

CITY OF BERLIN, NEW HAMPSHIRE
Financial Statements
With Schedule of Expenditures of Federal Awards
June 30, 2008
and
Independent Auditor's Report

**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards***

**Report on Compliance With Requirements Applicable
to Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Schedule of Findings and Questioned Costs

CITY OF BERLIN, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2008

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT	
MANAGEMENT'S DISCUSSION AND ANALYSIS	i-xii
BASIC FINANCIAL STATEMENTS	
EXHIBITS:	
A Statement of Net Assets	1
B Statement of Activities	2
C Balance Sheet – Governmental Funds	3
D Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
E Statement of Net Assets – Proprietary Funds	5
F Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	6
G Statement of Cash Flows – Proprietary Funds	7
H Statement of Fiduciary Net Assets – Fiduciary Funds	8
I Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	9
NOTES TO BASIC FINANCIAL STATEMENTS	10-28
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE:	
1 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) – General Fund	29
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	30
FEDERAL COMPLIANCE	
SCHEDULE:	
I Schedule of Expenditures of Federal Awards	31-33
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	34

**CITY OF BERLIN, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2008**

TABLE OF CONTENTS (CONTINUED)

	<u>Page(s)</u>
FEDERAL COMPLIANCE (CONTINUED)	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	35-36
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	37-38
Schedule of Findings and Questioned Costs	39-40

SUPPLEMENTAL SCHEDULES

SCHEDULES:

A Combining Balance Sheet – Governmental Funds – All Nonmajor Funds	41
A-1 Combining Balance Sheet – Governmental Funds – All Nonmajor Special Revenue Funds	42
B Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – All Nonmajor Funds	43
B-1 Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – All Nonmajor Special Revenue Funds	44
C Combining Statement of Net Assets – All Nonmajor Proprietary Funds	45
D Combining Statement of Revenues, Expenses and Changes in Net Assets – All Nonmajor Proprietary Funds	46
E Combining Statement of Cash Flows – All Nonmajor Proprietary Funds	47

Vachon, Clukay & Co., PC

Certified Public Accountants

45 Market Street
Manchester, New Hampshire 03101
(603) 622-7070
FAX: 622-1452

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berlin, New Hampshire (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the City's legally separate component unit, the Berlin Water Works. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the discretely presented component unit that would have been presented is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of the City of Berlin, New Hampshire as of June 30, 2008, or the changes in financial position thereof for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berlin, New Hampshire as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008 on our consideration of the City of Berlin, New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages i-xii and 29-30, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Berlin, New Hampshire's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Vachon, Clark & Co. PC

December 17, 2008

City of Berlin
Management's Discussion and Analysis

This section of the City's financial statements is prepared to comply with the requirements of GASB Statement 34 which requires the City to provide a discussion and analysis of the City's financial performance. It also provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. As in past years, this narrative should be read in conjunction with the City's financial statements, which begin on page 1.

Financial Highlights – Primary Government

Government-wide Highlights:

- **Net Assets:** The total assets of the City exceeded total liabilities at fiscal year ending June 30, 2008 by \$34.4 million, an increase of \$0.9 million from the prior year. This amount is presented as “net assets” on the Statement of Net Assets for the Total Primary Government (a condensed Statement can be seen in the MD&A section of this report on page v). Total unrestricted assets increased by \$1.8 million to \$5.1 million. Restricted net assets of \$146,053 were restricted for endowments and \$29 million was invested in capital assets, net of related debt.
- **Changes in Net Assets:** The City's total net assets increased from last fiscal year's \$33.5 million to \$34.4 million in fiscal year 2008. Net assets of governmental activities increased by \$1.1 million or 8%, while net assets of the business-type activities showed a net decrease of \$180,729. This is further discussed under the Government-Wide Statement Analysis section of this report.

Fund Highlights:

- **Governmental Funds – Fund Balances:** As of the close of fiscal year 2008, the City's governmental funds reported a decrease of \$321,575 in the combined ending fund balance of \$3.6 million, compared to last year. Included in the combined governmental fund balance is the activity of the City's General fund and the non-major governmental funds. The General Fund ended the fiscal year with an unreserved, undesignated fund balance of \$3,070,669, which is an increase of \$206,808 from the previous year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components:

1. Government-wide financial statements;
2. Fund financial statements, and
3. Notes to the basic financial statements.

This report also contains supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the City's finances. These statements (Statement of Net Assets and the Statement of Activities) provide both short-term and long-term information about the City's overall financial position. They are prepared using the accrual basis of accounting, which recognizes all revenues and expenses connected with the fiscal year even if cash has not been received or paid.

- The **Statement of Net Assets**, found on page 1, presents all of the City's non-fiduciary assets and liabilities. The *difference* between assets and liabilities is reported as "net assets" instead of fund equity as shown on the Fund Statements. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The **Statement of Activities**, found on page 2, presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation and sick leave). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

Both of the government-wide financial statements have separate sections for two types of City activities. These two types of activities are:

- **Governmental Activities:** The activities in this section represent most of the City's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the City include general government, public safety, airport/aviation center, highways and streets, health and welfare, sanitation, culture and recreation, education, food service, capital outlay and debt service.
- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the City include the operations of the:
 - Sewer Fund
 - BIDPA (Berlin Industrial Development and Park Authority Fund)
 - Cates Hill Landfill Fund
 - Courthouse Fund

A component unit is an entity that is legally separate from the City, but for which the City is financially accountable. The financial data for the Berlin Water Works (a component unit of the City) is not included in the City's financial statements. Complete financial statements for the Berlin Water Works can be obtained by writing to the Board of Commissioners, 55 Willow Street, Berlin, NH 03570.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements, focus on the individual parts of the City government, and report the City's operations in more detail than the government-wide statements. The City's funds are divided into 3 categories—governmental, proprietary and fiduciary. For governmental and proprietary funds, only those funds that are considered major funds are reported in individual columns in the Fund Financial Statements with combining schedules in the Supplementary Section to support the non-major activities. Fiduciary Funds are reported by fiduciary type (private-purpose trusts and agency funds).

- **Governmental Funds:** Most of the basic services provided by the City are financed through governmental funds. Unlike the government-wide financial statements, the governmental fund financial statements report using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The basic governmental fund financial statements can be found on pages 3-4.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented here with similar information presented in the government-wide financial statements. Reconciliations are provided between the Governmental Fund Statements and the Government-Wide Statements, which can also be found on pages 3-4.

The City's major governmental fund is the General Fund. Individual fund data for each of the City's non-major governmental funds are provided in the combining statements found on pages 41-44. The non-major governmental funds are:

- School Federal Projects
 - School Food Service Program
 - Berlin Airport Authority
 - Home Health Care
 - Mount Carberry Landfill
 - Recreation Activity Programs
 - Grant Fund
 - CDBG Fund
 - Permanent Funds
- **Proprietary Funds:** The City's proprietary funds provide goods and services to the general public and charge a user fee. These activities are reported in one major fund -
 - Sewer Fund
- and three non-major funds -
- Cates Hill Landfill
 - Berlin Industrial Park and Development Authority (BIDPA)
 - Courthouse Fund

Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. Therefore there is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The basic propriety funds financial statements can be found on pages 5-7, with individual data for each of the City's non-major proprietary funds provided in the combining statements found on pages 45-47.

- **Fiduciary Funds:** These funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds in that they use the accrual basis of accounting.

The City's fiduciary funds on pages 8-9 include the:

- Berlin Trust Fund
- Home Nursing Trust Fund
- Miles Scholarship Trust Fund
- Library Trust Fund
- Student Activities Agency Funds

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found on pages 10-28.

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for each of the City's major governmental funds and includes a reconciliation between the reported activity of the revenues, expenditures and operating transfers for budgetary purposes (Schedule 1, page 29) and the activity as presented in the governmental fund financial statements (Exhibit D, page 4). The City's only major governmental fund for fiscal year 2008 is the General Fund.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental and proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

The City's combined net assets (government and business-type activities) totaled \$34.4 million at the end of 2008, an increase of \$0.9 million compared to the end of the previous year.

Net assets of the City as of June 30, 2008 are as follows:

	Net Assets (in Millions)								
	Governmental Activities			Business-type Activities			Total Primary Government		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Assets									
Current Assets	12.6	12.5	11.9	5.5	4.2	3.8	18.1	16.7	15.7
Noncurrent assets	17.6	17.6	16.3	20.8	21.1	22.0	38.4	38.8	38.3
Total Assets	30.2	30.1	28.2	26.3	25.4	25.8	56.5	55.5	54.0
Liabilities									
Current Liabilities	9.7	9.4	9.0	0.4	0.2	0.3	10.1	9.6	9.3
Noncurrent Liabilities	6.4	7.7	9.1	5.6	4.7	4.7	12.1	12.4	13.8
Total Liabilities	16.1	17.1	18.1	6.0	4.9	5.0	22.1	22.0	23.1
Net Assets									
Invested in capital assets, net of related debt	13.3	12.7	10.8	15.9	17.3	18.2	29.1	30.0	29.0
Restricted	0.1	0.1	0.1	-	-	-	0.1	0.1	0.1
Unrestricted	0.6	0.2	(0.8)	4.4	3.2	2.6	5.1	3.3	1.8
Total Net Assets	14.1	13.0	10.1	20.3	20.5	20.8	34.4	33.5	30.9
Total Liabilities and Net Assets	30.2	30.1	28.2	26.3	25.4	25.8	56.5	55.5	54.0

The largest portion of the City's net assets consists of its investment in capital assets such as land, buildings, equipment, and infrastructure (roads and bridges), less any related outstanding debt used to acquire those assets. 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 generally cannot be used to liquidate these liabilities.

An additional portion of the City's net assets represent resources that are subject to external restrictions on how they may be used.

With the gradual pay down of several long-term bond obligations such as the 1999 Deficit bond, the New Hampshire Retirement Buy Back bond and the East Milan Landfill Closure bond, none of which has any offsetting assets, the City continues to increase its unrestricted net assets and had an increase of \$478,748 over the prior year. The City carries a liability for compensated absences. The City needs to embark on a program to fund this liability in the future. This will be addressed in the coming year budget.

Statement of Activities

The City's net assets increased \$0.9 million during this fiscal year. Property and other taxes brought in \$13.1 million in revenues. Other revenues consisted of charges for services, operating grants and contributions, capital grants and contributions, interest and investment earnings, and miscellaneous revenues.

