

CITY OF BERLIN, NEW HAMPSHIRE
Financial Statements
With Schedule of Expenditures of Federal Awards
June 30, 2012
and
Independent Auditor's Report

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

**Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance in Accordance
With OMB Circular A-133**

Schedule of Findings and Questioned Costs

CITY OF BERLIN, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2012

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	10-34
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULES:	
1 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund	35
2 Schedule of Funding Progress for Other Post-Employment Benefits	36
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	37-38
FEDERAL COMPLIANCE	
SCHEDULE:	
I Schedule of Expenditures of Federal Awards	39-42
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	43

CITY OF BERLIN, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2012

TABLE OF CONTENTS (CONTINUED)

	<u>Page(s)</u>
FEDERAL COMPLIANCE (CONTINUED)	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	44-45
Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	46-47
Schedule of Findings and Questioned Costs	48-49

SUPPLEMENTAL SCHEDULES

SCHEDULES:

A Combining Balance Sheet – Governmental Funds – All Nonmajor Funds	50
A-1 Combining Balance Sheet – Governmental Funds – All Nonmajor Special Revenue Funds	51
B Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – All Nonmajor Funds	52
B-1 Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – All Nonmajor Special Revenue Funds	53
C Combining Statement of Net Assets – All Nonmajor Proprietary Funds	54
D Combining Statement of Revenues, Expenses and Changes in Net Assets – All Nonmajor Proprietary Funds	55
E Combining Statement of Cash Flows – All Nonmajor Proprietary Funds	56

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Berlin Water Works, component unit of the City, as of June 30, 2012 and for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Berlin Water Works, component unit of the City, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Berlin, New Hampshire as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2013 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 grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress for other post-employment benefits on pages i-xii and 35-38 be presented to supplement the

basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Berlin, New Hampshire's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The combining nonmajor governmental and proprietary fund financial statements are presented for purposes of additional analysis and are also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Vachon Clark & Company PC

April 8, 2013

City of Berlin, New Hampshire 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, 2012. 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, 2012 by \$47.7 million, an increase of \$3.2 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 net assets increased by \$2.1 million to \$7.7 million. Restricted net assets of \$2.4 million were restricted for endowments and capital projects and \$37.6 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 \$44.5 million to \$47.7 million in fiscal year 2012. Net assets of governmental activities increased by \$1.7 million or 9.0%, and net assets of the business-type activities showed a net increase of \$1.5 million. 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 2012, the City's governmental funds reported an increase of \$2.7 million in the combined ending fund balance of \$5.9 million, compared to last fiscal 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 unassigned fund balance of \$2,496,001, which is a decrease of \$61,615 from the previous fiscal 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 three types of City activities. These three 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, economic development, 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
- **Component Unit:** 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, the City's only component unit, has been included in the City's financial statements, as required. 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 on 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. The combining schedules included in the Supplementary Section of the report are 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 governmental-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 only major governmental fund is the General Fund. Individual fund data for each of the City's non-major governmental funds is provided in the combining statements found on pages 50-53. The non-major governmental funds are:

- School Federal Projects
 - School Food Service Program
 - Berlin Airport Authority
 - Health Department
 - Mount Carberry Landfill
 - Recreation Activity Programs
 - Grant Fund
 - Neighborhood Stabilization Program
 - CDBG Fund
 - Capital Projects Funds
 - 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 54-56.

- **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 10-34.

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 transfers for budgetary purposes (Schedule 1, page 35) 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 2012 is the General Fund. Also, included in the required supplementary information is the funding progress for other post-employment benefits (Schedule 2, page 36). The notes to the required supplementary information can be found on pages 37-38.

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 (governmental and business-type activities) totaled \$47.7 million at the end of fiscal year 2012, an increase of \$3.2 million compared to the end of the previous fiscal year.

Net assets of the City as of June 30, 2012, 2011 and 2010 are as follows:

	Governmental Activities			Business-type Activities			Total Primary Government		
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets									
Capital Assets, Net	22.2	21.2	17.5	26.4	25.3	19.8	48.6	46.5	37.3
Other Assets	14.3	12.0	12.9	8.0	7.3	9.2	22.3	19.3	22.1
Total Assets	36.5	33.2	30.4	34.4	32.6	29.0	70.9	65.8	59.4
Liabilities									
Long-term Liabilities	7.8	6.0	5.7	6.8	5.7	5.4	14.6	11.7	11.1
Other Liabilities	7.7	7.9	8.2	0.9	1.7	2.0	8.6	9.6	10.2
Total Liabilities	15.5	13.9	13.9	7.7	7.4	7.4	23.2	21.3	21.3
Net Assets									
Invested in capital assets, net of related debt	16.7	17.5	14.2	20.9	21.0	15.9	37.6	38.5	30.1
Restricted	2.4	0.4	0.2	0.0	0.0	0.0	2.4	0.4	0.2
Unrestricted	1.9	1.4	2.1	5.8	4.2	5.7	7.7	5.6	7.8
Total Net Assets	21.0	19.3	16.5	26.7	25.2	21.6	47.7	44.5	38.1
Total Liabilities and Net Assets	36.5	33.2	30.4	34.4	32.6	29.0	70.9	65.8	59.4

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 the 1999 Deficit bond (the last payment was made in July 2010) and the East Milan Landfill Closure bond, none of which has any offsetting assets, the City had been increasing its unrestricted net assets. This year it had an increase in unrestricted net assets of \$2.1 million over the prior fiscal year. The City carries a liability for compensated absences. While this currently seems like a relatively small liability for most municipalities, at some point in the future funds should begin to be reserved for it.

Statement of Activities

The City's total net assets increased \$3.2 million during this fiscal year. Property and other taxes brought in \$13.8 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, 2012, 2011 and 2010 are as follows:

	Governmental Activities			Business-type Activities			Total Primary Government		
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues									
Program revenues									
Charges for services	2.7	2.5	2.5	1.5	1.4	1.6	4.2	3.9	4.1
Operating grants and contributions	17.1	18.1	17.5				17.1	18.1	17.5
Capital grants and contributions	2.0	3.4	0.7	2.0	5.1	2.1	4.0	8.5	2.8
General revenues:									
Property and other taxes	13.8	13.9	14.1				13.8	13.9	14.1
Licenses and permits	1.2	1.1	1.2				1.2	1.1	1.2
Grants and contributions	0.4	0.5	0.5				0.4	0.5	0.5
Interest and investment earnings	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1
Miscellaneous	0.6	0.3	0.4	0.5	0.1	0.2	1.1	0.4	0.6
Total revenues	37.8	39.8	36.9	4.0	6.6	4.0	41.8	46.4	40.9
Expenses:									
General government	2.5	2.3	2.1				2.5	2.3	2.1
Public safety	5.3	5.0	5.0				5.3	5.0	5.0
Airport	0.4	0.4	0.3				0.4	0.4	0.3
Highways and streets	2.5	2.7	2.4				2.5	2.7	2.4
Health and welfare	0.6	0.7	0.6				0.6	0.7	0.6
Sanitation	0.8	0.9	0.9				0.8	0.9	0.9
Culture and recreation	0.7	0.7	0.7				0.7	0.7	0.7
Economic development	1.8	2.9	2.1				1.8	2.9	2.1
Education	18.3	18.5	18.5				18.3	18.5	18.5
Food service	0.6	0.6	0.7				0.6	0.6	0.7
Debt service	0.9	1.0	1.0				0.9	1.0	1.0
Intergovernmental	1.7	1.3	1.5				1.7	1.3	1.5
Sewer				2.4	2.2	2.6	2.4	2.2	2.6
Nonmajor enterprise funds				0.1	0.8	0.2	0.1	0.8	0.2
Total Expenses	36.1	37.0	35.8	2.5	3.0	2.8	38.6	40.0	38.6
Increase (decrease) in net assets	1.7	2.8	1.1	1.5	3.6	1.2	3.2	6.4	2.3
Net assets, beginning of year	19.3	16.5	15.4	25.2	21.6	20.4	44.5	38.1	35.8
Net assets, end of year	21.0	19.3	16.5	26.7	25.2	21.6	47.7	44.5	38.1

