilities	(20,739)	38,854	18,115
Increase in compensated absences	15,123	-	15,123
Increase in other liabilities	2,007	47,193	49,200
Decrease in unearned revenue	(31,101)	-	(31,101)
Net Cash (Used in) Provided by Operating Activities	\$ (653,808)	\$ 2,577,704	\$ 1,923,896
Schedule of Noncash Investing, Capital and Financing Activities			
Disposal of Capital Assets	\$ -	\$ (28,359)	\$ (28,359)
Transfer to general fund	\$ -	\$ (31,071)	\$ (31,071)



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Governmental Capital Assets

Governmental Capital Assets

Capital assets of the City used in the operation not related to specific proprietary or trust funds.

Governmental Capital Assets
Schedule of Capital Assets - By Source

City of Manchester, New Hampshire
June 30, 2008

Capital Assets

Land	\$ 14,337,955
Buildings	326,409,160
Improvements other than buildings	25,380,582
Equipment	9,816,407
Work-in-Process	1,958,934
Vehicles	21,428,363
Infrastructure	82,468,961

Total Capital Assets **\$ 481,800,362**

Investments in Capital Assets

Capital project funds	\$ 413,027,079
General fund revenues	33,768,240
Special revenue funds	35,005,043

Total Investments in Capital Assets **\$ 481,800,362**

Governmental Capital Assets
 Schedule of Capital Assets - By Function and Activity

City of Manchester, New Hampshire
 June 30, 2008

	Land	Buildings	Other Than Buildings	Equipment	Vehicles	Infrastructure	Total
General Government							
Baseball stadium	\$ -	\$ 24,658,502	\$ -	\$ -	\$ -	\$ -	\$ 24,658,502
Building	-	-	-	5,985	153,793	-	159,778
City Clerk	-	-	-	89,650	45,548	-	135,198
City Solicitor	-	-	-	5,115	-	-	5,115
Civic Center	2,960,900	62,739,798	-	-	-	-	65,700,698
Economic Development	-	-	-	-	-	-	-
Office	2,971,931	-	-	5,294	-	-	2,977,225
Elderly Services	-	3,597,451	-	-	-	-	3,597,451
Finance	240,833	3,770,053	-	25,775	-	-	4,036,661
Information Systems	-	-	-	1,230,189	14,375	-	1,244,564
Mayor	-	-	-	-	20,158	-	20,158
Personnel	-	-	-	8,354	23,898	-	32,252
Planning	44,714	768,974	-	35,511	-	-	849,199
Public Buildings	437,250	6,055,019	\$ 115,084	30,955	255,093	-	6,893,401
Total General Government	6,655,628	101,589,797	115,084	1,436,828	512,865	-	110,310,202
Public Safety							
Fire Protection	661,290	10,810,068	126,285	586,303	8,734,723	-	20,918,669
Police Protection	96,115	4,173,770	52,716	303,566	1,730,689	-	6,356,856
Total Public Safety	757,405	14,983,838	179,001	889,869	10,465,412	-	27,275,525
Health and Sanitation							
Cemetery	71,255	298,604	348,293	368,688	555,384	-	1,642,224
Health	-	5,301,803	-	164,530	227,559	-	5,693,892
Total Health and Sanitation	71,255	5,600,407	348,293	533,218	782,943	-	7,336,116
Highway and Streets							
Highway	108,104	1,469,913	2,900,109	1,692,535	8,466,505	80,701,833	95,338,999
Total Highway and Streets	108,104	1,469,913	2,900,109	1,692,535	8,466,505	80,701,833	95,338,999
Welfare							
Welfare	27,489	109,955	-	-	-	-	137,444
Total Welfare	27,489	109,955	-	-	-	-	137,444
Education							
Library	72,270	4,603,123	-	73,775	-	-	4,749,168
School	1,602,542	186,828,131	3,416,389	92,261	-	-	191,939,323
Total Education	1,674,812	191,431,254	3,416,389	166,036	-	-	196,688,491
Parks and Recreation							
Parks & Recreation	5,043,262	11,223,996	18,421,706	5,097,921	1,200,638	1,767,128	42,754,651
Total Parks and Recreation	5,043,262	11,223,996	18,421,706	5,097,921	1,200,638	1,767,128	42,754,651
Construction in Progress	-	-	1,958,934	-	-	-	1,958,934
Total General Fixed Assets	\$ 14,337,955	\$ 326,409,160	\$ 27,339,516	\$ 9,816,407	\$ 21,428,363	\$ 82,468,961	\$ 481,800,362
Allocated to Functions							

Statistical Section

Statistical Section

This part of the City of Manchester, New Hampshire's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

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Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time. 91

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax. 99

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future. 105

Demographic and Economic Information

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Operating Information

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Net Assets By Component
Last Six Fiscal Years
(accrual basis of accounting)
(Unaudited)

City of Manchester, New Hampshire
Table I

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental activities:						
Invested in capital assets, net of related debt	\$ 84,480,112	\$ 94,437,831	\$ 114,061,411	\$ 139,339,868	\$ 137,362,874	\$ 130,205,321
Restricted	17,545,325	19,161,857	19,438,394	20,257,037	22,389,423	22,171,646
Unrestricted	(30,311,548)	(30,880,302)	(39,978,617)	(46,459,710)	(30,612,818)	(22,179,743)
Total governmental activities net assets	\$ 71,713,889	\$ 82,719,386	\$ 93,521,188	\$ 113,137,195	\$ 129,139,479	\$ 130,197,224
Business-type activities:						
Invested in capital assets, net of related debt	\$ 225,163,369	\$ 243,639,543	\$ 278,806,782	\$ 290,467,921	\$ 316,387,714	\$ 326,272,247
Restricted	41,757,605	38,493,475	42,328,192	46,926,306	46,943,856	56,532,400
Unrestricted	44,380,257	42,445,613	18,460,983	14,730,581	9,153,778	12,377,354
Total business-type activities net assets	\$ 311,301,231	\$ 324,578,631	\$ 339,595,957	\$ 352,124,808	\$ 372,485,348	\$ 395,182,001
Primary government:						
Invested in capital assets, net of related debt	\$ 309,643,481	\$ 338,077,374	\$ 392,868,193	\$ 429,807,789	\$ 453,750,588	\$ 456,477,568
Restricted	59,302,930	57,655,332	61,766,586	67,183,343	69,333,279	78,704,046
Unrestricted	14,068,709	11,565,311	(21,517,634)	(31,729,129)	(21,459,040)	(9,802,389)
Total primary government net assets	\$ 383,015,120	\$ 407,298,017	\$ 433,117,145	\$ 465,262,003	\$ 501,624,827	\$ 525,379,225

GASB Statement No. 34 Implemented in Fiscal Year 2003

Changes In Net Assets
Last Six Fiscal Years
(accrual basis of accounting)
(Unaudited)