Changes in net assets for the year ending June 30, 2008 are as follows:

	Changes in Net Assets (in Millions)								
	Governmental Activities			Business-type Activities			Total Primary Government		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Revenues									
Program revenues:									
Charges for services	2.9	3.1	2.9	1.4	1.5	1.7	4.3	4.5	4.6
Operating grants and contributions	14.5	15.3	14.8	-	0.1	-	14.5	15.5	14.8
Capital grants and contributions	0.9	1.0	1.3	0.2	0.0	-	1.1	1.0	1.3
General revenues:									
Property and other taxes	13.1	13.2	12.9	-	-	-	13.1	13.2	12.9
Licenses and permits	1.3	1.3	1.4	-	-	-	1.3	1.3	1.4
Grants and contributions	1.2	1.1	1.1	-	-	-	1.2	1.1	1.1
Interest and investment earnings	0.3	0.3	0.2	0.2	0.2	-	0.5	0.5	0.2
Miscellaneous	0.3	0.4	0.3	0.1	0.1	0.1	0.4	0.5	0.4
Contributions to permanent fund principal	0.0	0.0	-	-	-	-	0.0	0.0	-
Gain on sale of capital asset	-	-	-	-	-	-	-	-	-
Transfers	-	-	(0.2)	-	-	0.2	-	-	-
Total revenues	34.5	35.6	34.7	2.0	1.9	2.0	36.4	37.6	36.7
Expenses:									
General Government	2.2	1.8	1.6				2.2	1.8	1.6
Public Safety	4.8	4.6	4.6				4.8	4.6	4.6
Airport/Aviation center	0.4	0.4	0.3				0.4	0.4	0.3
Highways and streets	2.8	2.4	2.5				2.8	2.4	2.5
Health and welfare	0.7	0.7	0.7				0.7	0.7	0.7
Sanitation	0.9	0.9	0.9				0.9	0.9	0.9
Culture and recreation	0.7	0.7	0.6				0.7	0.7	0.6
Economic Development	0.3	1.0	0.1				0.3	1.0	0.1

Education	17.6	17.1	17.7				17.6	17.1	17.7
Food service	0.6	0.6	0.6				0.6	0.6	0.6
Principal retirement	0.6	0.6	0.6				0.6	0.6	0.6
Interest and fiscal charges	0.4	0.5	0.6				0.4	0.5	0.6
Intergovernmental	1.4	1.4	1.3				1.4	1.4	1.3
Sewer				1.9	2.0	2.0	1.9	2.0	2.0
Nonmajor proprietary funds				0.2	0.2	0.2	0.2	0.2	0.2
Total expenses	33.4	32.9	32.3	2.1	2.2	2.2	35.5	35.1	34.5
Increase (decrease) in net assets	1.1	2.8	2.4	(0.2)	(0.3)	(0.2)	0.9	2.5	2.2
Net assets, beginning of year	13.0	10.2	8.0	20.5	20.7	20.9	33.5	30.9	28.8
Net assets, end of year	14.1	13.0	10.2	20.3	20.5	20.7	34.4	33.4	30.9

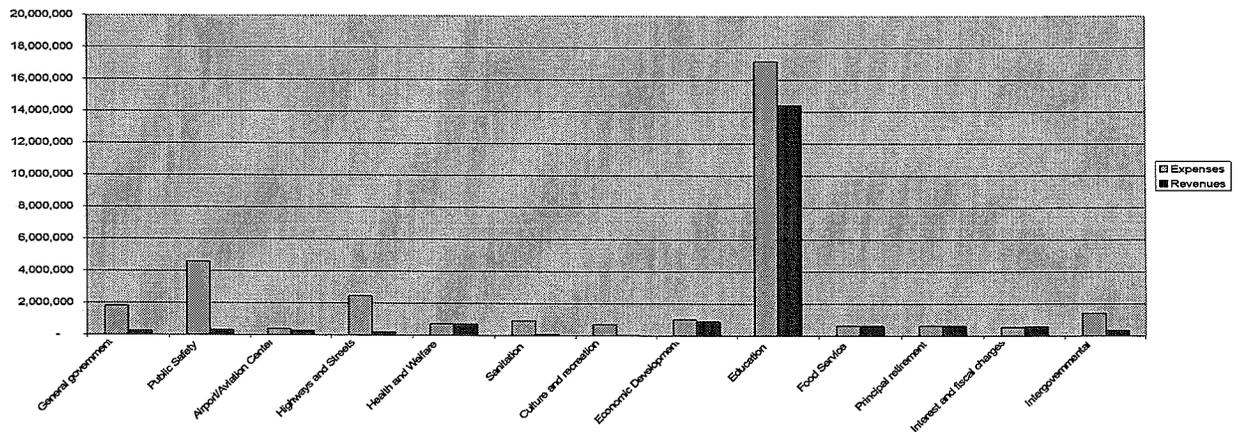
The City's expenses cover a range of services. The largest governmental expenses were for education (53%), public safety (14%), highways and streets (8%), and general government (7%), which accounted for 82% of total governmental expenditures.

Governmental Activities

Governmental activity revenues of \$34.5 million exceeded expenses of \$33.4 million in fiscal year 2008, thereby increasing the City's net assets by \$1.1 million.

A comparison of the cost of services by function for the City's governmental activities with the related program revenues is shown below. Note that the largest expenses for the City (Education, Public Safety, Highways and Streets and General Government) also represent the activities that have the largest gap between expenses and program revenues. Since program revenues do not offset these expenditures, the difference is made up from real estate taxes.

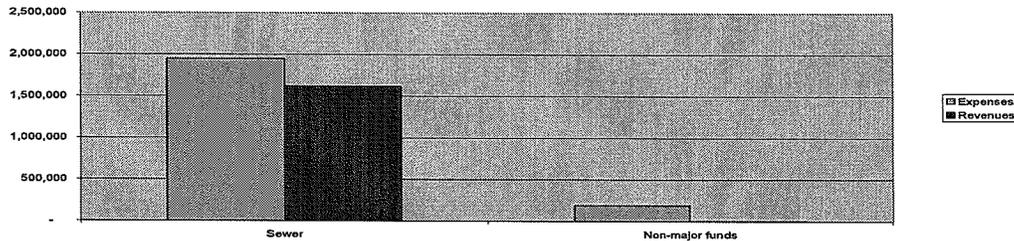
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ending June 30, 2008



Business-type Activities

The charges for goods and services for the City’s business type activities were inadequate to cover the operating expenses. However, there are still sufficient net assets to support the excess expenses.

Expenses and Program Revenues – Business Type Activities
Fiscal Year Ending June 30, 2008



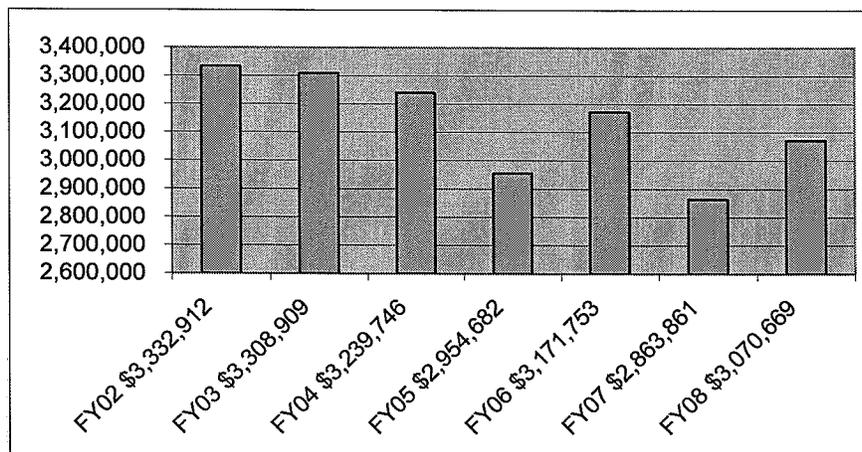
FINANCIAL ANALYSIS OF THE CITY’S FUNDS

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.

Unreserved Fund Balance FY 2002 through FY2008



General Fund

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund had an unreserved, undesignated fund balance of \$3,070,669, while total fund equity was \$3,155,088. The total fund equity includes reserves for encumbrances, prepaid expenses and carryforward appropriations at year-end. The total General Fund unreserved fund balance, increased \$206,808 from June 30, 2007.

Other Governmental Funds

The non-major governmental funds fund balance decreased slightly by \$6,468 in fiscal year 2008.

Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. Therefore there is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The total net assets in the proprietary funds decreased \$180,729 from June 30, 2007. The amount collected from sewer user fees was insufficient to offset operating expenses resulting in a net loss of \$178,145 in the Sewer Fund for the year. The non-major proprietary funds had a combined net loss of \$2,584.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations. Budget to Actual Schedules for the major governmental fund (the General Fund) is in the Required Supplementary Information section on page 29.

The actual budgetary revenues were less than the budget for estimated revenues by \$25,358. However, this revenue shortfall was offset by funds that were not expended. The City collected \$42,763 more than projected from interest and costs on delinquent taxes and tax lien redemptions. Motor Vehicle fees brought in an additional \$21,600 and Cable Franchise Fees an additional \$5,500. However, the City was short \$6,520 in its projection for Code Enforcement Fees. The eighty percent Federal match for the Hillside Ave Sidewalk and the Schools Vocational programs brought in over \$284,500 than was budgeted. Planning Board fees brought in \$6,824 more than the budgeted amount of \$2,500. Although interest rates on investments have gradually declined during the past year, the City was able to earn \$54,650 more than was estimated.

Actual budgetary expenditures at year-end were \$896,663 less than the final budgeted appropriations. Most of this savings is due to budgeted capital improvement items of \$1.2 million carried over into the next fiscal year and not spent in FY 2008. The City had one supplemental appropriations of \$16,000 for an update of Public Utility Property, Mill Property and Hydro Electric Property. One other supplemental appropriation had an offset of revenue in the same amount.

Again this year, the City's legal expense line closed with an over expenditure of \$41,670 due to the number of issues with burned out properties, dilapidated housing and the repurchase of tax

deeded properties. The accumulated sick leave fund and vacation accrual line items were overspent by \$48,000 due to unanticipated employee retirements. The cost of participation in the Androscoggin Valley Regional Refuse District was lower than projected, saving the City \$25,000. The City issued \$94,273 in property tax abatement and this amount was almost all offset by overlay in the tax rate calculation formula. This past year, the City expended \$3,800 in costs related to tax deeded properties; this amount is a reduction of \$5,102 from the prior year. The City will recoup some of the expenses when those properties are sold.

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, amounted to \$72 million. Accumulated depreciation was \$33.8 million leaving a net book value of \$38.2 million. This investment in capital assets includes equipment, real property, infrastructure, computer software, and construction in progress. Infrastructure assets are items that are normally immovable, of value only to the City, which include roads and bridges. GASB 34 requires assets, including infrastructure, for the City's governmental funds to be reported in the Government-Wide Financial Statements. Additional information on the City's capital assets can be found in Note 7 on page 20 of Notes to the Basic Financial Statements.

Debt Administration

The City may issue general obligation bonds and notes in anticipation of such bonds authorized by the City Council. At the end of the current fiscal year, the City had total bonded debt outstanding of \$13 million. This amount does not include bonded debt outstanding by the Berlin Water Works, its component unit. The City is required to issue general obligation debt for the Berlin Water Works (a component unit of the City) and these general obligation bonds are backed by the full faith and credit of the City. Accordingly, this general obligation debt is recognized as a liability of the Berlin Water Works and is not recorded as a long-term obligation of the City. The Berlin Water Works reimburses the City for the annual principal and interest on the debt.

Additional information regarding the City's long-term debt obligations can be found in Note 9 on page 22 of Notes to the Basic Financial Statements.

ECONOMIC CONDITIONS

Berlin's economic prospects with the final closure of the Fraser Pulp Mill (and the recent closure of the nearby paper plant in Groveton) have nowhere now to go but up. All of the recently closed pulp mill sites in Berlin have been cleared except for a few buildings worthy of preservation and the black liquor boiler, which may or may not be converted to a biomass boiler depending on what occurs between the owner of the property and a biomass company it is negotiating with. A second biomass project is also in the works to be located near the City's Wastewater Treatment Facility in the southeastern portion of the City. The City's dilapidated surplus housing problem has been markedly reduced by the City's efforts at demolishing such structures and enforcing housing codes which set a minimum housing standard. A significant number of the City's very worst derelict buildings have been torn down or have burned down. The City experienced the loss of approximately 13 structures in the last year to major fires. All of these properties have been cleaned up, most by the City. Unfortunately, most of this cleanup has been at the expense of the

City and not at the expense of the responsible property owners. It is clear that residential property values in the City are once again beginning to rise rather than fall. It is not clear how the current national housing slump will affect things in Berlin.