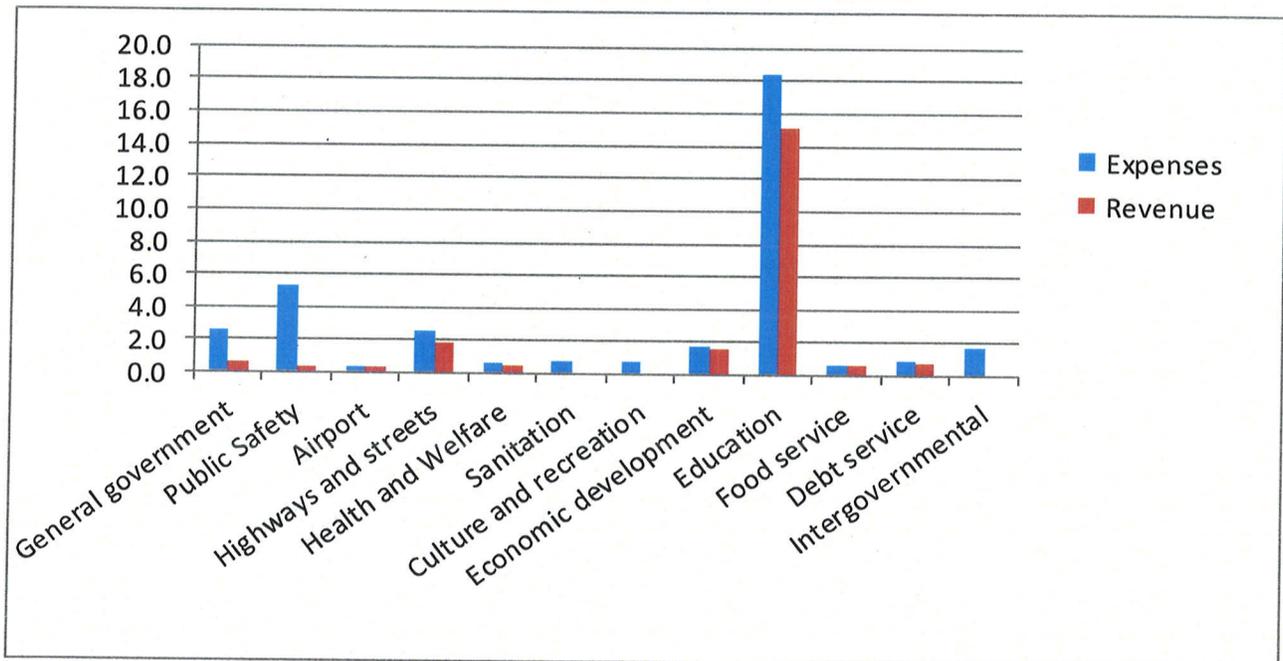
The City's expenses cover a range of services. The largest governmental expenses were for education (51%), public safety (15%), highways and streets (7%), and general government (7%), which accounted for roughly 80% of total governmental expenditures.

Governmental Activities

Governmental activities revenue totaling \$37.8 million exceeded expenses of \$36.1 million in fiscal year 2012, thereby increasing the City's governmental net assets by \$1.7 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.

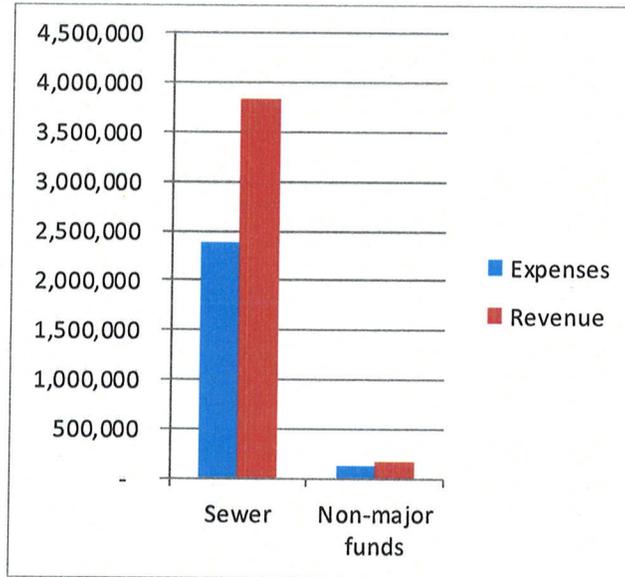
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ending June 30, 2012



Business-type Activities

The charges for goods and services for the City's business-type activities were inadequate to cover the operating expenses. However, this does not include the inflow of capital from the Bureaus of Prison payments and State Revolving Loan Fund for the significant sewer improvements currently being undertaken.

Expenses and Program Revenues – Business Type Activities
Fiscal Year Ending June 30, 2012

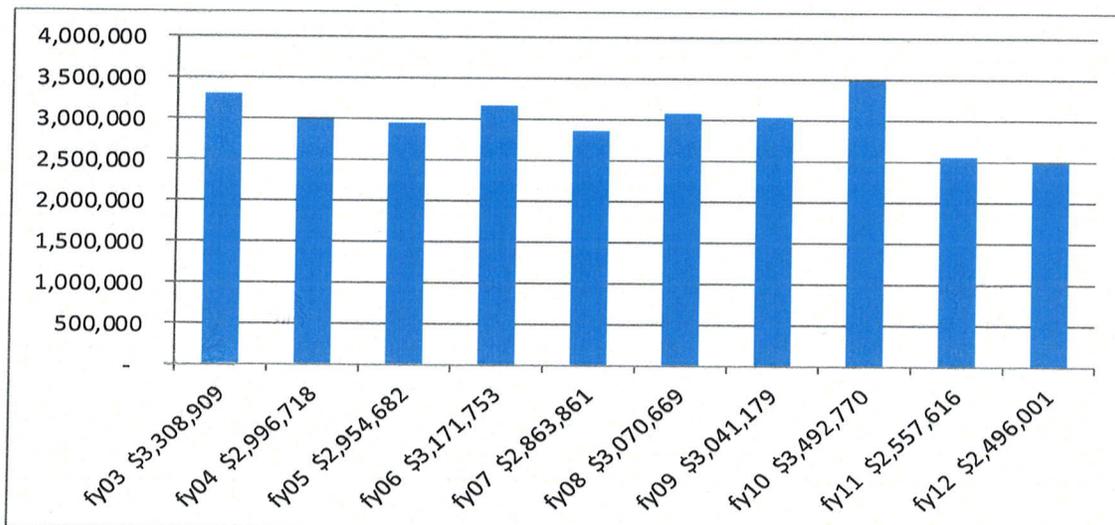


FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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 near-term financing requirements. In particular, the General Fund unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Unassigned General Fund Balances from FY 2003 through FY 2012 are as follows:

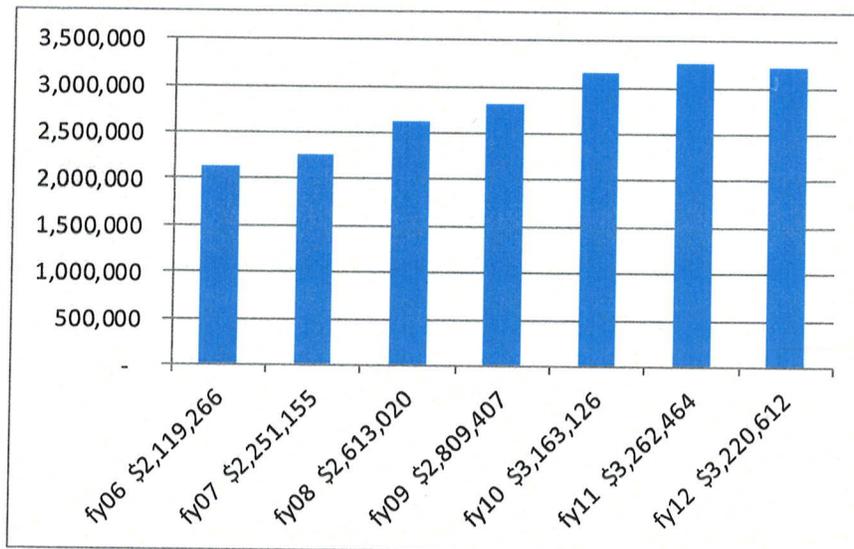


General Fund

As indicated above, the General Fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund had an unassigned fund balance of \$2,496,001, while total fund equity was \$3,534,672. The total fund equity includes non-spendable balances for prepaid expenses and tax deeded property, as well as assignments for encumbrances, continuing appropriations and special purposes at fiscal year-end. The total General Fund unassigned fund balance decreased by \$61,615 from June 30, 2011.

Budgetary Basis

The above analysis done in this review has been based on modified accrual accounting figures from the audit. This is different than the budgetary basis that the City actually operates on. Accordingly, the chart below provides the General Fund Unassigned Fund Balances for the last seven years on a budgetary basis since these are the figures used by the City in budgeting and the figures the City would actually rely on for decision-making.



As indicated in the above chart, the City's effort to increase its Unassigned Fund Balance has been generally successful, although the difficulty in doing so becomes greater every year. In FY12, the General Fund UFB is down slightly at \$3,220,612.

Other Governmental Funds

The non-major governmental funds fund balance increased by \$2,921,488 to \$2,415,198 due primarily to an inflow of over \$3.0 million into the capital projects fund in fiscal year 2012.

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 increased by \$1,490,880 from June 30, 2011. The amount collected from sewer user fees were insufficient to offset operating expenses. This is primarily because depreciation does not show up in the City sewer fund budget as an expense when figuring sewer rates. The Sewer Fund itself had an increase of net assets of \$1,448,001. The Non-major Proprietary Funds had a combined net asset increase of \$42,879 in fiscal year 2012.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations. A Budget to Actual Schedule for the major governmental fund (the General Fund) can be found in the Required Supplementary Information section on page 35.

Actual budgetary revenues were more than the budget estimated revenues by \$422,171. There was an adverse variance of \$87,741 in actual property taxes received from the amount budgeted. Actual budgetary expenditures at year-end were \$651,506 less than the final budgeted appropriations. Some of this savings was due to budgeted, but incomplete capital improvement items of \$104,574. Several City Departments made a concerted effort to control costs resulting in savings on certain budgeted items. The Schools spent \$373,585 less than budgeted. Public Safety spent \$28,949 less than budgeted. The Departments that make up the General Government saved \$36,300. Sanitation spent \$129,848 less than budgeted. On the other side, however, the City issued \$243,353 in property tax abatements against only \$94,513 that it had set aside in overlay to pay such abatements.