City of Manchester, New Hampshire
Table II

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Expenses:						
Governmental activities:						
General government	\$ 32,560,283	\$ 39,884,738	\$ 39,257,227	\$ 27,046,192	\$ 47,026,301	\$ 39,763,033
Public safety	37,765,649	38,959,705	44,575,376	49,410,627	50,031,363	52,318,965
Health and sanitation	4,196,162	5,446,491	5,043,862	4,649,675	4,349,909	5,046,882
Highways and streets	28,905,257	23,004,043	21,018,167	28,343,982	15,581,877	26,607,881
Welfare	1,404,958	1,325,442	1,345,172	1,430,019	1,445,290	1,313,418
Education and library	3,816,562	3,035,765	3,466,500	4,456,108	7,512,145	7,791,145
Parks and recreation	4,724,302	5,259,212	5,190,321	5,155,343	6,408,656	6,767,095
Cemetery Trust	36,037	32,627	26,100	27,163	21,802	60,000
Investment management fee	23,511	29,071	30,823	36,920	38,834	55,177
Interest	-	-	5,359,441	4,399,559	4,094,284	4,409,099
Total governmental activities expenses	113,432,721	116,977,094	125,312,989	124,955,588	136,510,461	144,132,695
Business-type activities:						
Water	9,796,790	12,349,266	13,461,136	14,795,858	15,987,127	16,781,801
EPD	11,308,620	12,222,211	12,403,517	13,120,698	13,114,933	13,538,731
Aviation	50,322,106	45,468,710	57,832,875	56,203,377	62,213,023	65,814,560
Recreation	2,353,924	2,860,922	2,967,744	3,363,302	3,087,514	2,737,979
Aggregation	134,986	173,941	75,465	77,900	-	-
Parking	-	-	-	-	2,662,454	3,093,657
Total business-type activities expenses	73,916,426	73,075,050	86,740,737	87,561,135	97,065,051	101,966,728
Total primary government expenses	187,349,147	190,052,144	212,053,726	212,516,723	233,575,512	246,099,423
Program revenue:						
Governmental activities:						
Charges for services:						
General government	10,097,598	9,316,439	14,043,476	12,632,653	17,997,667	12,964,400
Public safety	2,161,469	2,802,949	2,586,789	2,670,102	1,249,207	1,455,129
Health and sanitation	1,375,369	1,533,303	1,584,228	1,730,138	1,788,574	1,834,023
Highways and streets	6,288,694	6,363,098	5,846,363	4,046,571	1,873,626	1,738,416
Welfare	107,019	93,813	94,465	78,928	74,100	44,825
Education and library	-	204,659	27,420	(12,894)	221,469	-
Parks and recreation	835,795	2,469,182	1,404,382	614,752	1,564,145	689,115
Operating grants and contributions:						
General government	11,429,867	15,902,634	13,272,378	14,546,757	14,685,507	14,851,309
Public safety	1,376,437	1,492,792	1,375,203	2,450,968	1,658,805	983,941
Health and sanitation	1,203,218	2,441,513	1,815,446	1,510,875	1,423,832	1,439,145
Highways and streets	6,199,844	3,680,818	3,766,747	7,302,015	2,154,194	2,055,444
Education and library	8,965	13,240	27,777	52,022	39,017	125,820
Parks and recreation	605,682	595,552	506,398	1,587,946	585,536	1,561,614
Capital grants and contributions:						
Highways and streets	-	-	-	-	4,436,221	6,201,812
Total governmental activities program revenue	41,689,957	46,909,992	46,351,072	49,210,833	49,751,900	45,944,993

(Continued)

Changes In Net Assets (Continued)
Last Six Fiscal Years
(accrual basis of accounting)
(Unaudited)

City of Manchester, New Hampshire
Table II

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Business-type activities:						
Charges for services:						
Water	9,989,204	12,139,084	13,546,594	15,489,946	16,044,783	16,316,339
EPD	11,332,387	11,393,713	11,148,848	12,154,804	13,252,696	16,645,295
Aviation	42,050,284	45,183,565	51,657,611	51,750,393	51,829,778	55,359,856
Recreation	2,274,829	2,256,001	2,317,267	2,121,088	1,856,099	2,102,962
Aggregation	182,090	55,661	82,938	-	-	-
Parking	-	-	-	-	4,653,498	4,892,834
Operating grants and contributions:						
EPD	325,855	959,284	2,377,826	1,935,899	663,143	983,903
Aviation	6,768,504	3,228,931	3,229,750	2,652,613	3,707,927	4,844,795
Recreation	-	-	18,000	-	-	-
Capital grants and contributions:						
Water	2,673,613	1,611,168	2,451,261	2,096,454	2,623,529	1,588,069
EPD	997,522	2,019,325	679,713	1,503,330	294,953	389,462
Aviation	25,527,921	817,782	13,914,058	4,902,721	20,333,025	17,325,965
Recreation	-	189,019	902,731	100,753	-	-
Total business-type activities program revenues	102,122,209	79,853,533	102,326,597	94,708,001	115,259,431	120,449,480
Total primary government program revenues	143,812,166	126,763,525	148,677,669	143,918,834	161,204,424	166,394,473
Net (expense) revenue:						
Governmental activities	(71,742,764)	(70,067,102)	(78,961,917)	(75,744,755)	(86,758,561)	(98,187,702)
Business-type activities	28,205,783	6,778,483	15,585,860	7,146,866	18,194,380	18,482,752
Total primary government net expense	(43,536,981)	(63,288,619)	(63,376,057)	(68,597,889)	(68,564,181)	(79,704,950)
General revenues and other changes in net assets:						
Governmental activities:						
Property taxes	58,168,059	61,894,928	64,709,146	67,924,107	72,795,861	73,227,606
Auto registration fees	13,873,904	14,399,844	15,194,741	15,377,773	15,286,482	14,936,473
Franchise fees	995,354	1,033,635	1,158,850	987,449	1,069,452	1,127,631
Unrestricted investment earnings programs	1,087,525	2,606,687	2,890,053	3,719,822	4,295,614	2,465,960
Miscellaneous	-	-	-	-	4,863,635	-
Debt reimbursement from MSD	5,985,063	5,797,821	6,697,790	6,569,723	-	5,759,531
Transfer from capital projects fund	-	(5,346,517)	-	-	-	-
Transfer of debt	-	-	-	-	6,804,300	-
Transfer of capital assets	-	-	-	-	(3,344,530)	31,071
Transfers in (out)	-	-	-	(1,412,528)	990,031	1,633,821
Gain (Loss) on disposal of assets	(147,804)	686,201	(886,861)	2,194,416	-	63,354
Total governmental activities	79,962,101	81,072,599	89,763,719	95,360,762	102,760,845	99,245,447
Business-type activities:						
Unrestricted investment earnings programs	2,626,689	2,177,409	2,455,431	4,440,863	3,435,663	3,313,981
Transfer from capital projects fund	-	5,346,517	-	-	-	-
Transfer of capital assets	-	-	-	-	3,344,530	(31,071)
Transfer of debt	-	-	-	-	(6,804,300)	-
Transfers in (out)	-	-	-	1,412,528	(990,031)	(1,633,821)
Donation of land	(723,590)	(478,250)	(167,778)	-	-	-
Gain (loss) on disposal of assets	(940,727)	(546,759)	(2,856,187)	(471,406)	3,180,298	2,564,812
Total business-type activities	962,372	6,498,917	(568,534)	5,381,985	2,166,160	4,213,901
Total primary government	80,924,473	87,571,516	89,195,185	100,742,747	104,927,005	103,459,348
Changes in net assets:						
Governmental activities	8,219,337	11,005,497	10,801,802	19,616,007	16,002,284	1,057,745
Business-type activities	29,168,155	13,277,400	15,017,326	12,528,851	20,360,540	22,696,653
Total primary government	\$ 37,387,492	\$ 24,282,897	\$ 25,819,128	\$ 32,144,858	\$ 36,362,824	\$ 23,754,398

Program Revenues by Function/Program
Last Six Fiscal Years
(accrual basis of accounting)
(Unaudited)

City of Manchester, New Hampshire
Table III

Function / Program	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental activities:						
General government	\$ 21,527,465	\$ 25,219,073	\$ 27,315,854	\$ 27,179,410	\$ 32,683,174	\$ 27,815,709
Public safety	3,537,906	4,295,741	3,961,992	5,121,070	2,908,012	2,439,070
Health and sanitation	2,578,587	3,974,816	3,399,674	3,241,013	3,212,406	3,273,168
Highways and streets	12,488,538	10,043,916	9,613,110	11,348,586	8,464,041	9,995,672
Welfare	107,019	93,813	94,465	78,928	74,100	44,825
Education and library	8,965	217,899	55,197	39,128	260,486	125,820
Parks and recreation	1,441,477	3,064,734	1,910,780	2,202,698	2,149,681	2,250,729
Total governmental activities	41,689,957	46,909,992	46,351,072	49,210,833	49,751,900	45,944,993
Business-type activities:						
Water	12,662,817	13,750,252	15,997,855	17,586,400	18,668,313	17,904,408
EPD	12,655,764	14,372,322	14,206,387	15,594,033	14,210,792	18,018,660
Aviation	74,346,709	49,230,278	68,801,419	59,305,727	75,870,730	77,530,616
Recreation	2,274,829	2,445,020	3,237,998	2,221,841	1,856,099	2,102,962
Aggregation	182,090	55,661	82,938	-	-	-
Parking	-	-	-	-	4,653,498	4,892,834
Total business-type activities	102,122,209	79,853,533	102,326,597	94,708,001	115,259,432	120,449,480
Total government	\$ 143,812,166	\$ 126,763,525	\$ 148,677,669	\$ 143,918,834	\$ 165,011,332	\$ 166,394,473

GASB Statement No. 34 implemented in fiscal year 2003.