The Berlin Industrial Development Park Authority has conducted a feasibility study into a major expansion of the City's existing industrial park. It is also working actively on the potential development of a new building in conjunction with potential lessees. All of the current industrial park buildings are in full use and all of the lots in the Industrial Park have been sold to private parties except for the Maynesboro building which is fully occupied by several tenants but is still owned by the City.

A major wood pellet plant development is actively being pursued and is now permitted on three lots in the existing City Industrial Park. This is a \$75 million dollar investment in a plant which will provide good jobs and take advantage of the existing forestry potential in this region as well as provide renewable 'green' fuel for the heating market.

Two housing proposals have been approved by the planning board for in excess of 100 units of new housing.

The Downtown Cornerstone Project is complete and has greatly improved the attractiveness of the southern entrance to Downtown, thereby adding new life and vitality to Main Street. Taking advantage of a new state law which allows property taxes on new investment to be forgiven for a period of years, the City has approved its first application from a number of local citizens who have formed a company and purchased a downtown building right across from the new Cornerstone project. They will be investing over a quarter of a million dollars of their own money to renovate this downtown building for commercial space on the first floor and market rate residential units upstairs.

The Phase I Green Street/Route 110 project is pretty well complete. This will dramatically improve the truck route through the City. Phase II of this project some years down the road will further dramatically improve this route as well as the neighborhood that is now bisects. The Phase II portion of this project is also now moving forward after a public hearing held by the State in Berlin made clear which direction the residents of the area want to go.

The City had previously zoned the extended portion of Route 110 as a recreation zone. The State of New Hampshire is continuing the development of 7,200 acres in this quadrant of the City for its multi-use trail Jericho Mountain State Park. The City donated the 300 acre Jericho Lake Park to the State as a sort of icing-on-the cake for this park, which should be a New England-wide attraction. This park is already under construction and has about 30 miles of first-class trail development. This development should have a very significant impact on the City's image and economic base.

Finally, the long-awaited Federal Bureau of Prisons project is under construction with completion slated for July of 2010. This will be the second or third largest public works project ever undertaken in the state and will add very significant economic activity to this region both during the construction phase and after construction.

In spite of the all the past plant closures and layoffs, Berlin has weathered everything that has been thrown at it and is well on its way to a solid and diversified economic base and is well on its way to a place people will want to move to instead of away from. Clearly, the new unknown which the City will have to deal with is the impact of the significant downturn in the national and world economy.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all Berlin citizens, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: City of Berlin, Department of Finance, 168 Main Street, Berlin, NH 03570.

EXHIBIT A
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Net Assets
June 30, 2008

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 10,408,631		\$ 10,408,631
Investments	2,751,251		2,751,251
Taxes receivable, net	2,233,556		2,233,556
Accounts receivable, net	109,896	\$ 294,555	404,451
Notes receivable		848,321	848,321
Due from other governments	1,170,296	200,616	1,370,912
Internal balances	(4,133,941)	4,133,941	-
Prepaid expenses	31,252		31,252
Inventory	9,527	47,472	56,999
Total Current Assets	<u>12,580,468</u>	<u>5,524,905</u>	<u>18,105,373</u>
Noncurrent Assets:			
Restricted cash	9,363		9,363
Tax deeded property	171,891		171,891
Capital assets non-depreciable	760,409	866,831	1,627,240
Capital assets depreciable, net	16,635,931	19,938,782	36,574,713
Total Noncurrent Assets	<u>17,577,594</u>	<u>20,805,613</u>	<u>38,383,207</u>
Total Assets	<u>\$ 30,158,062</u>	<u>\$ 26,330,518</u>	<u>\$ 56,488,580</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 409,429	\$ 10,325	\$ 419,754
Accrued expenses	521,257	83,634	604,891
Deferred revenue	7,489,309	115,909	7,605,218
Deposits		5,000	5,000
Current portion of bonds payable	968,739	117,793	1,086,532
Current portion of notes payable		54,608	54,608
Current portion of capital leases payable	267,140		267,140
Current portion of estimated liability for landfill postclosure care costs	10,522	10,000	20,522
Total Current Liabilities	<u>9,666,396</u>	<u>397,269</u>	<u>10,063,665</u>
Noncurrent Liabilities:			
Payable from restricted assets	9,363		9,363
Bonds payable	2,564,128	4,825,143	7,389,271
Notes payable		469,021	469,021
Capital leases payable	1,861,599		1,861,599
Compensated absences	1,815,522	68,295	1,883,817
Estimated liability for landfill closure and postclosure care costs	189,406	260,000	449,406
Total Noncurrent Liabilities	<u>6,440,018</u>	<u>5,622,459</u>	<u>12,062,477</u>
Total Liabilities	<u>16,106,414</u>	<u>6,019,728</u>	<u>22,126,142</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,265,062	15,862,677	29,127,739
Restricted	146,053		146,053
Unrestricted	640,533	4,448,113	5,088,646
Total Net Assets	<u>14,051,648</u>	<u>20,310,790</u>	<u>34,362,438</u>
Total Liabilities and Net Assets	<u>\$ 30,158,062</u>	<u>\$ 26,330,518</u>	<u>\$ 56,488,580</u>

See accompanying notes to the basic financial statements

EXHIBIT B
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:						
General government	\$ 2,182,194	\$ 447		\$ (1,864,293)		\$ (1,864,293)
Public safety	4,837,345	375,231		(4,364,882)		(4,364,882)
Airport/Aviation center	394,349		\$ 74,519	(96,645)		(96,645)
Highways and streets	2,752,509	191,608	135,171	(2,415,171)		(2,415,171)
Health and welfare	701,253	3,037		(97,171)		(97,171)
Sanitation	894,231	45,442		(848,789)		(848,789)
Culture and recreation	693,444	3,784		(649,762)		(649,762)
Economic development	334,633	11,683	141,869	(181,081)		(181,081)
Education	17,566,499	12,289,081	536,318	(3,388,209)		(3,388,209)
Food service	601,438	347,594		(2,166)		(2,166)
Principal retirement	605,000	605,000		-		-
Interest and fiscal charges	445,080	324,988		(120,092)		(120,092)
Intergovernmental	1,380,841	350,497		(1,030,344)		(1,030,344)
Total governmental activities	<u>33,388,816</u>	<u>14,502,950</u>	<u>887,877</u>	<u>(15,058,605)</u>	<u>\$ -</u>	<u>(15,058,605)</u>
Business-type activities:						
Sewer	1,947,935		215,290		(329,102)	(329,102)
Nonmajor funds	192,089		7,109		(184,980)	(184,980)
Total business-type activities	<u>2,140,024</u>	<u>-</u>	<u>222,399</u>	<u>-</u>	<u>(514,082)</u>	<u>(514,082)</u>
Total primary government	<u>\$ 35,528,840</u>	<u>\$ 14,502,950</u>	<u>\$ 1,110,276</u>	<u>(15,058,605)</u>	<u>(514,082)</u>	<u>(15,572,687)</u>
General revenues:						
Property and other taxes		1,403,543		13,103,380		13,103,380
Licenses and permits				1,267,631		1,267,631
Grants and contributions:						
State shared revenues				692,955		692,955
Rooms and meals tax distribution				438,540		438,540
State and federal forest land				31,566		31,566
Interest and investment earnings				293,140	204,502	497,642
Miscellaneous				306,133	128,851	434,984
Contributions to permanent fund principal				175		175
Total general revenues and contributions				<u>16,133,520</u>	<u>333,353</u>	<u>16,466,873</u>
Change in net assets				1,074,915	(180,729)	894,186
Net assets - beginning				12,976,733	20,491,519	33,468,252
Net assets - ending				<u>\$ 14,051,648</u>	<u>\$ 20,310,790</u>	<u>\$ 34,362,438</u>

EXHIBIT C
CITY OF BERLIN, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 10,404,895	\$ 3,736	\$ 10,408,631
Investments	2,384,170	367,081	2,751,251
Taxes receivable, net	2,233,556		2,233,556
Accounts receivable	102,188	6,207	108,395
Due from other governments	750,888	419,408	1,170,296
Due from other funds	441,521	183,012	624,533
Prepaid expenses	12,816	18,436	31,252
Inventory		9,527	9,527
Tax deeded property	171,891		171,891
Restricted cash	9,363		9,363
Total Assets	<u>\$ 16,511,288</u>	<u>\$ 1,007,407</u>	<u>\$ 17,518,695</u>
LIABILITIES			
Accounts payable	\$ 339,193	\$ 70,236	\$ 409,429
Accrued expenses	357,366	12,683	370,049
Deferred revenue	8,255,097	125,388	8,380,485
Due to other funds	4,395,181	361,792	4,756,973
Payable from restricted assets	9,363		9,363
Total Liabilities	<u>13,356,200</u>	<u>570,099</u>	<u>13,926,299</u>
FUND BALANCES			
Reserved for endowments		146,053	146,053
Reserved for encumbrances	71,268		71,268
Reserved for prepaid expenses	12,816	18,436	31,252
Reserved for special purposes	335		335
Unreserved, reported in:			
General fund	3,070,669		3,070,669
Special revenue funds		51,757	51,757
Permanent funds		221,062	221,062
Total Fund Balances	<u>3,155,088</u>	<u>437,308</u>	<u>3,592,396</u>
Total Liabilities and Fund Balances	<u>\$ 16,511,288</u>	<u>\$ 1,007,407</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 17,396,340

Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis 891,176

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

Bonds payable (3,532,867)
Capital leases payable (2,128,739)
Accrued interest on long-term obligations (151,208)
Compensated absences (1,815,522)
Estimated liability for landfill closure and postclosure care costs (199,928)

Net assets of governmental activities \$ 14,051,648

See accompanying notes to the basic financial statements

EXHIBIT D
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 13,109,930		\$ 13,109,930
Licenses and permits	1,267,631		1,267,631
Intergovernmental	13,818,898	\$ 2,734,990	16,553,888
Charges for services	2,405,950	533,434	2,939,384
Interest income	279,650	13,490	293,140
Miscellaneous	221,243	85,065	306,308
Total Revenues	<u>31,103,302</u>	<u>3,366,979</u>	<u>34,470,281</u>
Expenditures:			
Current operations:			
General government	1,971,114	35,301	2,006,415
Public safety	4,479,186	67,406	4,546,592
Airport/Aviation center		224,569	224,569
Highways and streets	2,069,466		2,069,466
Health and welfare	690,590	1,392	691,982
Sanitation	877,137	17,766	894,903
Culture and recreation	571,530	39,919	611,449
Economic development		141,869	141,869
Education	15,405,397	2,149,533	17,554,930
Food service		611,791	611,791
Capital outlay	1,677,410	89,913	1,767,323
Debt service:			
Principal retirement	1,811,708	1,898	1,813,606
Interest and fiscal charges	475,876	244	476,120
Intergovernmental	1,380,841		1,380,841
Total Expenditures	<u>31,410,255</u>	<u>3,381,601</u>	<u>34,791,856</u>
Excess of revenues over (under) expenditures	<u>(306,953)</u>	<u>(14,622)</u>	<u>(321,575)</u>
Other financing sources (uses):			
Operating transfers in	(8,154)	8,154	8,154
Operating transfers out	(8,154)		(8,154)
Total other financing sources (uses)	<u>(16,308)</u>	<u>8,154</u>	<u>(8,154)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(315,107)</u>	<u>(6,468)</u>	<u>(321,575)</u>
Fund balances at beginning of year	3,470,195	443,776	3,913,971
Fund balances at end of year	<u>\$ 3,155,088</u>	<u>\$ 437,308</u>	<u>\$ 3,592,396</u>