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, 2012, amounted to \$89.9 million. Accumulated depreciation was \$41.3 million leaving a net book value of \$48.6 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 Statements. Additional information on the City's capital assets can be found in Note 7 on pages 21-22 of the Notes to the Basic Financial Statements.

Other Post-Employment Benefits

With the implementation of GASB Statement 45, the City is required to account for other post-employment benefits (OPEB) on an accrual basis rather than a pay-as-you-go basis. The City provides healthcare benefits to its retirees, their spouses and dependents. It also provides life insurance benefits to its retirees. Although, the City is not required to fund this contribution, it is recognized as a liability in these financial statements. The net OPEB obligation as of June 30, 2012 is \$196,864. Additional information regarding the City's OPEB can be found in Note 9 on pages 23-25 of the 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 \$9.4 million. This amount does not include bonded debt outstanding by the Berlin Water Works, its component unit, of \$9.9 million. 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 10 on pages 25-31 of the Notes to the Basic Financial Statements.

ECONOMIC CONDITIONS

Berlin's economic prospects with the final closure of the Fraser Pulp Mill in 2006 (and the recent closure of the nearby paper plant in Groveton) have nowhere to go but up although that upward trajectory is taking its time in getting here. However, construction is well underway on the \$175M Berlin biomass plan on the former Fraser pulp mill site. Forty new full time jobs will be added when it is up and running at the end of 2013. The Gorham Mill after several stops and starts is up and operating and seems to have good future prospects.

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. The majority of the City's very worst derelict buildings have been torn down or have burned down. The City experienced the loss of approximately 22 structures in the late 2000's 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. However, for the first time, the City has obtained some federal funding for the demolition of such structures which will be a great help. It has also obtained about \$4M in federal Neighborhood Stabilization funds for the rehabilitation of housing to a reasonable standard. This NSP work is nearing completion and has without doubt completely refurbished the worst area on the East Side as well one or two other neighborhoods.

The Berlin Industrial Development Park Authority (BIDPA) has conducted a feasibility study into a major expansion of the City's existing industrial park. Except for two empty buildings recently vacated due to the national recession, 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. The most recent BIDPA project has been the development of Bickford Place which is a beautiful outdoor park addition in the middle of the downtown which is a downtown focal point for events and for people to meet and relax thereby adding new life and vitality to Main Street. The City has been working hard at carrying out the vision of the recently completed Downtown Master Plan.

The Isaacson bankruptcy came as a surprise and additional shock to the already devastated local economy. This bankruptcy of the one of the area's long-time local employers not only eliminated many more good jobs but left BIDPA, which had considerable funds tied up in Isaacson projects, holding the bag for several hundred thousand dollars. Then out of the blue came the closing of Car Freshener which took with many more jobs.

The national recession which has led to even more housing foreclosures has certainly worsened the already poor property values in the City. Again, it would not seem possible to go much lower and so we are looking for a rebound in property values in the near future with the elimination of much of the blighted surplus housing and the opening up of the new federal prison. The only question is when it will start as it has not yet kicked in.

Phase II of the Rt 110 improvement project, which after years of planning is still waiting to proceed, will further dramatically improve this route, as well as the neighborhood that it now bisects. It seems that the major obstacle to getting this project underway is the unbelievably bureaucratic historical reviews which go into transportation projects of this type.

The City 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 acres on Jericho Lake Park to the State as a sort of icing-on-the cake, which should be a New England-wide attraction. This park currently has about 60 miles of first-class trail development. This development is having a very significant impact on the City's image and economic base. In addition, the City is in the process of developing a first of its kind in the State ATV connection between this Park and the many trails in Success on the east side of the City.

Finally, the long-awaited Federal Bureau of Prisons project is fully constructed and now after a year-long delay is slowly in its startup process. This process was to take only 9 months, but has already taken well over a year. At \$240M, this is the second or third largest public works project ever undertaken in the State and already has added very significant economic activity to the region during the construction phase. The City has completed new sewer services to the site and is in the process of upgrading the City WWTF to handle the additional load.

In spite of all the past plant closures and layoffs, Berlin has weathered everything that has been thrown at it – the national recession being the latest thing to make things more difficult. In spite of this, Berlin is now well positioned to make an economic comeback. We believe Berlin has begun to turn the corner 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.

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, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 13,397,301		\$ 13,397,301	\$ 515,236
Investments	368,023		368,023	169,077
Taxes receivable, net	2,602,916		2,602,916	
Accounts receivable, net	170,476	\$ 449,779	620,255	177,848
Due from other governments	1,174,911	2,864,775	4,039,686	452,458
Internal balances	(3,919,883)	3,919,883	-	
Prepaid expenses	25,230		25,230	
Inventory	10,347	74,482	84,829	291,947
Total Current Assets	<u>13,829,321</u>	<u>7,308,919</u>	<u>21,138,240</u>	<u>1,606,566</u>
Noncurrent Assets:				
Due from other governments		665,396	665,396	
Tax deeded property	486,458		486,458	
Capital assets:				
Non-depreciable capital assets	6,704,312	3,083,225	9,787,537	2,077,899
Depreciable capital assets, net	<u>15,449,433</u>	<u>23,375,000</u>	<u>38,824,433</u>	<u>38,169,696</u>
Total Noncurrent Assets	<u>22,640,203</u>	<u>27,123,621</u>	<u>49,763,824</u>	<u>40,247,595</u>
Total Assets	<u>\$ 36,469,524</u>	<u>\$ 34,432,540</u>	<u>\$ 70,902,064</u>	<u>\$ 41,854,161</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 533,921	\$ 618,207	\$ 1,152,128	\$ 99,224
Accrued expenses	439,205	84,099	523,304	201,394
Retainage payable		204,860	204,860	
Deferred revenue	6,718,062	3,425	6,721,487	
Due to other governments	9,519		9,519	
Current portion of bonds payable	456,703	139,380	596,083	1,179,398
Current portion of notes payable	573,914	79,549	653,463	2,082,534
Current portion of capital leases payable	285,941		285,941	51,552
Current portion of compensated absences payable	30,000		30,000	34,139
Current portion of estimated liability for landfill postclosure care costs	<u>11,300</u>	<u>12,450</u>	<u>23,750</u>	
Total Current Liabilities	<u>9,058,565</u>	<u>1,141,970</u>	<u>10,200,535</u>	<u>3,648,241</u>
Noncurrent Liabilities:				
Bonds payable	226,813	4,300,063	4,526,876	8,773,526
Notes payable	3,484,793	118,527	3,603,320	
Other long-term obligations		1,804,581	1,804,581	
Capital leases payable	757,334		757,334	83,655
Compensated absences payable	1,595,735	88,641	1,684,376	170,564
Other post-employment benefits payable	194,185	2,679	196,864	
Estimated liability for landfill postclosure care costs	<u>158,200</u>	<u>273,900</u>	<u>432,100</u>	
Total Noncurrent Liabilities	<u>6,417,060</u>	<u>6,588,391</u>	<u>13,005,451</u>	<u>9,027,745</u>
Total Liabilities	<u>15,475,625</u>	<u>7,730,361</u>	<u>23,205,986</u>	<u>12,675,986</u>
NET ASSETS				
Invested in capital assets, net of related debt	16,651,763	20,901,174	37,552,937	28,076,929
Restricted	2,415,684		2,415,684	
Unrestricted	<u>1,926,452</u>	<u>5,801,005</u>	<u>7,727,457</u>	<u>1,101,246</u>
Total Net Assets	<u>20,993,899</u>	<u>26,702,179</u>	<u>47,696,078</u>	<u>29,178,175</u>
Total Liabilities and Net Assets	<u>\$ 36,469,524</u>	<u>\$ 34,432,540</u>	<u>\$ 70,902,064</u>	<u>\$ 41,854,161</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, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government			Total
					Business-type Activities			
Governmental Activities:								
General government	\$ 2,506,253	\$ 293,059		\$ (1,879,954)		\$ (1,879,954)		
Public safety	5,327,258	208,017		(4,944,156)		(4,944,156)		
Airport/Aviation center	417,657		\$ 48,317	(159,086)		(159,086)		
Highways and streets	2,517,009	273,305	1,592,605	(572,971)		(572,971)		
Health and welfare	623,958	160,332		(89,301)		(89,301)		
Sanitation	780,028	210		(779,818)		(779,818)		
Culture and recreation	699,147	54,462		(644,685)		(644,685)		
Economic development	1,735,766	1,647,169		(88,597)		(88,597)		
Education	18,302,733	13,170,283	387,792	(3,275,821)		(3,275,821)		
Food service	603,555	374,170		(41,092)		(41,092)		
Debt service	899,787	746,144		(153,643)		(153,643)		
Intergovernmental	1,648,301			(1,648,301)		(1,648,301)		
Total governmental activities	<u>36,061,452</u>	<u>17,086,472</u>	<u>2,028,714</u>	<u>(14,277,425)</u>	<u>\$ -</u>	<u>(14,277,425)</u>		
Business-type activities:								
Sewer	2,377,276		1,979,977		1,126,386	1,126,386		
Nonmajor funds	121,107				(121,107)	(121,107)		
Total business-type activities	<u>2,498,383</u>	<u>-</u>	<u>1,979,977</u>	<u>-</u>	<u>1,005,279</u>	<u>1,005,279</u>		
Total primary government	<u>\$ 38,559,835</u>	<u>\$ 17,086,472</u>	<u>\$ 4,008,691</u>	<u>(14,277,425)</u>	<u>1,005,279</u>	<u>(13,272,146)</u>		
Component unit:								
Water	\$ 3,187,477		\$ 1,942,533				\$ 562,158	
Total component unit	<u>\$ 3,187,477</u>	<u>\$ -</u>	<u>\$ 1,942,533</u>				<u>562,158</u>	
General revenues:								
Property and other taxes				13,843,935		13,843,935		
Licenses and permits				1,153,038		1,153,038		
Grants and contributions:								
Rooms and meals tax distribution				448,982		448,982		
Interest and investment earnings				15,640	7,611	23,251	1,198	
Miscellaneous				565,726	477,990	1,043,716	55,164	
Total general revenues				<u>16,027,321</u>	<u>485,601</u>	<u>16,512,922</u>	<u>56,362</u>	
Change in net assets				1,749,896	1,490,880	3,240,776	618,520	
Net assets - beginning				19,244,003	25,211,299	44,455,302	28,559,655	
Net assets - ending				<u>\$ 20,993,899</u>	<u>\$ 26,702,179</u>	<u>\$ 47,696,078</u>	<u>\$ 29,178,175</u>	