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Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	1999	2000	2001	2002
General Fund:				
Reserved	\$ 2,924,922	\$ 3,310,928	\$ 12,226,672	\$ 4,133,044
Designated	6,976,137	10,309,252	3,688,065	12,988,760
Unreserved	466,223	2,221,288	3,777,077	4,683,957
Total General Fund	\$ 10,367,282	\$ 15,841,468	\$ 19,691,814	\$ 21,805,761
All Other Governmental Funds:				
Reserved	\$ 144,121	\$ 3,002,877	\$ 11,950,554	\$ 2,090,618
Unreserved, reported in:				
Special revenue funds	4,449,686	5,148,170	2,970,878	3,116,253
Capital projects funds	(11,549,935)	6,103,187	(11,721,942)	1,851,937
Designated				
Permanent funds (1)	14,921,848	15,354,789	15,196,208	14,517,533
Total all other government funds	\$ 7,965,720	\$ 29,609,023	\$ 18,395,698	\$ 21,576,341

(1) Effective Fiscal Year 2002, Nonexpendable Funds became Permanent Funds

Manchester, New Hampshire

Table IV

Fiscal Year					
2003	2004	2005	2006	2007	2008
\$ 6,449,829	\$ 6,437,435	\$ 8,738,265	\$ 7,315,876	\$ 7,127,401	\$ 9,293,045
15,054,664	17,271,800	14,187,935	17,228,952	18,451,651	12,890,049
1,304,404	1,356,227	1,122,693	772,131	305,582	(757,981)
\$ 22,808,897	\$ 25,065,462	\$ 24,048,893	\$ 25,316,959	\$ 25,884,634	\$ 21,425,113
\$ 1,864,721	\$ 7,020,587	\$ 7,498,404	\$ 3,023,718	\$ 8,405,102	\$ 1,456,645
2,483,422	3,516,922	4,835,218	5,333,550	5,748,166	6,249,863
(9,674,249)	102,401,303	14,009,088	(8,265,253)	5,820,499	6,103,294
14,581,214	16,446,853	17,167,013	18,322,250	20,116,364	19,596,479
\$ 9,255,108	\$ 129,385,665	\$ 43,509,723	\$ 18,414,265	\$ 40,090,131	\$ 33,406,281

Changes In Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year			
	1999	2000	2001	2002
Revenues:				
Taxes	\$ 117,505,991	\$ 60,190,452	\$ 58,628,056	\$ 59,020,928
Federal and state grants and aid	29,805,166	18,982,898	15,298,293	21,468,082
Nonenterprise charges for sales and services	15,458,756	3,697,605	4,085,355	4,583,544
Licenses and permits	14,969,847	16,212,440	18,432,863	19,744,630
Interest	2,175,621	3,095,541	2,730,004	2,122,188
Contributions	3,204,578	1,956,968	2,008,672	135,318
Net Gain (Loss) on sale of securities	-	(8,558)	(11,146)	(1,466,788)
Other	1,580,128	10,287,908	10,555,772	10,725,919
Total revenues	184,700,087	114,415,254	111,727,869	116,333,821
Expenditures:				
General government	29,025,690	27,987,865	35,970,970	38,919,296
Public safety	30,118,247	31,034,706	33,771,397	37,289,258
Health and sanitation	2,605,332	2,898,910	3,244,673	3,519,618
Highway and streets	22,753,307	21,300,011	23,630,644	26,216,184
Welfare	1,084,317	1,280,695	1,452,181	2,243,862
Education	95,720,849	3,655,827	3,362,722	3,057,941
Parks and recreation	3,853,518	3,264,218	5,881,406	6,773,394
Pension Benefit Payments	-	-	-	18,960,260
Cemetery Trust	28,500	771,000	60,384	25,309
Investment management fee	2,272	15,993	9,989	19,704
Capital Outlay	-	16,155,441	-	-
Debt service:				
Principal retirement	13,893,514	9,370,788	10,287,693	11,030,422
Interest	5,840,166	3,967,702	3,586,005	3,565,940
Issue Costs	-	183,795	-	158,662
Total expenditures	204,925,712	121,886,951	121,258,064	151,779,850
Excess of expenditures over revenues	(20,225,625)	(7,471,697)	(9,530,195)	(35,446,029)
Other financing sources (uses):				
Proceeds of refunding bonds	-	4,286,068	-	14,150,020
Payment to refunded bond escrow agent	-	(4,252,111)	-	(13,996,706)
Proceeds from premium of refunding bonds	-	-	-	-
Deferred cost of issuance	-	-	-	-
Proceeds from pension obligation bonds	-	-	-	18,960,260
Proceeds from sale of capital assets	-	-	-	-
Bond proceeds	-	35,916,751	-	23,055,000
Transfers in	1,677,826	6,144,438	2,882,700	2,390,019
Transfers out	(1,677,826)	(6,144,438)	(2,582,600)	(2,390,019)
Total other financing sources	-	35,950,708	300,100	42,168,574
Net changes in fund balance	\$ (20,225,625)	\$ 28,479,011	\$ (9,230,095)	\$ 6,722,545
Debt service as a percentage of noncapital expenditures	9.63%	11.09%	11.44%	9.72%

City of Manchester, New Hampshire
Table V

		Fiscal Year									
		2003	2004	2005	2006	2007	2008				
\$	59,369,549	\$	62,989,526	\$	65,843,620	\$	69,052,574	\$	73,363,164	\$	74,336,731
	20,755,631		23,031,879		20,647,964		27,016,053		24,927,919		23,305,609
	4,613,875		4,831,694		4,700,155		4,908,852		2,710,485		2,429,468
	20,521,738		21,452,411		21,964,114		21,609,795		19,068,754		18,313,330
	1,087,525		2,606,686		2,890,054		3,706,927		4,295,613		4,445,436
	117,529		1,094,669		109,069		434,529		138,372		985,543
	75,061		2,307,874		453,314		139,631		1,191,353		-
	9,335,188		10,383,875		13,652,248		12,208,823		12,503,590		11,150,475
	115,876,096		128,698,614		130,260,538		139,077,184		138,199,250		134,966,592
	30,723,093		75,458,238		109,422,862		54,219,429		41,048,166		30,981,002
	38,907,268		40,896,490		42,965,272		47,901,463		49,385,498		51,736,764
	3,952,571		4,816,844		4,842,162		4,596,652		4,447,215		4,908,827
	29,136,467		26,989,382		28,759,534		32,024,811		29,351,050		24,334,488
	1,373,226		1,341,846		1,321,072		1,421,506		1,422,018		1,301,558
	2,265,134		2,538,230		3,430,734		2,643,102		3,804,524		2,508,754
	4,712,978		8,941,058		8,942,033		7,072,385		4,522,372		3,973,816
	-		-		-		-		-		-
	34,000		30,889		26,100		26,100		55,100		60,000
	23,511		29,071		30,823		36,920		38,834		55,179
	-		-		-		-		-		13,578,094
	10,890,802		9,630,629		9,832,097		9,986,012		8,209,680		9,218,984
	5,181,212		10,083,141		7,721,471		5,480,168		5,144,530		5,518,191
	-		-		-		-		-		-
	127,200,262		180,755,818		217,294,160		165,408,548		147,428,987		148,175,657
	(11,324,166)		(52,057,204)		(87,033,622)		(26,331,364)		(9,229,737)		(13,209,065)
	-		24,490,273		73,516,645		-		29,987,518		-
	-		(24,276,368)		(82,354,058)		-		-		-
	-		-		10,059,239		-		495,728		-
	-		-		(1,087,631)		-		-		-
	-		-		-		-		-		-
	-		3,300,000		-		3,916,500		-		431,873
	-		170,930,421		-		-		-		-
	2,587,754		2,832,843		9,940,580		3,518,731		4,916,661		4,462,992
	(2,581,685)		(2,832,843)		(9,933,664)		(4,931,259)		(3,926,629)		(2,829,171)
	6,069		174,444,326		141,111		2,503,972		31,473,278		2,065,694
\$	(11,318,097)	\$	122,387,122	\$	(86,892,511)	\$	(23,827,392)	\$	22,243,541	\$	(11,143,371)
	12.64%		10.91%		8.08%		9.35%		9.06%		9.95%