CITY OF BERLIN, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Change in Fund Balances - Total Governmental Funds	\$ (321,575)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(62,156)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(6,550)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,208,606
Repayment of principal on capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	256,245
In the statement of activities, interest is accrued on outstanding bonds and capital leases, whereas in governmental funds, an interest expenditure is reported when due.	(30,280)
Some expense reported in the statement of activities, such as compensated absences and the estimated liability for landfill closure and postclosure care costs, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	30,625
Change in Net Assets of Governmental Activities	<u>\$ 1,074,915</u>

EXHIBIT E
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
ASSETS			
Current Assets:			
Accounts receivable, net	\$ 291,930	\$ 2,625	\$ 294,555
Notes receivable		848,321	848,321
Due from other governments	99,120	101,496	200,616
Due from other funds	3,633,559	578,610	4,212,169
Inventory	47,472		47,472
Total Current Assets	<u>4,072,081</u>	<u>1,531,052</u>	<u>5,603,133</u>
Noncurrent Assets:			
Non-depreciable capital assets	667,256	199,575	866,831
Depreciable capital assets, net	19,577,885	360,897	19,938,782
Total Noncurrent Assets	<u>20,245,141</u>	<u>560,472</u>	<u>20,805,613</u>
Total Assets	<u>\$ 24,317,222</u>	<u>\$ 2,091,524</u>	<u>\$ 26,408,746</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 10,207	\$ 118	\$ 10,325
Accrued expenses	82,245	1,389	83,634
Deferred revenue	107,171	8,738	115,909
Deposits	5,000		5,000
Due to other funds		78,228	78,228
Current portion of bonds payable	117,793		117,793
Current portion of notes payable		54,608	54,608
Current portion of estimated liability for landfill postclosure care costs		10,000	10,000
Total Current Liabilities	<u>322,416</u>	<u>153,081</u>	<u>475,497</u>
Noncurrent Liabilities:			
Bonds payable	4,825,143		4,825,143
Notes payable		469,021	469,021
Compensated absences	65,319	2,976	68,295
Estimated liability for landfill closure and postclosure care costs		260,000	260,000
Total Noncurrent Liabilities	<u>4,890,462</u>	<u>731,997</u>	<u>5,622,459</u>
Total Liabilities	<u>5,212,878</u>	<u>885,078</u>	<u>6,097,956</u>
NET ASSETS			
Invested in capital assets, net of related debt	15,302,205	560,472	15,862,677
Unrestricted	3,802,139	645,974	4,448,113
Total Net Assets	<u>19,104,344</u>	<u>1,206,446</u>	<u>20,310,790</u>
Total Liabilities and Net Assets	<u>\$ 24,317,222</u>	<u>\$ 2,091,524</u>	<u>\$ 26,408,746</u>

See accompanying notes to the basic financial statements

EXHIBIT F
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Operating revenues:			
Charges for services	\$ 1,403,543		\$ 1,403,543
Miscellaneous	1,624	\$ 124,098	125,722
Total operating revenues	<u>1,405,167</u>	<u>124,098</u>	<u>1,529,265</u>
Operating expenses:			
Personal services	602,699	15,262	617,961
Contractual services	15,004	9,449	24,453
Repairs and maintenance	26,581	68,410	94,991
Administrative	50,204		50,204
Materials and supplies	212,475	57	212,532
Utilities	138,671	25,199	163,870
Depreciation	902,301	45,022	947,323
Total operating expenses	<u>1,947,935</u>	<u>163,399</u>	<u>2,111,334</u>
Operating income (loss)	<u>(542,768)</u>	<u>(39,301)</u>	<u>(582,069)</u>
Non-operating revenues (expenses):			
Gain on sale of asset		3,129	3,129
Interest revenue	149,333	55,169	204,502
Interest expense		(28,690)	(28,690)
Net non-operating revenues (expenses)	<u>149,333</u>	<u>29,608</u>	<u>178,941</u>
Income (loss) before capital contributions	(393,435)	(9,693)	(403,128)
Capital contributions	<u>215,290</u>	<u>7,109</u>	<u>222,399</u>
Change in net assets	(178,145)	(2,584)	(180,729)
Total net assets at beginning of year	<u>19,282,489</u>	<u>1,209,030</u>	<u>20,491,519</u>
Total net assets at end of year	<u>\$ 19,104,344</u>	<u>\$ 1,206,446</u>	<u>\$ 20,310,790</u>

See accompanying notes to the basic financial statements

EXHIBIT G
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 1,330,290	\$ 123,412	\$ 1,453,702
Cash paid to suppliers and employees	<u>(1,028,223)</u>	<u>(84,737)</u>	<u>(1,112,960)</u>
Net cash provided by operating activities	<u>302,067</u>	<u>38,675</u>	<u>340,742</u>
Cash flows from capital and related financing activities:			
Proceeds from bond issuances	5,000,000		5,000,000
Proceeds from note collections		67,973	67,973
Principal paid on bonds payable	(57,064)		(57,064)
Principal paid on notes payable	(3,800,407)	(51,949)	(3,852,356)
Interest paid on long-term debt		(28,690)	(28,690)
Capital contributions	215,290	7,109	222,399
Proceeds from sale of assets		16,641	16,641
Purchases of capital assets	<u>(640,424)</u>		<u>(640,424)</u>
Net cash provided for capital and related financing activities	<u>717,395</u>	<u>11,084</u>	<u>728,479</u>
Cash flows from investing activities:			
Interest on investments	<u>149,333</u>	<u>55,169</u>	<u>204,502</u>
Net cash provided by investing activities	<u>149,333</u>	<u>55,169</u>	<u>204,502</u>
Net increase in cash and cash equivalents	1,168,795	104,928	1,273,723
Cash and cash equivalents at beginning of year	<u>2,464,764</u>	<u>395,454</u>	<u>2,860,218</u>
Cash and cash equivalents at end of year	<u>\$ 3,633,559</u>	<u>\$ 500,382</u>	<u>\$ 4,133,941</u>
Reconciliation of operating (loss) to net cash provided by operating activities:			
Operating (loss)	\$ (542,768)	\$ (39,301)	\$ (582,069)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:			
Depreciation expense	902,301	45,022	947,323
Changes in assets and liabilities:			
Accounts receivable, net	19,243	(125)	19,118
Due from other governments	(99,120)	(5,874)	(104,994)
Inventory	(2,049)		(2,049)
Accounts payable	(20,739)	(1,310)	(22,049)
Accrued expenses	73,680	1,148	74,828
Deferred revenue		5,313	5,313
Deposits	5,000		5,000
Compensated absences	(33,481)	472	(33,009)
Estimated liability for landfill closure and postclosure care costs		<u>33,330</u>	<u>33,330</u>
Net cash provided by operating activities	<u>\$ 302,067</u>	<u>\$ 38,675</u>	<u>\$ 340,742</u>
Noncash Transactions Affecting Financial Position:			
Cost basis of disposed capital assets	<u>\$ -</u>	<u>\$ 13,512</u>	<u>\$ 13,512</u>

See accompanying notes to the basic financial statements

EXHIBIT H
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Private- Purpose Trusts	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 2,162	\$ 181,012
Investments	123,672	
Total Assets	<u>\$ 125,834</u>	<u>\$ 181,012</u>
LIABILITIES		
Due to other funds	\$ 1,501	
Due to student groups		\$ 181,012
Total Liabilities	<u>1,501</u>	<u>\$ 181,012</u>
NET ASSETS		
Held in trust	<u>124,333</u>	
Total Net Assets	<u>124,333</u>	
Total Liabilities and Net Assets	<u>\$ 125,834</u>	

See accompanying notes to the basic financial statements

EXHIBIT I
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2008

	Private- Purpose <u>Trusts</u>
ADDITIONS:	
Investment earnings:	
Investment income	\$ 5,926
Total Additions	<u>5,926</u>
DEDUCTIONS:	
Benefits	<u>1,501</u>
Total Deductions	<u>1,501</u>
Change in Net Assets	4,425
Net assets - beginning of year	<u>119,908</u>
Net assets - end of year	<u>\$ 124,333</u>

See accompanying notes to the basic financial statements

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Berlin, New Hampshire conform to accounting policies generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

Financial Reporting Entity

The City of Berlin, New Hampshire (the City) was incorporated in 1829. The City operates under the City Council/City Mayor form of government and performs local governmental functions authorized by State law.

The financial statements include those of the various departments governed by the City Council and other officials with financial responsibility.

Accounting principles generally accepted in the United States of America (Governmental Accounting Standards Board Statement No. 14) require that all component units for which the City maintains financial oversight be included in the financial statements. Oversight responsibility is derived from a number of criteria including financial interdependency, selection of governing authority, designation of management, ability to influence operations and accountability for fiscal matters. The relative importance of each criteria must be evaluated in light of specific circumstances.

Although the decision to include or exclude a component unit is left to the professional judgment of local responsible officials, a positive response to any of the criteria requires that the specific reason for excluding the component unit be disclosed.

The Berlin Water Works, which was incorporated as a body politic in 1925, is the City's sole component unit. Financial data of the Berlin Water Works has not been included in these financial statements as their current fiscal year financial audit and financial statements have not been completed.

Separately issued financial statements of the Berlin Water Works may be obtained by writing to their Board of Commissioners at 55 Willow Street, Berlin, New Hampshire 03570-1883.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-Wide Financial Statements:

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the City at year end. The statement of activities presents a comparison between direct expenses and program

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

2. Fund Financial Statements:

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

Fund Accounting

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

1. Governmental Funds:

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

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

2. Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The City has no internal service funds. The following is the City's major proprietary fund:

The Sewer Fund accounts for all revenues and expenses pertaining to the City's sanitation operations.

The Sewer Fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e. expenses including depreciation) of providing goods or services to the residents on a continuing basis are financed or recovered primarily through user charges.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

3. Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City maintains four private purpose trust funds which account for monies designated to benefit individuals within the City. The City's agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. The City's agency fund accounts for the Student Activities Funds of the school.

Measurement Focus

1. Government-Wide Financial Statements:

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

2. Fund Financial Statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund type is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

The private purpose trust funds are reported using the economic resources measurement focus.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

In the government-wide financial statements and proprietary fund statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

1. Revenues – Exchange and Non-exchange Transactions:

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

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

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

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

2. Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

3. Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Budgetary Data

The City's budget represents functional appropriations as authorized by City Council. The City Council may transfer funds between operating categories as they deem necessary. The City adopts its budget under State regulations, which differ somewhat from accounting principles generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the fiscal year ended June 30, 2008, the City applied \$200,000 of its unappropriated fund balance to reduce taxes.

Encumbrance Accounting

Encumbrance accounting, under which purchase orders and other commitments for expenditure of monies are recorded in order to reserve a portion of the applicable appropriation, is employed as an extension of formal budgetary integration in Governmental Funds. Encumbrances outstanding at year end are reported as a component of fund balance since they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services.