See accompanying notes to the basic financial statements

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 13,310,907	\$ 86,394	\$ 13,397,301
Investments	2,273	365,750	368,023
Taxes receivable, net	2,602,916		2,602,916
Accounts receivable	139,212	21,452	160,664
Due from other governments		1,174,911	1,174,911
Due from other funds	1,229,620	2,095,684	3,325,304
Prepaid expenses	1,654	23,576	25,230
Inventory		10,347	10,347
Tax dedeed property	486,458		486,458
Total Assets	<u>\$ 17,773,040</u>	<u>\$ 3,778,114</u>	<u>\$ 21,551,154</u>
LIABILITIES			
Accounts payable	\$ 349,279	\$ 184,642	\$ 533,921
Accrued expenses	375,299	4,497	379,796
Deferred revenue	7,389,363	53,310	7,442,673
Due to other governments	9,519		9,519
Due to other funds	6,114,908	1,120,467	7,235,375
Total Liabilities	<u>14,238,368</u>	<u>1,362,916</u>	<u>15,601,284</u>
FUND BALANCES			
Nonspendable	488,112	182,401	670,513
Restricted		2,267,206	2,267,206
Committed		20,937	20,937
Assigned	550,559	61,117	611,676
Unassigned (Deficit)	2,496,001	(116,463)	2,379,538
Total Fund Balances	<u>3,534,672</u>	<u>2,415,198</u>	<u>5,949,870</u>
Total Liabilities and Fund Balances	<u>\$ 17,773,040</u>	<u>\$ 3,778,114</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			22,153,745
Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis			724,611
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			(683,516)
Notes payable			(4,058,707)
Capital leases payable			(1,043,275)
Accrued interest on long-term obligations			(59,409)
Compensated absences payable			(1,625,735)
Other post-employment benefits payable			(194,185)
Estimated liability for landfill postclosure care costs			(169,500)
Net assets of governmental activities			<u>\$ 20,993,899</u>

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, 2012

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, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds	
Revenues:				
Taxes	\$ 13,824,172		\$ 13,824,172	
Licenses and permits	1,153,038		1,153,038	
Intergovernmental	13,337,024	\$ 4,634,539	17,971,563	
Charges for services	2,209,886	436,723	2,646,609	
Interest income	3,855	11,785	15,640	
Miscellaneous	357,675	245,283	602,958	
Total Revenues	<u>30,885,650</u>	<u>5,328,330</u>	<u>36,213,980</u>	
Expenditures:				
Current operations:				
General government	2,030,747	406,540	2,437,287	
Public safety	4,937,261	214,433	5,151,694	
Airport/Aviation center		226,126	226,126	
Highways and streets	2,042,460		2,042,460	
Health and welfare	615,853	494	616,347	
Sanitation	764,983	148	765,131	
Culture and recreation	574,936	53,707	628,643	
Economic development		1,647,169	1,647,169	
Education	15,937,539	2,132,055	18,069,594	
Food service		599,437	599,437	
Capital outlay	263,020	467,797	730,817	
Debt service:				
Principal retirement	1,706,654		1,706,654	
Interest and fiscal charges	259,230		259,230	
Lease payments	329,700		329,700	
Intergovernmental	1,648,301		1,648,301	
Total Expenditures	<u>31,110,684</u>	<u>5,747,906</u>	<u>36,858,590</u>	
Excess of revenues over (under) expenditures	<u>(225,034)</u>	<u>(419,576)</u>	<u>(644,610)</u>	
Other financing sources (uses):				
Proceeds from notes payable issued		3,345,000	3,345,000	
Transfers in	3,936		3,936	
Transfers out		(3,936)	(3,936)	
Total other financing sources (uses)		<u>3,341,064</u>	<u>3,345,000</u>	
Net change in fund balances	<u>(221,098)</u>	<u>2,921,488</u>	<u>2,700,390</u>	
Fund balances (deficit) at beginning of year	<u>3,755,770</u>	<u>(506,290)</u>	<u>3,249,480</u>	
Fund balances at end of year	<u>\$ 3,534,672</u>	<u>\$ 2,415,198</u>	<u>\$ 5,949,870</u>	
				<u>\$ 1,749,896</u>

Change in Fund Balances - Total Governmental Funds \$ 2,700,390

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. (566,598)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,612,368

Governmental funds only report the disposal of assets to the extent proceeds are received for the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss of disposed capital assets reduced by the actual proceeds received from the sale of capital assets. (46,329)

Proceeds from debt issuance are other financing sources in the funds, but debt issuance increase long-term liabilities in the statement of net assets. (3,345,000)

Repayment of bonds and notes payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,101,654

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. 273,958

In the statement of activities, interest is accrued on outstanding bonds, notes and capital leases, whereas in governmental funds, an interest expenditure is reported when due. 20,185

Some expenses reported in the statement of activities, such as compensated absences, other post-employment benefits and the estimated liability for landfill postclosure care costs, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (732)

Change in Net Assets of Governmental Activities \$ 1,749,896

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

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
ASSETS			
Current Assets:			
Accounts receivable	\$ 449,779		\$ 449,779
Due from other governments	2,739,887	\$ 124,888	2,864,775
Due from other funds	3,518,365	522,749	4,041,114
Inventory	74,482		74,482
Total Current Assets	<u>6,782,513</u>	<u>647,637</u>	<u>7,430,150</u>
Noncurrent Assets:			
Due from other governments	665,396		665,396
Non-depreciable capital assets	3,033,387	49,838	3,083,225
Depreciable capital assets, net	22,217,849	1,157,151	23,375,000
Total Noncurrent Assets	<u>25,916,632</u>	<u>1,206,989</u>	<u>27,123,621</u>
Total Assets	<u>\$ 32,699,145</u>	<u>\$ 1,854,626</u>	<u>\$ 34,553,771</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 617,812	\$ 395	\$ 618,207
Accrued expenses	84,099		84,099
Retainage payable	204,860		204,860
Deferred revenue		3,425	3,425
Due to other funds		121,231	121,231
Current portion of bonds payable	139,380		139,380
Current portion of notes payable		79,549	79,549
Current portion of estimated liability for landfill postclosure care costs		12,450	12,450
Total Current Liabilities	<u>1,046,151</u>	<u>217,050</u>	<u>1,263,201</u>
Noncurrent Liabilities:			
Bonds payable	4,300,063		4,300,063
Notes payable		118,527	118,527
Other long-term obligations	1,804,581		1,804,581
Compensated absences payable	88,641		88,641
Other post-employment benefits payable	2,679		2,679
Estimated liability for landfill postclosure care costs		273,900	273,900
Total Noncurrent Liabilities	<u>6,195,964</u>	<u>392,427</u>	<u>6,588,391</u>
Total Liabilities	<u>7,242,115</u>	<u>609,477</u>	<u>7,851,592</u>
NET ASSETS			
Invested in capital assets, net of related debt	19,694,185	1,206,989	20,901,174
Unrestricted	5,762,845	38,160	5,801,005
Total Net Assets	<u>25,457,030</u>	<u>1,245,149</u>	<u>26,702,179</u>
Total Liabilities and Net Assets	<u>\$ 32,699,145</u>	<u>\$ 1,854,626</u>	<u>\$ 34,553,771</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, 2012