Tax Revenues by Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

Fiscal Year	Property Tax	Boat Tax	Fee	Deferred Tax	Cost on Tax Title	Interest on Tax
1999	115,549,278	48,195	472,471	41,799	33,782	396,821
2000	58,481,561	60,556	552,896	30,313	18,491	331,569
2001	56,334,823	42,713	1,018,892	35,195	33,316	299,559
2002	56,855,455	40,478	1,106,312	3,312	26,044	286,151
2003	57,498,621	44,192	995,354	33,546	24,211	292,380
2004	61,051,554	35,257	1,033,635	29,345	22,917	279,527
2005	63,751,881	38,103	1,158,850	27,340	20,316	304,394
2006	67,172,767	35,223	987,449	27,371	16,568	309,529
2007	71,327,274	34,656	1,069,452	32,562	16,453	433,535
2008	71,914,352	-	1,127,633	40,981	30,692	453,840
Change from first year on record versus 2008	-37.76%	-100.00%	138.67%	-1.96%	-9.15%	14.37%

Manchester School District was included in the City's statements up through Fiscal Year 1999

City of Manchester, New Hampshire
Table VI

Lien	Railroad Tax	Tax Lien	Miscellaneous tax	District	Total
680,596	5,672	53,700	(33)	223,710	117,505,991
432,512	5,182	56,004	66	221,302	60,190,452
577,493	5,693	73,645	3,593	203,134	58,628,056
469,252	5,313	20,379	707	207,495	59,020,898
217,968	4,633	33,777	-	224,867	59,369,549
264,729	3,250	44,464	-	224,848	62,989,526
224,613	3,610	86,845	-	227,668	65,843,620
229,189	7,373	30,470	-	236,637	69,052,576
192,213	6,666	6,213	-	244,140	73,363,164
390,181	-	131,358	3,694	244,000	74,336,731
-42.67%	-100.00%	144.61%	-11293.94%	9.07%	-36.74%

**Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(Unaudited)**

**City of Manchester, New Hampshire
Table VII**

Fiscal Year	Residential Property	Non-Residential Property	Total Taxable Assessed Value	Percent Growth	Total Direct Tax Rate	Actual Taxable Value	Value as a Percentage of Actual Value
1999	2,282,638,700	1,521,938,800	3,804,577,500	2.15%	32.55	3,739,882,250	98.30%
2000	2,304,804,600	1,557,536,400	3,862,341,000	1.52%	30.49	3,797,731,850	98.33%
2001	2,336,235,300	1,560,443,200	3,896,678,500	0.89%	30.68	3,831,804,250	98.34%
2002	3,144,786,262	2,123,426,704	5,268,212,966	35.20%	23.82	5,155,060,466	97.85%
2003	3,176,542,062	2,088,003,742	5,264,545,804	-0.07%	25.68	5,131,073,404	97.46%
2004	3,225,785,062	2,095,599,838	5,321,384,900	1.08%	26.40	5,182,805,100	97.40%
2005	3,279,018,462	2,140,996,138	5,420,014,600	2.95%	27.92	5,277,932,600	97.38%
2006	3,335,718,150	2,153,215,350	5,488,933,500	4.26%	28.36	5,342,561,400	97.33%
2007	6,310,723,491	3,563,065,605	9,873,789,096	85.55%	16.85	9,589,899,446	97.12%
2008	6,423,511,790	3,516,127,810	9,939,639,600	83.39%	16.57	9,631,808,500	96.90%

Source: City of Manchester Building Department

Note: There is no personal property tax (on cars or jewelry); only real property is taxed. The above information presents the information for each period for which it is levied. A tax levy provides taxes remitted in the following year. The farmland value is based upon productivity instead of actual market value.

REAL PROPERTY TAX RATES

Fiscal Year	Rate per thousand (1)				Total
	City	School Local	School State	County	
1999	12.17	18.47	-	1.91	32.55
2000	15.53	6.10	6.94	1.92	30.49 ⁽²⁾
2001	14.74	7.04	6.86	2.04	30.68
2002	11.26	5.25	5.66	1.65	23.82 ⁽³⁾
2003	11.51	6.73	5.83	1.61	25.68
2004	12.19	7.07	5.49	1.65	26.40
2005	12.38	9.47	4.34	1.73	27.92
2006	12.91	9.21	4.35	1.89	28.36
2007	7.96	5.36	2.48	1.05	16.85
2008	7.84	5.29	2.42	1.02	16.57

Notes

- (1) Rates are based on assessed value of property. Assessment rate for real property is 100% percent.
- (2) Beginning in 2000, Rate includes Statewide tax for education.
- (3) 2002 tax rate reflects the new assessed valuation determined through a Citywide valuation.

**Principal Property Taxpayers
Current Year and Nine Years Ago
(Unaudited)**

**City of Manchester, New Hampshire
Table IX**

Taxpayer	2008			1999		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Manchester Mall Realty Trust	\$ 155,000,000	1	1.59%	\$ 68,500,000	1	1.80%
Public Service Co. of NH	104,122,900	2	1.07%	56,270,000	2	1.48%
SRP6 NH LLC	46,000,000	3	0.47%	-	-	-
Fairfield Countryside, LLC	38,000,000	4	0.39%	14,514,500	6	0.38%
1200 Elm Street, LLC	35,544,700	5	0.37%	-	-	-
Manchester Hill Vistas, Inc	33,311,800	6	0.34%	-	-	-
IPC Office Properties, LLC	33,223,200	7	0.34%	21,253,600	4	0.56%
Brady Sullivan Plaza, LLC	29,448,700	8	0.30%	-	-	-
Energy North Natural Gas, Inc.	32,161,600	9	0.33%	32,397,500	3	0.85%
Farley White Manchester, LLC	25,000,000	10	0.26%	-	-	0.00%
New England Mutual Life Insurance Company	-	-	-	16,954,000	5	0.45%
New England Telephone & Telegraph Co.	-	-	-	13,208,300	7	0.35%
NH Vermont Blue Cross Blue Shield	-	-	-	13,412,400	8	0.35%
Washington Park Associates	-	-	-	13,079,700	9	0.34%
May Center Associates, Corp.	-	-	-	13,063,700	10	0.34%
Total	<u>\$ 531,812,900</u>		<u>5.47%</u>	<u>\$ 262,653,700</u>		<u>6.90%</u>

Source: City of Manchester, Board of Assessor

Property Tax Levies And Collections
Last Ten Fiscal Years
(Unaudited)

City of Manchester, New Hampshire
Table X

Fiscal Year Ended June 30:	Tax Year	Taxes Levied for the Tax Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
			Amount	Percentage of Levy		Amount	Percentage of Levy
1999	1998	120,680,494	117,945,857	97.73%	4,035,991	121,981,848	101.08%
2000	1999	115,618,982	113,614,291	98.27%	2,539,282	116,153,573	100.46%
2001	2000	116,223,505	114,648,459	98.64%	2,355,346	117,003,805	100.67%
2002	2001	121,622,119	120,213,115	98.84%	2,188,790	122,401,905	100.64%
2003	2002	130,564,737	129,134,168	98.90%	1,506,291	130,640,459	100.06%
2004	2003	135,723,211	134,487,059	99.09%	1,446,467	135,933,526	100.15%
2005	2004	146,102,564	144,769,852	99.09%	1,136,723	145,906,575	99.87%
2006	2005	150,136,969	148,899,897	99.18%	1,700,746	150,600,643	100.31%
2007	2006	160,204,056	158,203,828	98.75%	741,173	158,945,001	99.21%
2008	2007	157,734,927	155,578,438	98.63%	2,674,305	158,252,742	100.33%

Note:

There is no personal property tax (on cars or jewelry); only real property is taxed.