Cash and Cash Equivalents

The City pools its cash resources for the governmental and proprietary funds. Cash applicable to a particular fund is reflected as an interfund balance. For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of the following:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Totals</u>
Proprietary Funds:			
Sewer fund	\$ 3,633,559		\$ 3,633,559
Nonmajor funds	<u>578,610</u>	<u>\$ (78,228)</u>	<u>500,382</u>
	<u>\$ 4,212,169</u>	<u>\$ (78,228)</u>	<u>\$ 4,133,941</u>

Investments

Investments are stated at their fair value in all funds. Certificates of deposit and repurchase agreements with a maturity of greater than ninety days from the date of issuance are included in investments.

Taxes Receivable

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2008 are recorded as receivables net of reserves for estimated uncollectibles of \$340,963.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2008 are recorded as prepaid items.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

Restricted Cash

Restricted cash consists of deposits held in escrow accounts.

Capital Assets

General capital assets result from expenditures in the governmental and proprietary funds. These assets are reported in the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets including infrastructure are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$10,000. The City's infrastructure consists of roads, bridges, sidewalks, sewer collection and treatment system, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Description</u>	<u>Years</u>
	Infrastructure	15-30
	Land improvements	10-30
	Buildings and improvements	10-60
	Vehicles and equipment	3-30

Compensated Absences

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

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

Accrued Liabilities and Long-Term Obligations

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. A fund balance reserve has been established for encumbrances, prepaid expenses and special purposes.

Interfund Activity

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

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the sewer fund and Cates Hill landfill fund, these revenues are charges to customers for sales and services. Operating expenses, which include depreciation on capital assets, are necessary costs incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates

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

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$461,392,086 as of April 1, 2007) and are due in two installments on July 1, 2008 and December 1, 2007. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end) in the governmental fund statements only. Full accrual is reported in the government wide financial statements.

Under State law, the Tax Collector obtains tax liens on properties which have unpaid taxes in the following calendar year after taxes were due for the amount of unpaid taxes, interest and costs. These priority tax liens accrue interest at 18% per annum. If the property is not redeemed within a two year redemption period, the property is tax deeded to the City.

In accordance with State law, the City collects taxes for Coos County, an independent governmental unit, which are remitted to the County as required by law. Taxes appropriated to Coos County for the year ended June 30, 2008 were \$1,380,841. The City bears responsibility for uncollected taxes.

NOTE 3—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At June 30, 2008 the Airport Authority Fund, a nonmajor governmental fund, had an unreserved, deficit fund balance of \$71,612. The City's management intends to rectify the above condition by transferring funds from the General Fund to offset the deficit position.

NOTE 4—RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the City was a member of the New Hampshire Public Risk Management Exchange (PRIMEX). The City currently reports all of its risk management activities in its General Fund. The Trust is classified as a "Risk Pool" in accordance with accounting principles generally accepted in the United States of America.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

The Trust agreement permits the Trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresee no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2008.

Property and Liability Insurance

PRIMEX provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of PRIMEX, the City shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000.

Worker's Compensation

PRIMEX provides statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. The Trust is self-sustaining through annual member premiums and provides coverage for the statutorily required workers' compensation benefits and employer's liability coverage up to \$2,000,000. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

NOTE 5—DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 10,408,631
Investments	2,751,251
Restricted cash	9,363
Statement of fiduciary net assets:	
Cash and cash equivalents	183,174
Investments	123,672
Total deposits and investments	<u>\$ 13,476,091</u>

Deposits and investments as of June 30, 2008 consist of the following:

Cash on hand	\$ 2,460
Deposits with financial institutions	10,839,016
Investments	2,634,615
Total deposits and investments	<u>\$ 13,476,091</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

The City has combined the cash resources of its governmental, proprietary, and fiduciary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance.

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Of the City's deposits with financial institutions at year end, \$11,059,147 was either federally insured or collateralized by securities held by the bank in the bank's name and \$109,372 was uninsured and uncollateralized.

Investment in NHPDIP

The City is a voluntary participant in the New Hampshire Public Deposit Investment Pool (NHPDIP). The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company. The NHPDIP was created by state law and is administered by a public body of state, local and banking officials.

Investments in the NHPDIP are not investment securities and, as such, are not categorized by risk. The City's exposure to derivatives is indirect through its participation in the NHPDIP. The City's proportional share of these derivatives is not available. The fair value of the position in the investment pool is equal to the value of the pool shares.

NOTE 6—DUE FROM OTHER GOVERNMENTS

Receivables from other governments at June 30, 2008 consists of various federal and state funding and reimbursements from other local governmental units. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables is as follows:

State shared revenues	\$ 474,616
Police grants	18,740
Fire grants	19,838
Homeland security grants	363
Nursing grant	4,619
Medicaid	26,724

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

State and federal school grant reimbursements	150,860
Berlin Water Works reimbursement	4,068
U.S. Treasury	421
Transportation grant	63,747
Community Development Block Grant	4,648
Justice assistance grant	9,943
School lunch program	17,711
Airport improvement program grants	74,143
State of NH education grants	299,855
Cates Hill Landfill - Various Participating Towns	101,496
Federal Bureau of Prisons	99,120
	<u>\$ 1,370,912</u>

NOTE 7—CAPITAL ASSETS

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

	<u>Balance</u> <u>07/01/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/08</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 694,357		\$ (1)	\$ 694,356
Construction in progress	<u>3,171,188</u>	<u>\$ 66,052</u>	<u>(3,171,188)</u>	<u>66,052</u>
Total capital assets not being depreciated	<u>3,865,545</u>	<u>66,052</u>	<u>(3,171,189)</u>	<u>760,408</u>
Other capital assets:				
Infrastructure	6,343,376	1,656,953		8,000,329
Land improvements	5,904,222	9,992	(838,000)	5,076,214
Buildings and improvements	7,737,800	2,039,747		9,777,547
Vehicles and equipment	<u>7,433,446</u>	<u>315,820</u>		<u>7,749,266</u>
Total other capital assets at historical cost	<u>27,418,844</u>	<u>4,022,512</u>	<u>(838,000)</u>	<u>30,603,356</u>
Less accumulated depreciation for:				
Infrastructure	(3,211,455)	(208,527)		(3,419,982)
Land improvements	(2,621,347)	(176,870)	838,000	(1,960,217)
Buildings and improvements	(4,057,354)	(188,184)		(4,245,538)
Vehicles and equipment	<u>(3,935,736)</u>	<u>(405,951)</u>		<u>(4,341,687)</u>
Total accumulated depreciation	<u>(13,825,892)</u>	<u>(979,532)</u>	<u>838,000</u>	<u>(13,967,424)</u>
Total other capital assets, net	<u>13,592,952</u>	<u>3,042,980</u>	<u>-</u>	<u>16,635,932</u>
Total capital assets, net	<u>\$ 17,458,497</u>	<u>\$ 3,109,032</u>	<u>\$(3,171,189)</u>	<u>\$ 17,396,340</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 27,647
Public safety	141,634
Airport/Aviation center	169,780
Highways and streets	353,145
Health and welfare	2,248
Sanitation	9,850

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Culture and recreation	61,680
Education	205,505
Food service	8,043
Total governmental activities depreciation expense	<u>\$ 979,532</u>

The balance of the assets acquired through capital leases as of June 30, 2008 is as follows:

Buildings and improvements	\$ 467,847
Vehicles and equipment	1,119,372
Less accumulated depreciation for:	
Buildings and improvements	(202,734)
Vehicles and equipment	(380,686)
	<u>\$ 1,003,799</u>

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

	Balance 07/01/07	Additions	Reductions	Balance 06/30/08
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 235,750		\$ (13,512)	\$ 222,238
Construction in progress	30,334	\$ 614,259		644,593
Total capital assets not being depreciated	<u>266,084</u>	<u>614,259</u>	<u>(13,512)</u>	<u>866,831</u>
Other capital assets:				
Buildings and improvements	38,946,658			38,946,658
Vehicles and equipment	817,739	26,165		843,904
Total other capital assets at historical cost	<u>39,764,397</u>	<u>26,165</u>	<u>-</u>	<u>39,790,562</u>
Less accumulated depreciation for:				
Buildings and improvements	(18,209,648)	(900,912)		(19,110,560)
Vehicles and equipment	(694,809)	(46,411)		(741,220)
Total accumulated depreciation	<u>(18,904,457)</u>	<u>(947,323)</u>	<u>-</u>	<u>(19,851,780)</u>
Total other capital assets, net	<u>20,859,940</u>	<u>(921,158)</u>	<u>-</u>	<u>19,938,782</u>
Total capital assets, net	<u>\$ 21,126,024</u>	<u>\$ (306,899)</u>	<u>\$ (13,512)</u>	<u>\$ 20,805,613</u>

Depreciation expense was charged to proprietary funds as follows:

Sewer Fund	\$ 902,301
Nonmajor Funds	45,022
Total business-type activities depreciation expense	<u>\$ 947,323</u>

NOTE 8—DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer defined benefit pension plan administered by the NHRS Board of Trustees. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

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

Funding Policy

Covered public safety employees are required to contribute 9.3% of their covered salary, whereas teachers and general employees are required to contribute 5.0% of their covered salary. The City is required to contribute at an actuarially determined rate. The City's contribution rates for the covered payroll of police officers, fire employees, teachers, and general employees were 11.84%, 15.92%, 5.80%, and 8.74%, respectively. The City contributes 65% of the employer cost for police officers, fire employees, and teachers, and the State contributes the remaining 35% of the employer cost. The City contributes 100% of the employer cost for general employees of the City. In accordance with accounting principles generally accepted in the United States of America (GASB #24), on-behalf fringe benefits contributed by the State of New Hampshire of \$410,171 have been reported as a revenue and expenditure of the General Fund in these financial statements.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The City's contributions to the NHRS for the years ending June 30, 2008, 2007, and 2006 were \$1,121,754, \$807,619, and \$769,816, respectively, equal to the required contributions for each year.

NOTE 9—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the City's long-term obligations for the year ended June 30, 2008 are as follows:

	<u>Balance</u> <u>07/01/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/08</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Bonds payable	\$ 4,741,473		\$(1,208,606)	\$ 3,532,867	\$ 968,739
Capital leases payable	2,384,984		(256,245)	2,128,739	267,140
Compensated absences	<u>1,835,625</u>	<u>\$ 131,619</u>	<u>(151,722)</u>	<u>1,815,522</u>	<u>-</u>
Total governmental activities	<u>\$ 8,962,082</u>	<u>\$ 131,619</u>	<u>\$(1,616,573)</u>	<u>\$ 7,477,128</u>	<u>\$ 1,235,879</u>
Business-type activities:					
Bonds payable	\$ -	\$ 5,000,000	\$ (57,064)	\$ 4,942,936	\$ 117,793
Notes payable	575,579		(51,950)	523,629	54,608
Other long-term obligations	3,800,407		(3,800,407)	-	-
Compensated absences	<u>89,340</u>	<u>472</u>	<u>(21,517)</u>	<u>68,295</u>	<u>-</u>
Total business-type activities	<u>\$ 4,465,326</u>	<u>\$ 5,000,472</u>	<u>\$(3,930,938)</u>	<u>\$ 5,534,860</u>	<u>\$ 172,401</u>

Payments on the general obligation bonds and capital leases of the governmental activities are paid out of the General Fund. Payments on the general obligation bonds and notes payable of the business-type

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

activities are paid out of the Sewer and Industrial Development and Park Authority Funds. Compensated absences will be paid from the fund where the employee's salary is paid.