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Operating revenues:			
Charges for services	\$ 1,523,685		\$ 1,523,685
Miscellaneous	314,144	\$ 163,846	477,990
Total operating revenues	1,837,829	163,846	2,001,675
Operating expenses:			
Personnel services	685,435	6,070	691,505
Contractual services	125,378		125,378
Repairs and maintenance	55,389	17,847	73,236
Administrative	54,745	14,764	69,509
Materials and supplies	208,288	17	208,305
Utilities	168,464	9,517	177,981
Bad debt expense		3,664	3,664
Depreciation	888,172	56,838	945,010
Total operating expenses	2,185,871	108,717	2,294,588
Operating income (loss)	(348,042)	55,129	(292,913)
Non-operating revenues (expenses):			
Interest revenue	7,471	140	7,611
Interest expense	(191,405)	(12,390)	(203,795)
Net non-operating revenues (expenses)	(183,934)	(12,250)	(196,184)
Income (loss) before capital contributions	(531,976)	42,879	(489,097)
Capital contributions	1,979,977		1,979,977
Change in net assets	1,448,001	42,879	1,490,880
Total net assets at beginning of year	24,009,029	1,202,270	25,211,299
Total net assets at end of year	\$ 25,457,030	\$ 1,245,149	\$ 26,702,179

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, 2012

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 1,739,068	\$ 175,452	\$ 1,914,520
Cash paid to suppliers	(779,217)	(47,893)	(827,110)
Cash paid to employees	(461,876)	(7,752)	(469,628)
Net cash provided by operating activities	<u>497,975</u>	<u>119,807</u>	<u>617,782</u>
Cash flows from capital and related financing activities:			
Principal paid on bonds payable	(133,638)		(133,638)
Principal paid on notes payable		(153,205)	(153,205)
Interest paid on long-term debt	(193,063)	(12,390)	(205,453)
Capital contributions	50,546		50,546
Purchases of capital assets	(2,181,929)	(54,125)	(2,236,054)
Net cash (used) for capital and related financing activities	<u>(2,458,084)</u>	<u>(219,720)</u>	<u>(2,677,804)</u>
Cash flows from investing activities:			
Interest on investments	7,471	140	7,611
Net cash provided by investing activities	<u>7,471</u>	<u>140</u>	<u>7,611</u>
Net (decrease) in cash and cash equivalents	(1,952,638)	(99,773)	(2,052,411)
Cash and cash equivalents at beginning of year	5,471,003	501,291	5,972,294
Cash and cash equivalents at end of year	<u>\$ 3,518,365</u>	<u>\$ 401,518</u>	<u>\$ 3,919,883</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (348,042)	\$ 55,129	\$ (292,913)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Bad debt expense		3,664	3,664
Depreciation expense	888,172	56,838	945,010
Changes in assets and liabilities:			
Accounts receivable	(98,761)	6,688	(92,073)
Due from other governments		5,614	5,614
Prepaid expenses		6,629	6,629
Inventory	(4,463)		(4,463)
Accounts payable	25,598	(1,412)	24,186
Accrued expenses	11,671	(97)	11,574
Deferred revenue		(696)	(696)
Compensated absences payable	23,645		23,645
Other post-employment benefits payable	155		155
Estimated liability for landfill postclosure care costs		(12,550)	(12,550)
Net cash provided by operating activities	<u>\$ 497,975</u>	<u>\$ 119,807</u>	<u>\$ 617,782</u>
Supplemental disclosure of non-cash transactions:			
Capital asset additions included in year end liabilities	<u>\$ 788,138</u>	<u>\$ -</u>	<u>\$ 788,138</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, 2012

	Private- Purpose Trusts	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 2,040	\$ 211,839
Investments	<u>131,017</u>	
Total Assets	<u>\$ 133,057</u>	<u>\$ 211,839</u>
LIABILITIES		
Accounts payable	\$ 60	
Due to other funds	9,812	
Due to student groups		<u>\$ 211,839</u>
Total Liabilities	<u>9,872</u>	<u>\$ 211,839</u>
NET ASSETS		
Held in trust	<u>123,185</u>	
Total Net Assets	<u>123,185</u>	
Total Liabilities and Net Assets	<u>\$ 133,057</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, 2012

	Private- Purpose <u>Trusts</u>
ADDITIONS:	
Investment earnings:	
Investment income	\$ 1,021
Total Additions	<u>1,021</u>
DEDUCTIONS:	
Benefits	<u>8,473</u>
Total Deductions	<u>8,473</u>
Change in Net Assets	(7,452)
Net assets - beginning of year	<u>130,637</u>
Net assets - end of year	<u><u>\$ 123,185</u></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, 2012

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 as 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 criterion 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.

Discretely Presented Component Unit

The component unit columns in the government-wide financial statements include the financial data of the City's component unit, the Berlin Water Works. The Berlin Water Works financial data is reported in a separate column to emphasize that they are separate from the City and to allow financial statement users to distinguish between the primary government and the component unit.

The Berlin Water Works, which was incorporated as a body politic in 1925, is included because the Mayor, with confirmation of the City Council, appoints the Water Commissioners, and debt is issued by the City on behalf of the Berlin Water Works. Debt issued is backed by the full faith and credit of the City.

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.

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

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 and its component unit, except for fiduciary funds.

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

2. Fund Financial Statements:

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is 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 main operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

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

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 wastewater 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.

3. Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City maintains various private-purpose 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 City's schools.

Measurement Focus

1. Government-Wide Financial Statements:

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

2. Fund Financial Statements:

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

Like the government-wide statements, the proprietary fund type is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in net assets 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.

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

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.

In the proprietary fund statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to follow the FASB pronouncements issued subsequent to November 30, 1989.

1. Revenues – Exchange and Non-exchange Transactions:

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 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 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.

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

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.

Budgetary Data

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

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the fiscal year ended June 30, 2012, the City applied \$1,313,000 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>Due from other funds</u>	<u>Due to other funds</u>	<u>Totals</u>
Proprietary Funds:			
Sewer Fund	\$ 3,518,365		\$ 3,518,365
Nonmajor Enterprise Funds	<u>522,749</u>	<u>\$ (121,231)</u>	<u>401,518</u>
	<u>\$ 4,041,114</u>	<u>\$ (121,231)</u>	<u>\$ 3,919,883</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.

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

Taxes Receivable

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2012 are recorded as receivables net of reserves for estimated uncollectibles of \$416,018.

Prepaid Expenses

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

Inventory

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

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

Capital Assets

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

All capital assets including infrastructure are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the date received. The City maintains a capitalization threshold of \$10,000. The City's infrastructure consists of roads, bridges, sidewalks, sewer collection and treatment systems, and similar items. The City does not possess any intangible assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction phase of capital assets of business-type activities 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	15-50
	Land improvements	10-30
	Buildings and improvements	5-60
	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, 2012

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

Accrued Liabilities and Long-Term Obligations

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

Net Assets

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

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

Fund Balance Policy

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

- *Non-spendable Fund Balance*: Amounts that are not in a spendable form (such as inventory or prepaid expenses) or are required to be maintained intact (such as principal of an endowment fund).
- *Restricted Fund Balance*: Amounts constrained to specific purposes by external resource providers (such as grantors) or through enabling legislation (such as federal or state law). Restrictions may be changed or lifted only with the consent of the external resource providers or enabling legislation.
- *Committed Fund Balance*: Amounts constrained to specific purposes by a government itself through a formal action of its highest level of decision-making authority (City Council Resolutions). Commitments may be changed or lifted only upon the governing body taking the same formal action that imposed the constraint originally. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

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

- *Assigned Fund Balance:* Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. For all governmental funds other than the General Fund, any remaining positive balances are to be classified as 'Assigned'.
- *Unassigned Fund Balance:* Amounts that are not obligated or specifically designated and is available for any purpose. The residual classification of any General Fund balance is to be reported here. Any deficit fund balance of another governmental fund is also classified as 'Unassigned'.

The City Council delegates to the City's Finance Director the authority to assign amounts to be used for specific purposes. The City's School Board delegates the authority to assign amounts to the Business Administrator. The City Council has the authority to apply the City's beginning unassigned fund balance in order to balance the budget and to offset the subsequent fiscal year property tax rate.

Spending Prioritizations

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

Deficit Fund Balance

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

Minimum Fund Balance

As recommended by the New Hampshire Department of Revenue Administration, the City will strive to maintain an unassigned fund balance in its General Fund equal to 8-15% of total annual appropriations of the City (includes City, School Department and County).

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, 2012

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, the allowance for uncollectible taxes and the estimated liabilities for landfill postclosure care costs.

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$436,225,540 as of April 1, 2011) and are due in two installments on July 12, 2011 and December 27, 2011. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end) 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 may be 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, 2012 were \$1,648,301. The City bears responsibility for uncollected taxes.

NOTE 3—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At June 30, 2012, the Airport Authority Fund, a Nonmajor Governmental Fund, had a deficit unassigned fund balance of (\$116,463) and the Courthouse Fund, a Nonmajor Enterprise Fund, had a deficit net assets balance of (\$5,754).

NOTE 4—RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2012, the City was a member of the 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, 2012

The Trust agreement permits the Trust 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 foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2012.

Property and Liability Insurance

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. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

NOTE 5—DEPOSITS AND INVESTMENTS

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

Deposits and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 13,397,301
Investments	368,023
Statement of fiduciary net assets:	
Cash and cash equivalents	213,879
Investments	131,017
Total deposits and investments	<u>\$ 14,110,220</u>

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

Cash on hand	\$ 43,847
Deposits with financial institutions	14,063,672
Investments	2,701
Total deposits and investments	<u>\$ 14,110,220</u>

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

The City's investment policy for governmental and proprietary 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 Fund are at the discretion of the School Principals.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City does not have an investment policy regarding credit risk. As of June 30, 2012, the City's investment in the NHPDIP, a state investment pool, is unrated.