The above information presents the information for each period for which it is levied.

A tax levy provides taxes remitted in the following year.

**Ratios of Net General Bonded Debt Outstanding by Type
Last Ten Fiscal Years
(Unaudited)**

**City of Manchester, New Hampshire
Table XI**

Fiscal Year	Governmental Activities			Business-Type Activities			
	General Obligation Bonds	Percentage of Actual Property Value (1)	Debt Per Capita (2)	General Obligation Bonds	Total Primary Government	Percentage of Per Capita Income	Per Capita (2)
1999	107,348,779	2.87%	1,020	35,536,295	142,885,074	0.0205%	1,358
2000	127,394,568	3.35%	1,200	37,655,951	165,050,519	0.0189%	1,554
2001	110,870,443	2.89%	1,036	46,575,117	157,445,560	0.0212%	1,471
2002	135,787,560	2.63%	1,256	50,927,008	186,714,568	0.0183%	1,728
2003	118,936,695	2.32%	1,100	44,030,159	162,966,854	0.0215%	1,507
2004	177,585,333	3.43%	1,626	46,301,010	223,886,343	0.0159%	2,050
2005	162,273,490	3.07%	1,478	43,579,428	205,852,918	0.0179%	1,875
2006	148,187,757	2.77%	1,348	35,397,488	183,585,245	0.0218%	1,669
2007	161,053,131	1.68%	1,473	42,166,979	203,220,110	0.0206%	1,858
2008	148,669,615	1.54%	1,369	45,115,198	193,784,813	0.0225%	1,785

Note: Details regarding the City's outstanding debt may be found in the notes to the basic financial statements.

(1) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.

(2) Population data can be found in the Schedule of Demographic and Economic Statistics.

Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)
(Unaudited)

City of Manchester, New Hampshire
Table XII

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CITY										
Debt limit	\$ 384,098	\$ 430,726	\$ 500,533	\$ 580,323	\$ 686,468	\$ 815,916	\$ 941,161	\$ 1,033,737	\$ 1,024,367	\$ 1,003,185
Total net debt applicable to limit	75,179	99,060	89,165	102,487	85,125	155,233	100,178	91,518	112,405	103,739
Legal debt margin	\$ 308,919	\$ 331,666	\$ 411,368	\$ 477,836	\$ 601,343	\$ 660,683	\$ 840,983	\$ 942,219	\$ 911,962	\$ 899,446
Total net debt applicable to the limit as a percentage of debt limit	19.57%	23.00%	17.81%	17.66%	12.40%	19.03%	10.64%	8.85%	10.97%	10.34%

Legal Debt Margin Calculation for Fiscal Year 2008

Base valuation - real estate	\$ 10,289,081
Debt limit (9.75% of base valuation)	1,003,185
Debt applicable to limit:	
Total bonded debt for general government	114,200
Recreation enterprise debt	6,135
Less debt for urban redevelopment	(1,446)
Less debt for pension obligation bonds	(15,150)
Total net debt applicable to limit	103,739
Legal debt margin	\$ 899,446

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
SCHOOL										
Debt limit	\$ 275,763	\$ 309,239	\$ 359,357	\$ 416,642	\$ 492,849	\$ 585,786	\$ 675,706	\$ 742,170	\$ 735,443	\$ 720,236
Total net debt applicable to limit	27,517	36,700	34,755	42,554	38,400	43,056	39,134	35,070	38,873	35,708
Legal debt margin	\$ 248,246	\$ 272,539	\$ 324,602	\$ 374,088	\$ 454,449	\$ 542,730	\$ 636,572	\$ 707,100	\$ 696,570	\$ 684,528
Total net debt applicable to the limit as a percentage of debt limit	9.98%	11.87%	9.67%	10.21%	7.79%	7.35%	5.79%	4.73%	5.29%	4.96%

Legal Debt Margin Calculation for Fiscal Year 2008

Base valuation - real estate	\$ 10,289,081
Debt limit (7% of base valuation)	720,236
Debt applicable to limit:	
Total bonded debt for school district	127,148
Less debt for facilities revenue bond	(91,440)
Total net debt applicable to limit	35,708
Legal debt margin	\$ 684,528

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Water and Waste Water										
Debt limit	\$ 393,947	\$ 441,770	\$ 513,367	\$ 595,203	\$ 704,070	\$ 836,837	\$ 965,294	\$ 1,060,243	\$ 1,050,633	\$ 1,028,908
Total net debt applicable to limit	32,283	36,215	45,296	49,804	43,084	43,885	41,211	31,883	28,114	32,098
Legal debt margin	\$ 361,664	\$ 405,555	\$ 468,071	\$ 545,399	\$ 660,986	\$ 792,952	\$ 924,083	\$ 1,028,360	\$ 1,022,519	\$ 996,810
Total net debt applicable to the limit as a percentage of debt limit	8.19%	8.20%	8.82%	8.37%	6.12%	5.24%	4.27%	3.01%	2.68%	3.12%

Legal Debt Margin Calculation for Fiscal Year 2008

Base valuation - real estate	\$ 10,289,081
Debt limit (10% of base valuation)	1,028,908
Debt applicable to limit:	
Total bonded debt for water projects	46,638
Less debt for revenue bonds	(38,345)
Total bonded debt for sewer projects	23,805
Total net debt applicable to limit	32,098
Legal debt margin	\$ 996,810

Aviation Revenue Bond Coverage
Last Ten Fiscal Years

Fiscal Year	Gross Revenue	Revenue Credit From Prior Year ⁽⁴⁾	Coverage Amount From Prior Year ⁽⁴⁾	Expenses ⁽¹⁾
1999	21,831,476	-	-	11,136,557
2000	25,347,377	-	-	13,336,522
2001	32,183,363	844,000	1,206,000	13,909,243
2002	35,214,341	2,036,240	1,724,000	14,923,309
2003 ⁽³⁾	38,658,389	2,467,415	2,236,000	20,192,680
2004	41,424,013	3,093,467	2,825,135	21,673,975
2005	47,157,125	3,678,923	2,774,395	24,838,364
2006	48,357,684	5,514,506	2,880,378	25,777,902
2007	48,682,443	6,012,000	3,000,053	28,480,391
2008	49,542,718	5,076,000	3,172,740	30,528,646

Notes

⁽¹⁾ Exclusive of depreciation and bond interest.

⁽²⁾ Principal, interest, and O&M reserve required at year end to fund three months of operations and maintenance expense.

⁽³⁾ As of fiscal 2003, the 1992 Debt was paid off and there is no 1992 Debt Service coverage required.

⁽⁴⁾ Provided by Jacob's Consultancy formerly known as Leigh Fisher Associates, Aviation Consultants

Net Revenue Available for 1992 Debt Service	REQUIREMENTS		Net Revenue Available for 1998/2000/2001/2002 Debt Service	REQUIREMENTS		Coverage ratio
	1992 Debt Service Total ⁽²⁾	Coverage		1998/2000/2001/2002 Debt Service Total ⁽²⁾	Debt Service O & M Reserve ⁽⁴⁾	
10,694,919	3,306,450	3.23	-	-	-	-
12,010,855	3,331,255	3.61	8,679,600	4,266,791	2,082,000	1.37
18,274,120	3,332,688	5.48	20,324,120	6,866,107	1,249,500	2.50
20,291,032	1,666,233	12.18	24,051,272	8,881,197	458,000	2.58
N/A	N/A	N/A	23,169,124	11,300,538	953,835	1.89
N/A	N/A	N/A	25,668,640	11,767,527	434,000	2.10
N/A	N/A	N/A	28,772,079	11,521,512	334,000	2.43
N/A	N/A	N/A	30,974,666	12,000,213	562,000	2.47
N/A	N/A	N/A	29,214,105	12,690,960	410,000	2.23
N/A	N/A	N/A	27,262,812	12,878,070	1,521,600	1.89

**Water Department Revenue Bond Coverage
Last Five Fiscal Years**

**City of Manchester, New Hampshire
Table XIV**

MWW Fiscal Year December 31	Gross Revenue	Expenses ⁽¹⁾	Net Revenue Available for Debt Service	REQUIREMENTS	
				Revenue Bonds Section 705	
				Total	Coverage Ratio
2002	\$ -	\$ -	\$ -	N/A	N/A
2003	10,315,059	7,140,275	3,174,784	1,389,966	2.28
2004	12,704,122	7,646,598	5,057,524	2,209,159	2.29
2005	14,375,241	8,340,821	6,034,420	3,491,659	1.73
2006	15,526,230	9,438,425	6,087,805	3,564,464	1.71
2007	19,696,493	9,572,908	10,123,585	3,696,275	2.74

Note

⁽¹⁾ Exclusive of depreciation and bond interest.