General Obligation Bonds

Governmental Activities:

Bonds payable at June 30, 2008 are comprised of the following individual issues:

\$5,100,000 Deficit Funding Bonds due in annual installments of \$510,000 through July 2009; interest at 4.5% - 5.25%	\$ 1,020,000
\$1,134,062 Landfill Closure Bonds due in annual installments of \$56,703 through November 2016; interest at 4.48%	510,328
\$4,500,000 State Guaranteed School Improvement Bonds due in annual installments of \$300,000 through January 2013; interest at 4.15% - 4.9%	1,500,000
\$1,500,000 School Improvement Bonds due in annual installments of \$100,000 through January 2013; interest at 4.3% - 4.95%	500,000
\$9,063 Airport Authority Equipment Bond due in annual installments of \$2,145 through June 2009 and \$508 through September 2009; interest at 6.75%	2,539
	<u>\$ 3,532,867</u>

Debt service requirements to retire general obligation bonds for governmental activities at June 30, 2008 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 968,739	\$ 157,997	\$ 1,126,736
2010	967,206	108,384	1,075,590
2011	456,703	75,882	532,585
2012	456,703	54,142	510,845
2013	456,703	32,351	489,054
2014-2017	226,813	25,403	252,216
	<u>\$ 3,532,867</u>	<u>\$ 454,159</u>	<u>\$ 3,987,026</u>

The State of New Hampshire annually reimburses the City for its share of landfill related debt service payments. For the year ended June 30, 2008, the landfill closure reimbursement was \$12,003.

As included on the Statement of Activities (Exhibit B), interest expense for the year ended June 30, 2008 was \$445,080 on general obligation debt for governmental activities.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Under state law, the City is required to issue general obligation debt for the Berlin Water Works (a component unit of the City). Accordingly, this general obligation debt is recognized as a liability of the Berlin Water Works and is not recorded as a long term obligation of the City. The Commissioners of the Berlin Water Works have agreed to reimburse the City for the annual principal and interest payments on this debt. For the year ended June 30, 2008, the reimbursement was \$917,985, which consists of \$605,000 in principal and \$312,985 in interest.

Business-type Activities:

Bonds payable at June 30, 2008 are comprised of the following individual issue:

\$5,000,000 Sewer Fund Wastewater Treatment Facility Bond due in semi-annual installments of \$163,350 through September 2032; interest at 4.25%	<u>\$ 4,942,936</u>
---	---------------------

Debt service requirements to retire general obligation bonds for business-type activities at June 30, 2008 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 117,793	\$ 208,907	\$ 326,700
2010	122,854	203,846	326,700
2011	128,133	198,567	326,700
2012	133,638	193,062	326,700
2013	139,380	187,320	326,700
2014-2018	792,045	841,455	1,633,500
2019-2023	977,465	656,035	1,633,500
2024-2028	1,206,291	427,209	1,633,500
2029-2033	<u>1,325,337</u>	<u>144,813</u>	<u>1,470,150</u>
	<u>\$ 4,942,936</u>	<u>\$ 3,061,214</u>	<u>\$ 8,004,150</u>

Notes Payable

Notes payable at June 30, 2008 are comprised of the following individual issue:

\$625,000 Note payable to Business Finance Authority, secured by real estate, due in monthly installments of \$6,629 through June 2016; interest at 5.0%	<u>\$ 523,629</u>
--	-------------------

Debt service requirements to retire notes payable for business-type activities at June 30, 2008 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 54,608	\$ 24,941	\$ 79,549
2010	57,402	22,147	79,549
2011	60,338	19,211	79,549

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

2012	63,425	16,124	79,549
2013	66,670	12,879	79,549
2014-2016	<u>221,186</u>	<u>17,462</u>	<u>238,648</u>
	<u>\$ 523,629</u>	<u>\$ 112,764</u>	<u>\$ 636,393</u>

As included on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds (Exhibit F), interest expense for the year ended June 30, 2008 was \$28,690 on notes payable for business-type activities.

Capital Lease Obligations

Capital lease obligations represent lease agreements entered into for the financing of equipment acquisitions. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. Amounts are annually budgeted in the applicable function. The following are the individual capital lease obligations of the governmental activities at June 30, 2008:

Equipment, due in annual installments of \$69,673, including interest at 4.09%, through April 2013	\$ 317,236
Equipment, due in annual installments of \$23,298, including interest at 3.5%, through August 2008	22,510
Equipment, due in annual installments of \$49,515, including interest at 4.65%, through September 2012	216,464
Equipment, due in annual installments of \$214,347, including interest at 4.295%, through July 2016	<u>1,572,529</u>
	<u>\$ 2,128,739</u>

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2008 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 267,140	\$ 89,692	\$ 356,832
2010	255,203	78,332	333,535
2011	266,233	67,301	333,534
2012	277,740	55,794	333,534
2013	289,746	41,849	331,595
2014-2016	<u>772,677</u>	<u>84,710</u>	<u>857,387</u>
	<u>\$ 2,128,739</u>	<u>\$ 417,678</u>	<u>\$ 2,546,417</u>

Authorized and Unissued Debt

The following debt was authorized and unissued as of June 30, 2008:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

Sewer Wastewater Treatment Facility Phase II	\$ 15,000,000
Industrial Development Revenue Bonds	<u>10,000,000</u>
	<u>\$ 25,000,000</u>

NOTE 10—LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the City place final covers on its two landfills when closed and perform certain maintenance and monitoring functions at the landfill sites for thirty years after closure. An estimated liability has been recorded based on the future post-closure care costs that will be incurred. The estimated liability for landfill post-closure care costs has a balance of \$469,928 as of June 30, 2008. The estimated liability for the post-closure care costs of the East Milan landfill (\$199,928) and the Cates Hill landfill (\$270,000) has been reported as a liability of the Governmental Funds and the Cates Hill Landfill Proprietary Fund, respectively. The East Milan landfill was capped during fiscal year 1997, and the Cates Hill landfill was capped during fiscal year 2005. The estimated total current cost of the landfill post-closure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfills were acquired as of June 30, 2008. However, the actual cost of post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The closure costs of the East Milan landfill were financed through the issuance of debt under the State of New Hampshire, State Water Pollution Control Revolving Fund Program. The remaining post-closure care costs for the East Milan landfill are expected to be financed through annual taxation. The City has entered into an inter-municipal agreement with surrounding communities for the reimbursement of their share of the Cates Hill landfill closure and post-closure care costs. The remaining closure and post-closure care costs for the Cates Hill landfill are expected to be financed from the motor vehicle surcharges previously collected in the Cates Hill Landfill Fund.

The following is a summary of changes in the estimated liability for closure and post-closure care costs for the year ended June 30, 2008:

	Balance			Balance	Amounts
	<u>07/01/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/08</u>	<u>Due Within</u>
					<u>One Year</u>
Governmental activities	\$ 210,450		\$ (10,522)	\$ 199,928	\$ 10,522
Business-type activities	<u>236,670</u>	<u>\$ 43,330</u>	<u>(10,000)</u>	<u>270,000</u>	<u>10,000</u>
	<u>\$ 447,120</u>	<u>\$ 43,330</u>	<u>\$ (20,522)</u>	<u>\$ 469,928</u>	<u>\$ 20,522</u>

Payments on the landfill closure and post-closure care costs for the East Milan landfill are paid out of the General Fund. Payments on the landfill closure and post-closure care costs for the Cates Hill landfill are paid out of the Cates Hill Landfill Fund.

NOTE 11—INTERFUND BALANCES AND TRANSFERS

The City has combined the cash resources of its governmental, proprietary, and fiduciary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance. Interfund balances at June 30, 2008 are as follows:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2008

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Funds:		
General Fund	\$ 441,521	\$ 4,395,181
Sewer Fund	3,633,559	
Nonmajor Funds:		
Governmental Funds	183,012	361,792
Proprietary Funds	578,610	78,228
Fiduciary Funds:		
Private-Purpose Trusts		1,501
	<u>\$ 4,836,702</u>	<u>\$ 4,836,702</u>

During the year, an interfund transaction occurred between funds. The operating transfer was made in accordance with budgetary authorization. The interfund transfer for the year ended June 30, 2008 is as follows:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Major Funds:		
General Fund		\$ 8,154
Nonmajor Governmental Funds	<u>\$ 8,154</u>	
	<u>\$ 8,154</u>	<u>\$ 8,154</u>

NOTE 12—PERMANENT FUNDS

Cemetery care funds are accounted for as permanent funds in these financials. The principal amounts of all cemetery care funds are restricted in that only income earned may be expended. Principal and income balances at June 30, 2008 are as follows:

	<u>Principal</u>	<u>Income</u>	<u>Total</u>
Cemetery Funds	<u>\$ 146,053</u>	<u>\$ 221,062</u>	<u>\$ 367,115</u>

NOTE 13—RESTRICTED NET ASSETS

Net assets are restricted for specific purposes as follows:

Endowments	<u>\$ 146,053</u>
------------	-------------------

NOTE 14—TOP TAXPAYERS

The following are the five major property owners as they relate to the City's total assessed property valuation of \$461,392,086:

**CITY OF BERLIN, NEW HAMPSHIRE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 For the Year Ended June 30, 2008**

<u>Taxpayer</u>	<u>Property Valuation</u>	<u>Percentage of Total Valuation</u>
Public Service of New Hampshire	\$ 46,714,300	10.12%
Great Lakes Hydro America, LLC	31,446,000	6.82%
Portland Natural Gas	12,408,900	2.69%
North American Dismantling Co.	5,371,500	1.16%
Individual taxpayer	3,100,500	0.72%

NOTE 15—COMMITMENTS AND CONTINGENCIES

Ambulance Contract

During 2007, the City entered into a long-term agreement with an independent company to provide emergency ambulance services. The agreement shall be in effect from July 1, 2007 through June 30, 2010, with an automatic three year renewal until June 30, 2013. Terms of the contract include minimum payments, which are payable in monthly installments of \$20,000. For the year ended June 30, 2008, the City expended \$240,000 under the terms of the emergency ambulance service agreements.

Other Contingencies

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

SCHEDULE 1
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 13,673,405	\$ 13,673,405	\$ 13,103,380	\$ (570,025)
Licenses and permits	1,248,300	1,248,300	1,267,631	19,331
Intergovernmental	12,997,100	12,997,100	13,408,727	411,627
Charges for services	2,405,634	2,405,634	2,405,950	316
Interest income	225,000	225,000	279,650	54,650
Miscellaneous	162,500	162,500	221,243	58,743
Total Revenues	<u>30,711,939</u>	<u>30,711,939</u>	<u>30,686,581</u>	<u>(25,358)</u>
Expenditures:				
Current:				
General government	1,774,630	1,758,388	1,972,736	(214,348)
Public safety	4,492,520	4,480,932	4,306,674	174,258
Highways and streets	1,994,423	1,995,428	2,052,620	(57,192)
Health and welfare	693,452	693,716	690,590	3,126
Sanitation	934,128	934,128	880,565	53,563
Culture and recreation	579,733	581,319	571,530	9,789
Education	15,486,834	15,902,307	15,172,370	729,937
Capital outlay	2,391,954	1,268,495	1,155,869	112,626
Debt service:				
Principal retirement	1,811,703	1,811,703	1,811,703	-
Interest and fiscal charges	475,881	475,881	475,881	-
Intergovernmental	1,465,745	1,465,745	1,380,841	84,904
Total Expenditures	<u>32,101,003</u>	<u>31,368,042</u>	<u>30,471,379</u>	<u>896,663</u>
Excess of revenues over (under) expenditures	<u>(1,389,064)</u>	<u>(656,103)</u>	<u>215,202</u>	<u>871,305</u>
Other financing sources (uses):				
Operating transfers out	<u>(8,154)</u>	<u>(8,154)</u>	<u>(8,154)</u>	<u>-</u>
Total other financing sources (uses)	<u>(8,154)</u>	<u>(8,154)</u>	<u>(8,154)</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(1,397,218)</u>	<u>(664,257)</u>	<u>207,048</u>	<u>871,305</u>
Fund balances at beginning of year				
- Budgetary Basis	<u>3,767,948</u>	<u>3,767,948</u>	<u>3,767,948</u>	<u>-</u>
Fund balances at end of year				
- Budgetary Basis	<u>\$ 2,370,730</u>	<u>\$ 3,103,691</u>	<u>\$ 3,974,996</u>	<u>\$ 871,305</u>

See accompanying notes to the required supplementary information

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2008

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

General Fund

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) are reported on the basis budgeted by the City. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). Budgetary information in these financial statements has been presented only for the General Fund as it is neither practical nor meaningful for other funds. Property tax budgetary revenues are recognized when levied rather than when susceptible to accrual. Budgetary expenditures were adjusted for encumbrances and on-behalf payments for fringe benefits.