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. The City's investment policy for assurance against custodial credit risk requires collateralization for all deposits not covered by Federal Depository Insurance.

Of the City's deposits with financial institutions at year end, \$11,174,251 was collateralized by securities held by the bank in the bank's name.

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 due from other governments at June 30, 2012 consist of various federal and state fundings, and reimbursements from other local governmental units. All receivables are considered collectible in full. The sewer state aid grant reimbursement is to be received over the life of the related state debt and as such, is classified as both current and noncurrent. A summary of the principal items of intergovernmental receivables is as follows:

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

Governmental activities:	
State and Federal public safety grants	\$ 71,603
Neighborhood Stabilization Grant	334,594
Energy Efficiency and Conservation Block Grant	26,465
School lunch program	67,623
Airport improvement program grants	58,068
State and Federal education grants	605,583
Brownfields Assessment and Cleanup grants	10,975
Business-type activities:	
Various Participating Towns in Cates Hill Landfill	124,888
Federal Bureau of Prisons	1,275,000
State of NH - Sewer State Aid Grant	686,973
State of NH - State Revolving Loan Funds	1,443,310
	<u>\$ 4,705,082</u>

NOTE 7—CAPITAL ASSETS

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

	Balance 07/01/11	Additions	Reductions	Balance 06/30/12
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 711,156			\$ 711,156
Construction in progress	3,950,685	\$ 2,042,471		5,993,156
Total capital assets not being depreciated	<u>4,661,841</u>	<u>2,042,471</u>	<u>\$ -</u>	<u>6,704,312</u>
Other capital assets:				
Infrastructure	8,785,651			8,785,651
Land improvements	5,172,964			5,172,964
Buildings and improvements	10,669,726	11,500		10,681,226
Vehicles and equipment	8,666,751	73,020	(192,677)	8,547,094
Total other capital assets at historical cost	<u>33,295,092</u>	<u>84,520</u>	<u>(192,677)</u>	<u>33,186,935</u>
Less accumulated depreciation for:				
Infrastructure	(4,390,540)	(271,961)		(4,662,501)
Land improvements	(2,588,574)	(177,203)		(2,765,777)
Buildings and improvements	(4,705,780)	(209,448)		(4,915,228)
Vehicles and equipment	(5,097,972)	(442,372)	146,348	(5,393,996)
Total accumulated depreciation	<u>(16,782,866)</u>	<u>(1,100,984)</u>	<u>146,348</u>	<u>(17,737,502)</u>
Total other capital assets, net	<u>16,512,226</u>	<u>(1,016,464)</u>	<u>(46,329)</u>	<u>15,449,433</u>
Total capital assets, net	<u>\$ 21,174,067</u>	<u>\$ 1,026,007</u>	<u>\$ (46,329)</u>	<u>\$ 22,153,745</u>

The balance of the assets acquired through capital leases as of June 30, 2012 is as follows:

Buildings and improvements	\$ 1,652,511
Vehicles and equipment	1,008,238
Less accumulated depreciation for:	
Buildings and improvements	(165,251)
Vehicles and equipment	(539,659)
	<u>\$ 1,955,839</u>

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

Depreciation expense was charged to governmental functions as follows:

General government	\$ 14,557
Public safety	126,101
Airport/Aviation center	191,531
Highways and streets	394,700
Health and welfare	4,098
Sanitation	25,811
Culture and recreation	60,269
Education	279,799
Food service	4,118
Total governmental activities depreciation expense	<u>\$ 1,100,984</u>

During the year ended June 30, 2012, the State of New Hampshire's Department of Transportation administered a road reconstruction project on a City highway. The City will be responsible for 20% of the project's total cost, with the remaining 80% funded by the State of New Hampshire through a federal grant. On the Statement of Net Assets and the Statement of Activities, \$1,592,605 has been included as an addition to capital assets and a capital contribution, respectively.

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

	Balance 07/01/11	Additions	Reductions	Balance 06/30/12
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 57,672	\$ 50,115		\$ 107,787
Construction in progress	<u>7,265,518</u>	<u>1,863,154</u>	<u>\$(6,153,234)</u>	<u>2,975,438</u>
Total capital assets not being depreciated	<u>7,323,190</u>	<u>1,913,269</u>	<u>(6,153,234)</u>	<u>3,083,225</u>
Other capital assets:				
Infrastructure	15,256,585	5,849,033		21,105,618
Buildings and improvements	24,499,862	486,277		24,986,139
Vehicles and equipment	<u>851,143</u>	<u>26,100</u>		<u>877,243</u>
Total other capital assets at historical cost	<u>40,607,590</u>	<u>6,361,410</u>	<u>-</u>	<u>46,969,000</u>
Less accumulated depreciation for:				
Infrastructure	(6,240,955)	(412,649)		(6,653,604)
Buildings and improvements	(15,599,588)	(519,294)		(16,118,882)
Vehicles and equipment	<u>(808,447)</u>	<u>(13,067)</u>		<u>(821,514)</u>
Total accumulated depreciation	<u>(22,648,990)</u>	<u>(945,010)</u>	<u>-</u>	<u>(23,594,000)</u>
Total other capital assets, net	<u>17,958,600</u>	<u>5,416,400</u>	<u>-</u>	<u>23,375,000</u>
Total capital assets, net	<u>\$ 25,281,790</u>	<u>\$ 7,329,669</u>	<u>\$(6,153,234)</u>	<u>\$ 26,458,225</u>

Depreciation expense was charged to proprietary funds as follows:

Sewer Fund	\$ 888,172
Nonmajor Enterprise Funds:	
Industrial Development and Park Authority Fund	50,517
Courthouse Fund	6,321
Total business-type activities depreciation expense	<u>\$ 945,010</u>

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

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

Funding Policy

Covered police officers and fire employees are required to contribute 11.55% and 11.80%, respectively, of their covered salary, whereas teachers and general employees are required to contribute 7.0% of their covered salary. The City is required to contribute at an actuarially determined rate. The City's contribution rates for the covered payroll of police officers, fire employees, teachers, and general employees were 25.57%, 30.90%, 13.95%, and 11.09%, respectively, for July 2011 and 19.95%, 22.89%, 11.30%, and 8.80%, respectively, thereafter. The City contributes 100% of the employer cost for police officers, fire employees, teachers, and general employees of the City.

Under State law (RSA-100:16), plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The City's contributions to the NHRS for the years ending June 30, 2012, 2011, and 2010 were \$1,736,938, \$1,378,805, and \$1,314,034, respectively, equal to the required contributions for each year.

NOTE 9—OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the City provides healthcare and life insurance benefits to its eligible retirees and their spouses and dependents. Most regular active employees who retire directly from the City and meet the eligibility criteria may participate. The amount the City pays for medical and life insurance premiums for retirees and their spouses varies by employee group. All eligible employees are allowed to continue medical coverage under the City plan for the lifetime of the employee; however, for most employee groups this coverage is not paid for by the City. Board of Education employees are eligible at age 55 with 5 years of service and receive life insurance coverage with no cost to the retiree. Employees who are members of OPEIU/Local 345 or the Teamsters and Non-Union Supervisory Employees/Local 633 are eligible at age 62 and 10 years of service. Employees who are members of Local 1444 are eligible at age 62. Police and Fire employees are eligible after 20 years of service and are eligible for the NHRS subsidy at age 45 with 20 years of service. The City pays for 100% of the cost of life insurance premiums for all groups. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of July 1, 2010, the most recent actuarial valuation date, approximately 46 retirees (excludes 131 retirees with post-65 medical coverage not subsidized by the City), 25 spouses and 248 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

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

Annual OPEB Costs

The City's fiscal year 2012 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid, on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of thirty years. The City's annual OPEB cost for the year ending June 30, 2012, including the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2010, is as follows:

Annual Required Contribution (ARC)	\$ 415,320
Interest on net OPEB obligation	8,348
Amortization of net OPEB obligation	<u>(6,462)</u>
Annual OPEB cost	417,206
Contributions made	<u>(405,843)</u>
Increase in net OPEB obligation	11,363
Net OPEB obligation - beginning of year	<u>185,501</u>
Net OPEB obligation - end of year	<u>\$ 196,864</u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 465,000	90.3%	\$ 150,000
6/30/2011	\$ 397,165	91.1%	\$ 185,501
6/30/2012	\$ 417,206	97.3%	\$ 196,864

The City's total net OPEB obligation as of June 30, 2012 is recognized as a liability in these financial statements.

Funded Status and Funding Progress for OPEB

The funded status of the plan as of July 1, 2010, the date of the most recent actuarial valuation, is as follows:

Actuarial Accrued Liability (AAL)	\$ 5,335,764
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 5,335,764</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	n/a
UAAL as a percentage of covered payroll	n/a

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. The total cost of providing post-employment benefits is projected, taking into account assumptions about current claim cost, turnover, mortality, health care trends, and other actuarial assumptions. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions for OPEB

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

The method used in the July 1, 2010 actuarial valuation was the Entry Age Normal Cost Method. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4.5% investment rate of return (discount rate) and an initial annual healthcare cost trend rate of 9.5% which decreases to a 5.0% long-term rate for all medical benefits after ten years. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level percent of payroll for a period of thirty years on a closed group basis. This has been calculated assuming the amortization payment increases at a rate of 4.5% per year.