Demographic and Economic Statistics
Last Ten Fiscal Years
(Unaudited)

City of Manchester, New Hampshire
Table XV

Fiscal Year Ended June 30	Population ⁽¹⁾	Personal Income ⁽²⁾	Per Capita Income ⁽²⁾	Median Age	School Enrollment ⁽³⁾	Unemployment Rate ⁽⁴⁾
1999	105,221		29,303		16,467	2.40%
2000	106,180		31,114	34.9	16,693	2.50%
2001	107,006		33,332		16,942	2.80%
2002	108,078		34,138		16,994	4.50%
2003	108,150	14,345	35,064		17,172	4.10%
2004	109,234	15,343	35,500		17,431	4.60%
2005	109,761	16,053	36,858		17,818	3.50%
2006	109,966	16,875	40,004		17,597	3.50%
2007	109,364		41,895		17,325	3.30%
2008	108,580		43,518		16,476	4.00%

Sources:

- ⁽¹⁾ State of New Hampshire, Planning Department
- ⁽²⁾ U.S. Department of Commerce, Bureau of Economic Analysis, estimated based on most recent data available.
- ⁽³⁾ City of Manchester, NH School Department
- ⁽⁴⁾ State of New Hampshire, Economic and Labor Market Information Bureau

**Principal Employers
Current Year and Nine Years Ago
(Unaudited)**

**City of Manchester, New Hampshire
Table XVI**

Employer	2008			1999		
	Employees ⁽¹⁾	Rank ⁽¹⁾	Percentage of Total City Employment ⁽²⁾	Employees ⁽³⁾	Rank ⁽³⁾	Percentage of Total City Employment ⁽⁴⁾
Hannaford Brothers	4,629	1	6.93%	4,100	1	6.57%
Elliot Hospital	3,060	2	4.58%	3,804	2	6.09%
Home Depot	3,000	3	4.49%			
Catholic Medical Center	1,700	4	2.54%			
Verizon Communications, formerly NYNEX	1,650	5	2.47%			
Southern NH University	1,400	6	2.09%			
Public Service of New Hampshire	1,250	7	1.87%	1,256	4	2.01%
TD Banknorth, formerly Bank of NH	1,150	8	1.72%	1,200	6	1.92%
Citizens Bank	1,130	9	1.69%	1,230	5	1.97%
Anthem Blue Cross & Blue Shield, formerly BC/BS NH	700	10	1.05%	900	8	1.44%
Bell Atlantic				2,200	3	3.52%
K-mart				1,000	7	1.60%
Filene's				551	9	0.88%
Bradlee's				700	10	1.12%
New Hampshire College				700	10	1.12%

Sources:

⁽¹⁾ 2008 Book of Lists, NH Business Review

⁽²⁾ NH Employment Security, Economic and Labor Market Bureau - 12/31/2005 figure used.

⁽³⁾ 1999 Book of Lists, NH Business Review

⁽⁴⁾ NH Employment Security, Economic and Labor Market Bureau - 12/31/1998 figure used.

**Full-Time Equivalent City Government Employees By Functions/Programs
Last Ten Fiscal Years
(Unaudited)**

**City of Manchester, New Hampshire
Table XVII**

Functions/Program	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Government:										
Aldermen	14	14	14	14	14	14	14	14	14	14
Assessors	7	7	7	7	7	9	9	9	9	8
Building	19	19	19	19	19	20	20	20	18	18
Building Maintenance	14	14	14	14	14	18	18	19	19	19
City Clerk	14	14	14	18	18	18	18	18	15	15
City Solicitor	11	11	11	12	12	12	12	13	12	13
Economic Development Office	3	3	3	3	3	3	3	4	4	4
Elderly Services	5	5	5	5	5	4	4	4	4	4
Finance	15	15	15	15	15	13	14	13	12	10
Human Resources	13	15	14	14	12	11	11	11	10	8
Information Systems	18	19	19	19	19	19	19	19	13	15
Mayor	4	4	4	4	4	4	4	4	4	4
MCTV	4	4	6	6	6	6	6	5	5	5
Office of Youth Services	9	8	8	9	9	9	10	10	10	9
Planning	13	13	13	13	13	15	15	14	11	9
Tax Collector	13	13	13	14	14	12	12	11	11	11
Traffic	18	18	17	17	17	15	16	16	11	10
Parks and Recreation:										
Cemetery Care	16	16	16	16	16	16	16	16	15	14
Derryfield Golf Course	4	4	4	4	4	4	4	4	4	4
Forestry	2	2	2	2	2	2	2	2	2	2
General & Administrative	9	10	10	10	10	10	10	10	10	9
Gill Stadium	2	2	2	2	2	2	2	2	2	2
McIntyre Ski Area	1	1	1	1	1	1	1	1	1	1
Public Swimming Pools	1	1	1	1	1	1	1	1	1	1
Parks Maintenance	18	17	18	18	18	18	18	18	17	17
Recreation	1	1	1	1	1	1	1	1	1	1
Skating Arenas	7	7	6	6	6	6	6	6	5	6
Police:										
Officers	193	195	198	204	199	202	200	199	206	214
Civilians	67	69	68	71	65	65	64	66	64	63
Fire:										
Firefighters and Officers	236	235	235	234	250	250	250	250	249	247
Civilians	8	8	8	8	8	8	8	8	7	7
Public Works:										
Administration	N/A	N/A	14	14	13	13	13	13	14	14
Street Maintenance/Const.	N/A	N/A	61	62	62	62	62	63	62	61
Street Sweeping	N/A	N/A	4	4	4	4	4	4	4	5
Refuse Collection	N/A	N/A	33	33	32	32	32	32	35	32
Vehicle Maintenance	N/A	N/A	20	20	20	20	20	20	21	20
Drain/Sewer Repair/Const.	N/A	N/A	22	21	21	21	21	21	20	20
Engineering	N/A	N/A	20	20	20	20	20	20	20	20
Parking:										
Administration	-	-	-	-	-	-	-	-	3	4
Meters	-	-	-	-	-	-	-	-	2	2
Victory Garage	-	-	-	-	-	-	-	-	4	5
PCO's	-	-	-	-	-	-	-	-	7	7
Water:										
Administration & Financial	19	19	19	19	19	19	18	17	17	16
Water Distribution	42	43	43	44	44	45	45	46	45	44
Water Supply	24	24	24	24	24	25	24	25	24	24
Sewer:										
Administration & Financial	8	9	9	9	9	10	10	10	10	10
Monitoring	2	2	2	2	2	2	2	2	2	2
Sewer Plant Operation	16	16	16	16	16	16	16	16	14	15
Maintenance	16	16	16	16	16	16	16	16	15	15
Airport - total										
Administration & Financial	20	23	23	23	25	27	27	29	27	26
Airfield Maintenance	21	23	23	25	26	26	27	26	20	25
Terminal Maintenance	9	9	10	14	15	20	21	24	28	24
Other Programs/Functions:										
Aggregation	2	1	1	1	1	1	1	1	-	-
Health	63	66	64	64	64	69	71	71	61	61
Library	40	40	40	40	40	38	38	38	39	39
Welfare	11	11	11	11	11	11	11	11	11	12
Total	1,052	1,066	1,241	1,263	1,268	1,285	1,287	1,293	1,271	1,267

N/A = Not Available.