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 31,103,302	\$ 31,418,409
Difference in property taxes meeting susceptible to accrual criteria	(6,550)	
Encumbrances, June 30, 2008		71,268
Encumbrances, June 30, 2007		(599,973)
On-behalf fringe benefits	<u>(410,171)</u>	<u>(410,171)</u>
Per Schedule 1	<u>\$ 30,686,581</u>	<u>\$ 30,479,533</u>

NOTE 2—BUDGETARY FUND BALANCES

The components of the budgetary fund balance for the General Fund are as follows:

Reserved for tax deeded property	\$ 171,891
Reserved for prepaid expenses	12,816
Reserved for special purposes	335
Unreserved:	
Designated for continuing appropriations	1,176,934
Undesignated	<u>2,613,020</u>
	<u>\$ 3,974,996</u>

NOTE 3—RESERVED FOR SPECIAL PURPOSES

The balance reserved for special purposes at June 30, 2008 is as follows:

Unity Street Park	<u>\$ 335</u>
-------------------	---------------

SCHEDULE I
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
DEPARTMENT OF AGRICULTURE		
Pass Through Payments from New Hampshire Department of Education		
Food Distribution	10.550	\$ 41,448
School Breakfast Program	10.553	76,955
National School Lunch Program	10.555	257,635
Special Milk Program for Children	10.556	<u>2,043</u>
Total Department of Agriculture		<u>378,081</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Pass Through Payments from Community Development Finance Authority Community Development Block Grants - State's Program		
	14.228	
#05-053-CDHS		137,221
#06-053-CDHS		<u>4,647</u>
Total Department of Housing and Urban Development		<u>141,868</u>
DEPARTMENT OF EDUCATION		
Pass Through Payments from New Hampshire Department of Education		
Title I Grants to Local Educational Agencies	84.010	
#70011		17,721
#80012		<u>635,681</u>
		<u>653,402</u>
Special Education - Grants to States	84.027	
#82544		<u>335,347</u>
Vocational Education - Basic Grants to States	84.048A	
#75011		19,160
#85015		<u>39,990</u>
		<u>59,150</u>
Special Education - Preschool Grants	84.173	
#82736		<u>11,927</u>
Safe and Drug-Free Schools - State Grants	84.186	
#86511		<u>17,636</u>
21st Century Community Learning Center	84.287C	
#86282		<u>285,032</u>

See notes to schedule of expenditures of federal awards

SCHEDULE I
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2008

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF EDUCATION (CONTINUED)		
Innovative Education Program Strategies #86011	84.298A	<u>2,631</u>
Education Technology State Grants #74591 #84591	84.318X	148,403 <u>59,993</u> 208,396
Teacher Quality Enhancement Grants #74620	84.336	<u>18,748</u>
Reading First State Grants #80757	84.357	<u>219,956</u>
Mathematics and Science Partnerships State Grants #65194 #65195 #85191	84.366	15,709 58,709 <u>36,700</u> 111,118
Improving Teacher Quality State Grants #84797	84.367A	<u>127,855</u>
Statewide Data Systems Grants #88112	84.372	<u>2,444</u>
Total Department of Education		<u>2,053,642</u>
DEPARTMENT OF JUSTICE		
Received directly from U.S. Treasury Department Edward Byrne Memorial Formula Grant Program #2007DJBX1381	16.579	<u>10,092</u>
Enhancing Underage Drinking Laws Programs #2006CD25 #2007CD25	16.727	13,164 <u>4,103</u> 17,267
Edward Byrne Memorial Justice Assistance Grant Program #20070245	16.738	<u>49,714</u>
Total Department of Justice		<u>77,073</u>

See notes to schedule of expenditures of federal awards

SCHEDULE I
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2008

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	<u>Expenditures</u>
DEPARTMENT OF TRANSPORTATION		
Pass Through Payments from New Hampshire Department of Transportation Airport Improvement Program	20.106	
#33-33-001-13		9,743
#33-33-001-15		376
#33-33-001-16		<u>64,401</u>
		<u>74,520</u>
 Highway Planning and Construction #X-A000087	 20.205	 <u>135,171</u>
 State and Community Highway Safety	 20.600	
#314-07B-004		1,706
#315-07B-073		2,315
#315-07B-074		2,403
#315-08B-041		<u>546</u>
		<u>6,970</u>
 Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	 20.601	
#308-07B-099		2,301
#308-08B-085		430
#308-08B-053		<u>1,303</u>
		<u>4,034</u>
 Safety Belt Performance Grants #304-08B-018	 20.609	 <u>1,659</u>
 Total Department of Transportation		 <u>222,354</u>
DEPARTMENT OF HOMELAND SECURITY		
Pass Through Payments from New Hampshire Office of Emergency Management Homeland Security Responder Grant	97.067	
# N/A		<u>13,869</u>
Total Department of Homeland Security		<u>13,869</u>
 Total Expenditures of Federal Awards		 <u>\$ 2,886,887</u>

See notes to schedule of expenditures of federal awards

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2008

NOTE 1—GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Berlin, New Hampshire. The City of Berlin's reporting entity is defined in Note 1 to the City's basic financial statements.

NOTE 2—BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

NOTE 3—NON-CASH TRANSACTIONS

The Food Distribution Program (CFDA #10.550) is a non-cash program. Dollar values reported on the Schedule of Expenditures of Federal Awards represent the value of commodities used by the City from this program.

NOTE 4—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The recognition of expenditures of federal awards have been reported in the City's basic financial statements as intergovernmental revenues in the General Fund and Nonmajor Special Revenue Funds as follows:

General Fund	\$ 184,885
Nonmajor Special Revenue Funds:	
Federal Projects Fund	2,053,642
Airport Authority Fund	74,520
Food Service Fund	336,633
Grant Fund	53,891
CDBG Fund	141,868
	<u>\$ 2,845,439</u>

Vachon, Clukay & Co., PC

Certified Public Accountants

45 Market Street
Manchester, New Hampshire 03101
(603) 622-7070
FAX: 622-1452

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berlin, New Hampshire, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 17, 2008. 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 Berlin, New Hampshire's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion of the City of Berlin, 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 or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America 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 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 financial reporting and its operation that we consider to be material weaknesses as defined above.

Compliance

As part of obtaining reasonable assurance about whether the City of Berlin, New Hampshire's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, the Honorable Mayor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Vachon, Clukey & Co. PC

December 17, 2008

Vachon, Clukay & Co., PC

Certified Public Accountants

45 Market Street
Manchester, New Hampshire 03101
(603) 622-7070
FAX: 622-1452

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Berlin, New Hampshire 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 each of its major federal programs for the year ended June 30, 2008. The City of Berlin, New Hampshire's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Berlin, New Hampshire's management. Our responsibility is to express an opinion on the City of Berlin, New Hampshire's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Berlin, 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 Berlin, New Hampshire's compliance with those requirements.

In our opinion, The City of Berlin complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Berlin, 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 Berlin, 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Honorable Mayor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Uachon, Chukay & Co. PC

December 17, 2008

**City of Berlin, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008**

Section I—Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: *unqualified*
 Internal control over financial reporting:
 Material weakness(es) identified? _____yes X no
 Significant deficiency(ies) identified
 not considered to be material weaknesses? _____yes X none reported
 Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? _____yes X no
 Significant deficiency(ies) identified
 not considered to be material weaknesses? _____yes X no

Type of auditor’s report issued on compliance
 for major programs: *qualified*

Any audit findings disclosed that are required
 to be reported in accordance with
 Circular A-133, Section .510(a)? _____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I – Grants to Local Educational Agencies
84.367	Improving Teacher Quality – State Grants

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

Auditee qualified as low-risk auditee? X yes _____ no

Section II—Financial Statement Findings

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

Section III—Federal Award Findings and Questioned Costs

There were no findings and questioned costs as defined under OMB Circular A-133 .510(a).

SCHEDULE A
CITY OF BERLIN, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Funds
June 30, 2008

	Special Revenue <u>Funds</u>	Permanent <u>Funds</u>	Combining <u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 2,608	\$ 1,128	\$ 3,736
Investments		367,081	367,081
Accounts receivable	6,207		6,207
Due from other governments	419,408		419,408
Due from other funds	183,012		183,012
Prepaid expenses	18,436		18,436
Inventory	9,527		9,527
Total Assets	<u>\$ 639,198</u>	<u>\$ 368,209</u>	<u>\$ 1,007,407</u>
LIABILITIES			
Accounts payable	\$ 69,142	\$ 1,094	\$ 70,236
Accrued expenses	12,683		12,683
Deferred revenue	125,388		125,388
Due to other funds	361,792		361,792
Total Liabilities	<u>569,005</u>	<u>1,094</u>	<u>570,099</u>
FUND BALANCES			
Reserved for endowments		146,053	146,053
Reserved for prepaid expenses	18,436		18,436
Unreserved, reported in:			
Special revenue funds	51,757		51,757
Permanent funds		221,062	221,062
Total Fund Balances	<u>70,193</u>	<u>367,115</u>	<u>437,308</u>
Total Liabilities and Fund Balances	<u>\$ 639,198</u>	<u>\$ 368,209</u>	<u>\$ 1,007,407</u>

SCHEDULE A-1
CITY OF BERLIN, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Special Revenue Funds
June 30, 2008

	Federal Projects Fund	Food Service Fund	Airport Authority Fund	Health Department Fund	Carberry Fund	Grant Fund	CDBG Fund	Recreation and Parks Programs Fund	Combining Totals
ASSETS									
Cash and cash equivalents			\$ 4,910	\$ 2,608	\$ 1,297				\$ 2,608
Accounts receivable			74,143			\$ 23,051	\$ 4,648		6,207
Due from other governments	\$ 299,855	\$ 17,711			5,713	68,498		\$ 22,366	419,408
Due from other funds		86,435	18,436						183,012
Prepaid expenses									18,436
Inventory		9,527							9,527
Total Assets	\$ 299,855	\$ 113,673	\$ 97,489	\$ 2,608	\$ 7,010	\$ 91,549	\$ 4,648	\$ 22,366	\$ 639,198
LIABILITIES									
Accounts payable	\$ 52,176	\$ 2,876	\$ 6,898		\$ 1,292	\$ 5,900			\$ 69,142
Accrued expenses	7,371		4,616			696			12,683
Deferred revenue	40,435					84,953			125,388
Due to other funds	198,703		157,587	\$ 854			\$ 4,648		361,792
Total Liabilities	298,685	2,876	169,101	854	1,292	91,549	4,648	\$ -	569,005
FUND BALANCES									
Reserved for prepaid expenses			18,436						18,436
Unreserved (deficit), reported in:			(90,048)	1,754	5,718			22,366	51,757
Special revenue funds	1,170	110,797	(71,612)	1,754	5,718	-		22,366	70,193
Total Fund Balances	\$ 299,855	\$ 113,673	\$ 97,489	\$ 2,608	\$ 7,010	\$ 91,549	\$ 4,648	\$ 22,366	\$ 639,198
Total Liabilities and Fund Balances									