NOTE 10—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

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

	Balance <u>07/01/11</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/12</u>	Due Within <u>One Year</u>
Governmental activities:					
Bonds payable	\$ 1,140,219		\$ (456,703)	\$ 683,516	\$ 456,703
Notes payable	1,548,334	\$ 3,345,000	(834,627)	4,058,707	573,914
Capital leases payable	1,317,233		(273,958)	1,043,275	285,941
Compensated absences payable	1,624,911	89,765	(88,941)	1,625,735	30,000
Estimated liability for landfill postclosure care costs	180,800		(11,300)	169,500	11,300
Total governmental activities	<u>\$ 5,811,497</u>	<u>\$ 3,434,765</u>	<u>\$(1,665,529)</u>	<u>\$ 7,580,733</u>	<u>\$ 1,357,858</u>

Payments on the general obligation bonds, capital leases and landfill postclosure care costs of the governmental activities are paid out of the General Fund. The compensated absences will be paid from the fund where the employee’s salary is paid.

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

	Balance 07/01/11	Additions	Reductions	Balance 06/30/12	Due Within One Year
Business-type activities:					
Bonds payable	\$ 4,573,081		\$ (133,638)	\$ 4,439,443	\$ 139,380
Notes payable	351,281		(153,205)	198,076	79,549
Other long-term obligations	430,564	\$ 1,374,017		1,804,581	
Compensated absences payable	64,996	26,889	(3,244)	88,641	
Estimated liability for landfill postclosure care costs	298,900		(12,550)	286,350	12,450
Total business-type activities	<u>\$ 5,718,822</u>	<u>\$ 1,400,906</u>	<u>\$ (302,637)</u>	<u>\$ 6,817,091</u>	<u>\$ 231,379</u>

Payments on the general obligation bonds, notes payable and landfill postclosure care costs of the business-type activities are paid out of the Sewer, Industrial Development and Park Authority and Cates Hill Landfill Funds, respectively. The compensated absences will be paid from the Sewer Fund.

Component unit:

Bonds payable	<u>\$ 8,578,606</u>	<u>\$ 2,525,000</u>	<u>\$(1,150,682)</u>	<u>\$ 9,952,924</u>	<u>\$ 1,179,398</u>
Total component unit	<u>\$ 8,578,606</u>	<u>\$ 2,525,000</u>	<u>\$(1,150,682)</u>	<u>\$ 9,952,924</u>	<u>\$ 1,179,398</u>

Payments on the general obligation bonds of the component unit are paid by the Berlin Water Works.

General Obligation Bonds

Governmental Activities:

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

\$1,134,062 Landfill Closure Bonds due in annual installments of \$56,703 through November 2016; interest at 4.48%	\$ 283,516
\$4,500,000 State Guaranteed School Improvement Bonds due in annual installments of \$300,000 through January 2013; interest at 4.62%	300,000
\$1,500,000 School Improvement Bonds due in annual installments of \$100,000 through January 2013; interest at 4.66%	100,000
	<u>\$ 683,516</u>

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

Year Ending June 30,	Principal	Interest	Totals
2013	\$ 456,703	\$ 32,352	\$ 489,055
2014	56,703	10,161	66,864
2015	56,703	7,621	64,324
2016	56,703	5,080	61,783
2017	56,704	2,540	59,244
	<u>\$ 683,516</u>	<u>\$ 57,754</u>	<u>\$ 741,270</u>

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

The State of New Hampshire annually reimburses the City for its share of landfill related debt service payments. For the year ended June 30, 2012, the landfill closure reimbursement was \$10,763.

As included on the Statement of Activities (Exhibit B) as ‘Debt service’ expense, interest expense for the year ended June 30, 2012 was \$43,654 on general obligation debt for governmental activities.

Business-type Activities:

Bonds payable at June 30, 2012 is 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; including interest at 4.25%	<u>\$ 4,439,443</u>
--	---------------------

Debt service requirements to retire general obligation bonds for business-type activities at June 30, 2012 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 139,380	\$ 187,320	\$ 326,700
2014	145,369	181,331	326,700
2015	151,615	175,085	326,700
2016	158,129	168,571	326,700
2017	164,923	161,777	326,700
2018-2022	937,196	696,304	1,633,500
2023-2027	1,156,597	476,903	1,633,500
2028-2032	1,427,359	206,141	1,633,500
2033	<u>158,875</u>	<u>3,400</u>	<u>162,275</u>
	<u>\$ 4,439,443</u>	<u>\$ 2,256,832</u>	<u>\$ 6,696,275</u>

The State of New Hampshire annually reimburses the City for its share of sewer related debt service payments. For the year ended June 30, 2012, the sewer related reimbursement was \$50,546.

As included on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds (Exhibit F), interest expense for the year ended June 30, 2012 was \$191,405 on general obligation debt for business-type activities.

Component Unit:

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

Bond payable due in annual installments of \$150,000 through August 2013; interest at 5.3% - 5.875%	\$ 300,000
Bond payable due in annual installments of \$150,000 through August 2014; interest at 6.125% - 7.0%	450,000
Bond payable due in annual installments of \$305,000 through August 2015; interest at 5.25% - 5.625%	1,220,000

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

State revolving loan payable due in variable annual installments of \$142,470 to \$18,479 through November 2020; interest at 3.8%	832,600
State revolving loan payable due in variable annual installments of \$110,477 to \$14,462 through December 2020; interest at 3.8%	645,738
State revolving loan payable due in variable annual installments of \$56,016 to \$6,934 through December 2021; interest at 3.704%	372,374
State revolving loan payable due in variable annual installments of \$137,384 to \$17,007 through December 2021; interest at 3.704%	913,280
State revolving loan payable due in variable annual installments of \$103,859 to \$53,742 through May 2023; interest at 3.728%	1,232,770
State revolving loan payable due in variable annual installments of \$132,242 to \$100,537 through September 2024; interest at 3.688%	1,232,708
Bond payable due in variable annual installments through December 2040; interest at 2.25%	228,454
State revolving loan payable due in variable annual installments through October 2031; interest at 1.10%	1,500,000
Bond payable due in variable annual installments through October 2041; interest at 2.25%	<u>1,025,000</u>
	<u>\$ 9,952,924</u>

Debt service requirements to retire general obligation bonds for the component unit at June 30, 2012 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 1,179,398	\$ 447,821	\$ 1,627,219
2014	1,242,196	311,518	1,553,714
2015	1,096,054	257,965	1,354,019
2016	947,685	211,636	1,159,321
2017	641,154	181,265	822,419
2018-2022	2,678,490	571,731	3,250,221
2023-2027	959,546	228,828	1,188,374
2028-2032	701,377	117,882	819,259
2033-2037	244,551	46,279	290,830
2038-2042	<u>262,473</u>	<u>17,502</u>	<u>279,975</u>
	<u>\$ 9,952,924</u>	<u>\$ 2,392,427</u>	<u>\$ 12,345,351</u>

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, 2012, the reimbursement was \$735,381, which consists of \$605,000 in principal and \$130,381 in interest.

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

Interest expense for the year ended June 30, 2012 was \$366,978 on general obligation debt for the Berlin Water Works.

Notes Payable

Governmental Activities:

Notes payable for governmental activities at June 30, 2012 is comprised of the following individual issue:

\$5,000,000 Notes payable for various capital projects due in semi-annual installments of \$346,335 through December 2018; including interest at 2.99% \$ 4,058,707

Debt service requirements to retire notes payable for governmental activities at June 30, 2012 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 573,914	\$ 118,756	\$ 692,670
2014	591,445	101,225	692,670
2015	609,510	83,160	692,670
2016	627,964	64,706	692,670
2017	647,309	45,361	692,670
2018-2019	<u>1,008,565</u>	<u>30,802</u>	<u>1,039,367</u>
	<u>\$ 4,058,707</u>	<u>\$ 444,010</u>	<u>\$ 4,502,717</u>

As included on the Statement of Activities (Exhibit B) as 'Debt service' expense, interest expense for the year ended June 30, 2012 was \$92,005 on notes payable for governmental activities.

Business-type Activities:

Notes payable for business-type activities at June 30, 2012 is 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 December 2014; interest at 0% \$ 198,076

Debt service requirements to retire notes payable for business-type activities at June 30, 2012 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>
2013	\$ 79,549
2014	79,549
2015	<u>38,978</u>
	<u>\$ 198,076</u>

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

As included on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds (Exhibit F), interest expense for the year ended June 30, 2012 was \$12,390 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, 2012:

Equipment, due in annual installments of \$69,673, including interest at 4.09%, through April 2013	\$ 68,731
Equipment, due in annual installments of \$49,515, including interest at 4.65%, through September 2012	47,315
Equipment, due in annual installments of \$210,513, including interest at 4.295%, through July 2016	<u>927,229</u>
	<u>\$ 1,043,275</u>

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2012 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 285,941	\$ 43,800	\$ 329,741
2014	177,337	33,176	210,513
2015	185,105	25,407	210,512
2016	193,214	17,298	210,512
2017	<u>201,678</u>	<u>8,835</u>	<u>210,513</u>
	<u>\$ 1,043,275</u>	<u>\$ 128,516</u>	<u>\$ 1,171,791</u>

Other Long-Term Obligations

The City has drawn \$1,804,581 of approximately \$17,200,000 in funds under the State of New Hampshire, State Water Pollution Control Revolving Loan Fund Program for improvements to the Wastewater Treatment Facility Upgrade, Phase 2. Payments are not scheduled to commence until the first anniversary of the scheduled completion date of the project or the date of substantial completion, whichever is earliest. Interest is accrued at 1% during the construction period of the project and is to be paid upon completion of the construction project within the following year. Total funding to date of \$1,804,581 has been reported as ‘Other long-term obligations’ of the business-type activities.