Operating Indicators By Function/Program
Last Ten Fiscal Years
(Unaudited)

Function/Program	Calendar Year			
	1999	2000	2001	2002
Police:				
Physical arrests	3,892	4,094	4,077	5,390
Parking Violations	70,000	69,700	73,244	86,826
Traffic citations	12,698	11,784	11,100	11,788
Fire:				
Number of calls answered	12,728	12,815	13,519	13,420
Inspections	498	532	563	576
Property loss	\$ 3,553,520	\$ 2,283,535	\$ 2,587,531	\$ 7,031,664
Building safety:				
Total building permits	2,626	1,551	1,680	2,042
Total value all permits	\$ 90,577,116	\$ 144,233,715	\$ 88,604,851	\$ 134,604,022
Library, visits	N/A	N/A	N/A	N/A
Public service:				
Garbage collected (ton)	41,363	43,691	44,208	45,866
Recycle collected (ton)	5,028	4,642	5,352	4,308
Streets paved resurf (miles)	5.61	22.55	15.64	13.83
Streets Reconstructed (miles)	1.81	0.62	0.61	0.40
Drain Reconstruction (miles)	0.52	4.78	3.18	4.22
Sewer Reconstruction(miles)	2.95	6.66	1.59	1.65
Airport:				
Enplane	1,412,769	1,588,320	1,631,331	1,690,158
Deplane	1,396,320	1,580,981	1,602,224	1,676,676
Total Passengers	2,809,089	3,169,301	3,233,555	3,366,834
Cargo (in pounds)	159,825,171	166,936,519	166,519,494	181,342,300
Air Mail (in pounds)	4,962,485	5,120,279	952,984	40,959
Parks and Recreation:				
Public Skating Attendance	12,772	10,916	7,737	8,386
Aquatics program attendance	N/A	N/A	44,910	55,670
Golf rounds played	43,100	33,901	41,977	43,158
Ski passes sold	229	222	358	292
Street trees maintained	40,000	40,000	40,000	40,000

Note: The figures in column 2008 are January thru June only.

N/A = Not Available.

**City of Manchester, New Hampshire
Table XVIII**

Calendar Year					
2003	2004	2005	2006	2007	2008
5,389	5,645	5,505	5,662	5,039	2,867
66,757	81,225	78,253	58,298	57,264	30,187
9,654	11,224	10,993	9,573	9,514	6,117
14,595	15,200	16,202	17,012	17,267	8,788
578	676	732	2,640	1,525	980
\$ 2,694,680	\$ 2,985,889	\$ 3,997,307	\$ 2,887,571	\$ 5,610,530	\$ 2,359,510
2,554	2,794	2,616	2,312	2,121	1,024
\$ 136,690,830	\$ 159,902,113	\$ 155,661,840	\$ 154,384,899	\$ 103,458,232	\$ 41,237,067
N/A	N/A	302,764	391,622	435,807	235,189
46,181	48,323	46,662	49,693	46,679	20,594
4,301	4,278	4,159	4,751	4,363	2,146
15.43	10.99	12.23	9.27	5.21	1.87
1.05	4.48	5.51	0.87	6.63	2.88
1.23	0.53	0.28	0.50	2.00	0.50
0.36	0.89	1.00	0.46	1.50	0.40
1,802,385	2,004,122	2,168,258	1,952,277	1,948,313	944,883
1,799,276	1,999,185	2,164,449	1,944,255	1,944,317	948,915
3,601,661	4,003,307	4,332,707	3,896,532	3,892,630	1,893,798
161,093,039	162,080,948	155,503,955	176,382,468	193,487,647	87,978,750
14,842	5,767	3,798	503	445	85
7,545	6,745	6,135	7,381	6,719	3,979
37,988	62,143	77,330	76,630	64,736	3,550
38,054	40,679	35,029	38,294	31,665	15,694
305	279	196	143	136	30
40,000	40,000	40,000	40,000	40,000	40,000

Capital Asset Statistics By Function/Program
Last Ten Fiscal Years
(Unaudited)

City of Manchester, New Hampshire
Table XIX

Function/Program	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Police:										
Facilities	5	5	5	5	5	5	5	5	5	5
Marked Patrol Vehicles	37	37	37	36	36	39	35	35	35	35
Unmarked Vehicles	17	17	17	18	18	17	19	19	19	19
Specialty Vehicles	13	13	13	6	6	8	15	15	15	15
Bikes for bike patrols	17	17	17	18	18	18	21	21	21	21
Motorcycles	3	3	3	3	3	3	4	4	4	4
Horses	2	2	2	2	2	2	2	2	2	2
Canine	9	9	9	9	9	9	8	6	6	6
Fire:										
Fire Stations	9	9	9	9	9	10	10	10	10	10
Refuse Collection:										
Collection Trucks	15	15	15	14	14	14	14	14	14	14
Other Public Works:										
Streets (Miles)	387.34	387.60	388.21	388.30	289.49	389.78	391.20	393.00	394.00	395.00
Street Lights	N/A	N/A	8,745	8,790	8,792	8,792	8,803	8,788	8,772	8,849
Traffic Signals	146.2	151.0	154.1	157.4	159.6	160.1	160.4	160.4	152.0	152.0
Parks & Recreation:										
Acreage	1,073	1,073	1,073	1,073	1,073	1,073	1,073	1,073	1,073	1,073
Parks	55	55	55	55	55	55	55	55	55	55
Golf Course	1	1	1	1	1	1	1	1	1	1
Baseball/Softball Diamonds	44	44	44	44	44	44	44	44	44	44
Walking Trail(s)	N/A	N/A	N/A	N/A	N/A	1	1	2	2	2
Soccer/Football Fields	16	16	16	16	17	17	17	17	18	18
Indoor Ice Rinks	2	2	2	2	2	2	2	2	2	2
Basketball Courts	25	24	23	22	22	22	21	21	21	21
Tennis Courts	4	4	4	4	4	4	4	4	4	4
Swimming pools	4	4	4	4	4	4	4	4	4	4
Parks with Playground Equipment	4	4	4	4	4	4	4	4	5	5
Public Beaches	1	1	1	1	1	1	1	1	1	1
Library:										
Facilities	2	2	2	2	2	2	2	2	2	2
Volumes	308,036	311,661	315,676	325,967	264,183	233,331	236,312	246,939	246,398	246,391
Water:										
Source of water supply										
Finished water storage capacity (MG)	35.8	35.8	35.8	37.8	37.8	37.8	37.8	37.8	37.8	38.8
Average Daily Consumption (MGD)	17.183	16.912	17.363	17.148	16.483	16.644	17.057	17.454	16.931	17.860
Peak Consumption (MGD)	31.230	26.416	28.583	30.852	28.685	26.295	26.739	27.169	27.298	29.093
Municipal Fire Hydrants	3,124	3,164	3,173	3,212	3,240	3,267	3,294	3,304	3,309	3,310
Water main in system (million feet)	2	2	2	3	3	3	3	3	3	3
Wastewater:										
Sanitary Sewers (miles)	333.87	340.53	342.12	343.77	344.13	345.02	345.02	345.02	350.60	352.80
Maximum daily treatment capacity (MGPD)	34	34	34	34	34	34	34	34	34	34
Information Systems Department										
PC's	600	630	650	771	749	761	864	905	1,034	1,072
Miles of Fiber Optic Cabling	12.50	13.00	13.50	16.00	28.00	28.00	28.00	39.00	48.00	49.00
Airport:										
Runways	2	2	2	2	2	2	2	2	2	2
Terminals	1	1	1	1	1	1	1	1	1	1
Buildings - square footage	228,000	228,000	228,000	228,000	228,000	332,600	332,600	332,600	332,600	332,600

N/A = Not Available.