SCHEDULE B
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - All Nonmajor Funds
For the Year Ended June 30, 2008

	Special Revenue <u>Funds</u>	Permanent <u>Funds</u>	Combining <u>Totals</u>
Revenues:			
Intergovernmental	\$ 2,734,990		\$ 2,734,990
Charges for services	533,434		533,434
Interest income	10	\$ 13,480	13,490
Miscellaneous	84,890	175	85,065
Total Revenues	<u>3,353,324</u>	<u>13,655</u>	<u>3,366,979</u>
Expenditures:			
Current operations:			
General government	24,010	11,291	35,301
Public safety	67,406		67,406
Airport/Aviation center	224,569		224,569
Health and welfare	1,392		1,392
Sanitation	17,766		17,766
Culture and recreation	39,919		39,919
Economic development	141,869		141,869
Education	2,149,533		2,149,533
Food service	611,791		611,791
Capital outlay	89,913		89,913
Debt service:			
Principal retirement	1,898		1,898
Interest and fiscal charges	244		244
Total Expenditures	<u>3,370,310</u>	<u>11,291</u>	<u>3,381,601</u>
Excess of revenues over (under) expenditures	<u>(16,986)</u>	<u>2,364</u>	<u>(14,622)</u>
Other financing sources (uses):			
Operating transfers in	8,154		8,154
Total other financing sources (uses)	<u>8,154</u>	<u>-</u>	<u>8,154</u>
Excess of revenues and other sources over (under) expenditures and other uses	(8,832)	2,364	(6,468)
Fund balances at beginning of year	<u>79,025</u>	<u>364,751</u>	<u>443,776</u>
Fund balances at end of year	<u>\$ 70,193</u>	<u>\$ 367,115</u>	<u>\$ 437,308</u>

SCHEDULE B-1
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - All Nonmajor Special Revenue Funds
For the Year Ended June 30, 2008

	Federal Projects Fund	Food Service Fund	Airport Authority Fund	Health Department Fund	Carberry Fund	Grant Fund	CDBG Fund	Recreation and Parks Programs Fund	Combining Totals
Revenues:									
Intergovernmental	\$ 2,088,750	\$ 347,594	\$ 74,519		\$ 19,073	\$ 82,258	\$ 141,869	\$ 39,498	\$ 2,734,990
Charges for services		251,678	223,185						533,434
Interest income				\$ 10					10
Miscellaneous	60,986			340		23,564			84,890
Total Revenues	<u>2,149,736</u>	<u>599,272</u>	<u>297,704</u>	<u>350</u>	<u>19,073</u>	<u>105,822</u>	<u>141,869</u>	<u>39,498</u>	<u>3,353,324</u>
Expenditures:									
Current operations:									
General government						24,010			24,010
Public safety						67,406			67,406
Airport/Aviation center			224,569						224,569
Health and welfare				855		537			1,392
Sanitation					17,766				17,766
Culture and recreation							141,869	39,919	39,919
Economic development									141,869
Education	2,149,533								2,149,533
Food service		611,791							611,791
Capital outlay			76,044						76,044
Debt service:									
Principal retirement			1,898						1,898
Interest and fiscal charges			244						244
Total Expenditures	<u>2,149,533</u>	<u>611,791</u>	<u>302,755</u>	<u>855</u>	<u>17,766</u>	<u>105,822</u>	<u>141,869</u>	<u>39,919</u>	<u>3,370,310</u>
Excess of revenues over (under) expenditures	203	(12,519)	(5,051)	(505)	1,307	-	-	(421)	(16,986)
Other financing sources (uses):									
Operating transfers in			8,154						8,154
Total other financing sources (uses)	-	-	8,154	-	-	-	-	-	8,154
Excess of revenues and other sources over (under) expenditures and other uses	203	(12,519)	3,103	(505)	1,307	-	-	(421)	(8,832)
Fund balances (deficit) at beginning of year	967	123,316	(74,715)	2,259	4,411	-	-	22,787	79,025
Fund balances (deficit) at end of year	\$ 1,170	\$ 110,797	\$ (71,612)	\$ 1,754	\$ 5,718	\$ -	\$ -	\$ 22,366	\$ 70,193

SCHEDULE C
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Net Assets
All Nonmajor Proprietary Funds
June 30, 2008

	Industrial Development and Park Authority Fund	Courthouse Fund	Cates Hill Landfill Fund	Combining Totals
ASSETS				
Current Assets:				
Accounts receivable	\$ 2,625			\$ 2,625
Notes receivable	848,321			848,321
Due from other governments			\$ 101,496	101,496
Due from other funds	266,726		311,884	578,610
Total Current Assets	<u>1,117,672</u>	<u>\$ -</u>	<u>413,380</u>	<u>1,531,052</u>
Noncurrent Assets:				
Non-depreciable capital assets	199,575			199,575
Depreciable capital assets, net	220,020	140,877		360,897
Total Noncurrent Assets	<u>419,595</u>	<u>140,877</u>	<u>-</u>	<u>560,472</u>
Total Assets	<u>\$ 1,537,267</u>	<u>\$ 140,877</u>	<u>\$ 413,380</u>	<u>\$ 2,091,524</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 73	\$ 45		\$ 118
Accrued expenses	1,091	298		1,389
Deferred revenue	8,738			8,738
Due to other funds		78,228		78,228
Current portion of notes payable	54,608			54,608
Current portion of estimated liability for landfill postclosure care costs			\$ 10,000	10,000
Total Current Liabilities	<u>64,510</u>	<u>78,571</u>	<u>10,000</u>	<u>153,081</u>
Noncurrent Liabilities:				
Notes payable	469,021			469,021
Compensated absences		2,976		2,976
Estimated liability for landfill closure and postclosure care costs			260,000	260,000
Total Noncurrent Liabilities	<u>469,021</u>	<u>2,976</u>	<u>260,000</u>	<u>731,997</u>
Total Liabilities	<u>533,531</u>	<u>81,547</u>	<u>270,000</u>	<u>885,078</u>
NET ASSETS				
Invested in capital assets, net of related debt	419,595	140,877		560,472
Unrestricted (deficit)	584,141	(81,547)	143,380	645,974
Total Net Assets	<u>1,003,736</u>	<u>59,330</u>	<u>143,380</u>	<u>1,206,446</u>
Total Liabilities and Net Assets	<u>\$ 1,537,267</u>	<u>\$ 140,877</u>	<u>\$ 413,380</u>	<u>\$ 2,091,524</u>

SCHEDULE D
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Revenues, Expenses and Changes in Net Assets
All Nonmajor Proprietary Funds
For the Year Ended June 30, 2008

	Industrial Development and Park Authority Fund	Courthouse Fund	Cates Hill Landfill Fund	Combining Totals
Operating revenues:				
Miscellaneous	\$ 83,686	\$ 40,412	<u> </u>	\$ 124,098
Total operating revenues	<u>83,686</u>	<u>40,412</u>	<u>\$ -</u>	<u>124,098</u>
Operating expenses:				
Personal services		15,262		15,262
Contractual services	9,449			9,449
Repairs and maintenance	21,451	3,629	43,330	68,410
Materials and supplies	57			57
Utilities	1,111	24,088		25,199
Depreciation	38,701	6,321		45,022
Total operating expenses	<u>70,769</u>	<u>49,300</u>	<u>43,330</u>	<u>163,399</u>
Operating income (loss)	<u>12,917</u>	<u>(8,888)</u>	<u>(43,330)</u>	<u>(39,301)</u>
Non-operating revenues (expenses):				
Gain on sale of asset	3,129			3,129
Interest revenue	55,169			55,169
Interest expense	(28,690)			(28,690)
Net non-operating revenues (expenses)	<u>29,608</u>	<u>-</u>	<u>-</u>	<u>29,608</u>
Income (loss) before capital contributions	42,525	(8,888)	(43,330)	(9,693)
Capital contributions			<u>7,109</u>	<u>7,109</u>
Change in net assets	42,525	(8,888)	(36,221)	(2,584)
Total net assets at beginning of year	<u>961,211</u>	<u>68,218</u>	<u>179,601</u>	<u>1,209,030</u>
Total net assets at end of year	<u>\$ 1,003,736</u>	<u>\$ 59,330</u>	<u>\$ 143,380</u>	<u>\$ 1,206,446</u>

SCHEDULE E
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Cash Flows
All Nonmajor Proprietary Funds
For the Year Ended June 30, 2008

	Industrial Development and Park Authority <u>Fund</u>	Courthouse <u>Fund</u>	Cates Hill Landfill <u>Fund</u>	Combining <u>Totals</u>
Cash flows from operating activities:				
Cash received from customers	\$ 88,874	\$ 40,412	\$ (5,874)	\$ 123,412
Cash paid to suppliers and employees	<u>(32,176)</u>	<u>(42,561)</u>	<u>(10,000)</u>	<u>(84,737)</u>
Net cash provided (used) by operating activities	<u>56,698</u>	<u>(2,149)</u>	<u>(15,874)</u>	<u>38,675</u>
Cash flows from capital and related financing activities:				
Proceeds from note collections	67,973			67,973
Principal paid on notes payable	(51,949)			(51,949)
Interest paid on long-term debt	(28,690)			(28,690)
Capital contributions			7,109	7,109
Proceeds from sale of assets	<u>16,641</u>	<u> </u>	<u> </u>	<u>16,641</u>
Net cash provided for capital and related financing activities	<u>3,975</u>	<u>-</u>	<u>7,109</u>	<u>11,084</u>
Cash flows from investing activities:				
Interest on investments	<u>55,169</u>	<u> </u>	<u> </u>	<u>55,169</u>
Net cash provided by investing activities	<u>55,169</u>	<u>-</u>	<u>-</u>	<u>55,169</u>
Net increase (decrease) in cash and cash equivalents	115,842	(2,149)	(8,765)	104,928
Cash and cash equivalents (deficiency) at beginning of year	<u>150,884</u>	<u>(76,079)</u>	<u>320,649</u>	<u>395,454</u>
Cash and cash equivalents (deficiency) at end of year	<u>\$ 266,726</u>	<u>\$ (78,228)</u>	<u>\$ 311,884</u>	<u>\$ 500,382</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 12,917	\$ (8,888)	\$ (43,330)	\$ (39,301)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	38,701	6,321		45,022
Changes in assets and liabilities:				
Accounts receivable	(125)			(125)
Due from other governments			(5,874)	(5,874)
Accounts payable	(1,199)	(111)		(1,310)
Accrued expenses	1,091	57		1,148
Deferred revenue	5,313			5,313
Compensated absences		472		472
Estimated liability for landfill closure and postclosure care costs			33,330	33,330
Net cash provided (used) by operating activities	<u>\$ 56,698</u>	<u>\$ (2,149)</u>	<u>\$ (15,874)</u>	<u>\$ 38,675</u>
Noncash Transactions Affecting Financial Position:				
Cost basis of disposed capital assets	<u>\$ 13,512</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,512</u>