McGladrey & Pullen

Certified Public Accountants

CITY OF MANCHESTER, NEW HAMPSHIRE

**FEDERAL FINANCIAL AND COMPLIANCE REPORT
FISCAL YEAR ENDED JUNE 30, 2008**

CITY OF MANCHESTER, NEW HAMPSHIRE

FEDERAL FINANCIAL AND COMPLIANCE REPORT

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Board of Mayor and Aldermen
City of Manchester, New Hampshire

Compliance: We have audited the compliance of the City of Manchester, New Hampshire (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2008. The City of Manchester, New Hampshire's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Manchester, New Hampshire's management. Our responsibility is to express an opinion on the City of Manchester, New Hampshire's compliance based on our audit.

The City of Manchester, New Hampshire's basic financial statements include the operations of the Manchester School District and the Manchester Transit Authority, component units of the City, which expended \$19,713,000 and \$2,346,000, respectively, in federal awards, which is not included in the attached schedule of federal awards for the year ended June 30, 2008. Our audit described below did not include the operations of the Manchester School District and the Manchester Transit Authority, because those component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Manchester, New Hampshire's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Manchester, New Hampshire's compliance with those requirements.

In our opinion, the City of Manchester, New Hampshire complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance: The management of the City of Manchester, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Manchester, New Hampshire's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Manchester, New Hampshire's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by an entity's internal control.

A material weakness is a significant deficiency or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by an entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards: We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire as of and for the year ended June 30, 2008, and have issued our report thereon dated March 19, 2009, in which our opinion was qualified because we could not satisfy ourselves with the carrying value of the net assets of the governmental activities in the government-wide statements. We did not audit the financial statements of the Manchester School District and the Manchester Transit Authority, discretely presented component units of the City, which financial statements reflect 100% of the revenues and 95% of the assets of the discretely presented component units of the City. We also did not audit the City of Manchester Employees' Contributory Retirement System, a blended component unit of the City, which financial statements reflect 90% of the assets and 100% of the additions of the Pension Trust Fund. Our audit was performed for the purpose of forming opinions on the financial statements

that collectively comprise the City of Manchester's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Mayor and Aldermen, the management of the City of Manchester, New Hampshire and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New Haven, Connecticut
March 19, 2009

CITY OF MANCHESTER, NEW HAMPSHIRE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2008

Federal Grantor	Catalog of	
Pass-Through Grantor	Federal	
Program Title	Domestic	
	Assistance	Federal
	Number	Expenditures
Department of Health and Human Services:		
Passed Through the State of New Hampshire Department of Health and Human Services:		
Consolidated Health Centers	93.224	\$ 353,272
Project Grants and Cooperative Agreements for Tuberculosis Programs	93.116	34,601
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	53,647
Preventative Health Services-Sexual Transmitted Diseases Control Grants	93.977	83,567
Childhood Lead Poisoning Prevention Projects - State and Community Based -		
Childhood Lead Poisoning Prevention Program	93.197	36,290
Childhood Immunization Grants	93.268	88,400
Public Health Preparedness	93.283	670,430
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	16,919
Preventative Health & Health Services Block Grant	93.991	43,258
Total Department of Health and Human Services		<u>1,380,384</u>
Department of Justice:		
Passed Through State of New Hampshire Office of the Attorney General:		
Violence Against Women	16.588	129,038
Executive Office for Weed and Seed	16.595	53,964
Enforcing Underage Drinking Laws	16.727	17,000
Juvenile Justice and Delinquency - Prevention Allocation to States	16.540	34,316
Grants to Encourage Arrest Policies & ESOP 2003	16.590	160,579
Edward Byrne Memorial Justice Assistance Grant Program	16.738	126,403
Total Department of Justice		<u>521,300</u>
Department of Homeland Security:		
Direct Program:		
Assistance to Firefighters Grant	97.044	10,305
Emergency Management Performance Grants	97.042	475,115
State Homeland Security Program	97.073	149,711
Law Enforcement Terrorism Prevention	97.074	6,000
Total Department of Homeland Security		<u>641,131</u>

See Notes to Schedule.

CITY OF MANCHESTER, NEW HAMPSHIRE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
 For the Year Ended June 30, 2008

Federal Grantor Pass-Through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
Department of Transportation:		
Direct Programs:		
Airport Improvement Program	20.106	14,532,367
State Highway Planning & Construction	20.205	2,516,404
Recreational Trails Program	20.219	66,327
Highway Safety	20.600	15,901
Total Department of Transportation		<u>17,130,999</u>
Department of Housing and Urban Development:		
Direct Programs:		
Community Development Block Grants/Entitlement Grants	14.228	2,262,821
HOME Investment Partnerships Program	14.239	839,859
Emergency Shelter	14.231	79,828
Lead Hazard Reduction Demonstration Grant Program	14.905	684,907
Total Department of Housing and Urban Development		<u>3,867,415</u>
Corporation for National and Community Service:		
Direct Programs:		
Volunteers in Service to America	94.013	203,736
Department of Commerce:		
Economic Development Support for Planning Organizations	11.302	30,000
Total Department of Commerce		<u>30,000</u>
Environmental Protection Agency:		
Direct Programs:		
Congressionally Mandated Projects	66.202	429,272
Healthy Communities Grant Program	66.110	1,630
Nonpoint Source Implementation Grants	66.400	72,182
		<u>503,084</u>
Total Federal Financial Assistance Expended		<u>\$ 24,278,049</u>

See Notes to Schedule.

CITY OF MANCHESTER, NEW HAMPSHIRE

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Manchester and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Loans

Loans Outstanding

The City had the following loan balances outstanding as of June 30, 2008:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Balance</u>
HUD 108 Loan	14.248	\$5,751,609

CITY OF MANCHESTER, NEW HAMPSHIRE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008**

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: qualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance for major programs: unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes X No

Identification of Major Programs

CFDA Numbers	Program Name or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs \$728,000

Auditee qualified as low-risk auditee? X Yes No

CITY OF MANCHESTER, NEW HAMPSHIRE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended June 30, 2008

II. FINANCIAL STATEMENT FINDINGS

A. Significant Deficiencies in Internal Control

None reported.

B. Compliance Findings

None reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Internal Control Over Compliance

None reported.

B. Compliance Findings

None reported.

**CITY OF MANCHESTER, NEW HAMPSHIRE
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2008**

IC07-1. Not repeated, corrective action taken.

ICO7-2. Not repeated, corrective action taken.

CF07-1. Volunteers in Service to America (VISTA) – 94.013

Criteria:

The Grant Coordinator did not comply with the allowable cost requirements of the grant.

Corrective Action Plan:

The City evaluated the internal controls throughout the City and is implementing new policy and procedure manuals to address this issue.

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

To the Board of Mayor and Aldermen
City of Manchester, New Hampshire

We have audited the financial statements of the City of Manchester, New Hampshire (the "City") as of and for the year ended June 30, 2008, and have issued our report thereon dated March 19, 2009, in which our opinion was qualified because we could not satisfy ourselves with the carrying value of the net assets of the governmental activities in the government-wide statements. We did not audit the financial statements of the Manchester School District and the Manchester Transit Authority, discretely presented component units of the City, which financial statements reflect 100% of the revenues and 95% of the assets of the discretely presented component units of the City. We also did not audit the City of Manchester Employees' Contributory Retirement System, a blended component unit of the City, which financial statements reflect 90% of the assets and 100% of the additions of the Pension Trust Fund. Our report does not address their respective internal control or compliance. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting: In planning and performing our audit, we considered the City of Manchester, New Hampshire's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Manchester, New Hampshire's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Manchester, New Hampshire's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's

financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies that are also considered to be material weaknesses. We did not identify any significant deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters: As part of obtaining reasonable assurance about whether the City of Manchester, New Hampshire's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under "Government Auditing Standards."

We noted certain matters that we reported to management of the City of Manchester, New Hampshire in a separate letter dated March 19, 2009.

This report is intended solely for the information of the management and the Board of Mayor and Aldermen of the City of Manchester, New Hampshire and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New Haven, Connecticut
March 19, 2009