Additionally, as authorized by the Water Pollution Control Revolving Fund Program, the City shall be provided federal financial assistance for the Wastewater Treatment Facility Upgrade, Phase 2 Project, whereby a portion of the principal sum, not to exceed \$2,000,000 or 30% of aggregate disbursements, whichever is less, will be forgiven. The principal forgiveness will be applied at the time of the initial loan repayment.

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

Authorized and Unissued Debt

The following debt was authorized and unissued as of June 30, 2012:

Business-type Funds:	
Sewer Wastewater Treatment Facility Phase II	\$ 15,395,419
Industrial Development Revenue Bonds - Greenova Project	<u>10,000,000</u>
	<u>\$ 25,395,419</u>

NOTE 11—LANDFILL 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 for the two landfills has a balance of \$455,850 as of June 30, 2012. The estimated liability for the post-closure care costs of the East Milan landfill (\$169,500) and the Cates Hill landfill (\$286,350) have been reported as a liability of the Governmental Activities 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, 2012. 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 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 post-closure care costs for the year ended June 30, 2012:

	Governmental <u>activities</u>	Business-type <u>activities</u>	<u>Totals</u>
Balance - July 1, 2011	\$ 180,800	\$ 298,900	\$ 479,700
Current year expenditures	(1,358)	(1,817)	(3,175)
Net change in estimated liability for postclosure care costs	<u>(9,942)</u>	<u>(10,733)</u>	<u>(20,675)</u>
Balance - June 30, 2012	<u>\$ 169,500</u>	<u>\$ 286,350</u>	<u>\$ 455,850</u>

NOTE 12—INTERFUND BALANCES AND TRANSFERS

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

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

	Due from				Totals
	General Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Fiduciary Funds	
General Fund		\$ 1,098,577	\$ 121,231	\$ 9,812	\$ 1,229,620
Nonmajor Governmental Funds	\$ 2,073,794	21,890			2,095,684
Sewer Fund	3,518,365				3,518,365
Nonmajor Enterprise Funds	522,749				522,749
	<u>\$ 6,114,908</u>	<u>\$ 1,120,467</u>	<u>\$ 121,231</u>	<u>\$ 9,812</u>	<u>\$ 7,366,418</u>

During the year, an interfund transaction occurred between funds. The transfer was made in accordance with budgetary authorization. The Permanent Funds, a Nonmajor Governmental Fund, made a transfer of \$3,936 to the General Fund for the reimbursement of lot care expenses.

NOTE 13—RESTRICTED NET ASSETS

Net assets are restricted for specific purposes as follows:

Permanent Funds - Endowments	\$ 148,478
Permanent Funds - Income	222,359
Capital Projects - Unexpended Debt Proceeds	2,043,137
School Private Grants and Contributions	1,710
	<u>\$ 2,415,684</u>

NOTE 14—COMPONENTS OF FUND BALANCE

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

Fund Balances	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Prepaid expenses	\$ 1,654	\$ 23,576	\$ 25,230
Tax deeded property	486,458		486,458
Inventory		10,347	10,347
Permanent funds - Endowments		148,478	148,478
Restricted for:			
Permanent funds - Income		222,359	222,359
Capital projects		2,043,137	2,043,137
School private grants and contributions		1,710	1,710
Committed for:			
Recreation and parks programs		20,937	20,937
Assigned for:			
Continuing appropriations	464,687		464,687
Encumbrances	85,537		85,537
Unity Street Park	335		335
Food service operations		53,198	53,198
Health department		2,036	2,036
Mt. Carberry		5,883	5,883

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

Unassigned (deficit):			
Unassigned - General operations	2,496,001		2,496,001
Airport Authority		(116,463)	(116,463)
	<u>\$ 3,534,672</u>	<u>\$ 2,415,198</u>	<u>\$ 5,949,870</u>

NOTE 15—TOP TAXPAYERS

The following are the five major property owners as they relate to the City's total assessed property valuation of \$436,225,540 (as of April 1, 2011):

<u>Taxpayer</u>	<u>Property Valuation</u>	<u>Percentage of Total Valuation</u>
Public Service of New Hampshire	\$ 57,679,000	13.22%
Great Lakes Hydro America, LLC	36,800,000	8.44%
Portland Natural Gas	15,363,000	3.52%
Fisher, L GP	2,227,300	0.51%
DWP Berlin Realty LLC	2,182,400	0.50%

NOTE 16—COMMITMENTS

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, 2012, the City expended \$240,000 under the terms of the emergency ambulance service agreement.

Federal Bureau of Prisons Contract

During June 2009, the City entered into an agreement with the Federal Bureau of Prisons to provide a connection to the City's sewer line for a fee of \$8,500,000. Terms of the contract include installment payments to the City at 25% upon the date of award, 25% at 25% connection completion, 25% at 50% connection completion, 15% at availability of service, and the final 10% at substantial completion. For the year ended June 30, 2012, the City recognized revenue in the amount of \$1,950,119 for the sewer line connection. The City has recognized total contract proceeds of \$7,650,000 through June 30, 2012, with the remaining \$850,000 or 10% being retained until substantial completion of costs to the Federal Bureau of Prisons.

NOTE 17—CONTINGENT LIABILITIES

Litigation

The City's general counsel estimates that any potential claims against the City, which are not covered by insurance, are immaterial and would not affect the financial position of the City.

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

Federal Grants

The City participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The 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 Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 13,931,676	\$ 13,931,676	\$ 13,843,935	\$ (87,741)
Licenses and permits	1,132,950	1,132,950	1,153,038	20,088
Intergovernmental	13,101,384	13,101,384	13,337,024	235,640
Charges for services	2,168,964	2,109,955	2,209,886	99,931
Interest income	65,000	65,000	3,855	(61,145)
Miscellaneous	142,277	142,277	357,675	215,398
Total Revenues	<u>30,542,251</u>	<u>30,483,242</u>	<u>30,905,413</u>	<u>422,171</u>
Expenditures:				
Current operations:				
General government	2,121,008	2,061,999	2,025,699	36,300
Public safety	4,961,769	4,961,769	4,932,820	28,949
Highways and streets	2,060,325	2,060,325	2,047,391	12,934
Health and welfare	605,015	605,015	615,853	(10,838)
Sanitation	898,979	898,979	769,131	129,848
Culture and recreation	550,631	550,631	574,936	(24,305)
Education	16,311,124	16,311,124	15,937,539	373,585
Capital outlay	837,426	372,739	268,165	104,574
Debt service:				
Principal retirement	1,766,787	1,766,787	1,706,654	60,133
Interest and fiscal charges	195,721	195,721	259,230	(63,509)
Lease payments	333,535	333,535	329,700	3,835
Intergovernmental	1,648,301	1,648,301	1,648,301	-
Total Expenditures	<u>32,290,621</u>	<u>31,766,925</u>	<u>31,115,419</u>	<u>651,506</u>
Excess of revenues over (under) expenditures	<u>(1,748,370)</u>	<u>(1,283,683)</u>	<u>(210,006)</u>	<u>1,073,677</u>
Other financing sources:				
Transfers in	7,645	7,645	3,936	(3,709)
Total other financing sources	<u>7,645</u>	<u>7,645</u>	<u>3,936</u>	<u>(3,709)</u>
Net change in fund balance	(1,740,725)	(1,276,038)	(206,070)	1,069,968
Fund balance at beginning of year				
- Budgetary Basis	<u>4,379,816</u>	<u>4,379,816</u>	<u>4,379,816</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 2,639,091</u>	<u>\$ 3,103,778</u>	<u>\$ 4,173,746</u>	<u>\$ 1,069,968</u>

See accompanying notes to the required supplementary information

SCHEDULE 2
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of Funding Progress for Other Post-Employment Benefits
For the Year Ended June 30, 2012

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2007	\$ -	\$ 5,686,000	\$ 5,686,000	0.0%	\$ 13,652,000	42%
7/1/2010	\$ -	\$ 5,335,764	\$ 5,335,764	0.0%	\$ 16,757,081	32%

See accompanying notes to the required supplementary information

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

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

General Fund

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund (Schedule 1) are reported on the basis budgeted by the City. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). Property tax budgetary revenues are recognized when levied rather than when susceptible to accrual. Budgetary expenditures were adjusted for encumbrances as follows:

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 30,889,586	\$ 31,110,684
Difference in property taxes meeting susceptible to accrual criteria	19,763	
Encumbrances, June 30, 2012		85,537
Encumbrances, June 30, 2011		(80,802)
Per Schedule 1	<u>\$ 30,909,349</u>	<u>\$ 31,115,419</u>

NOTE 2—BUDGETARY FUND BALANCE

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

<i>Nonspendable:</i>	
Prepaid expenses	\$ 1,654
Tax deeded property	486,458
<i>Assigned for:</i>	
Continuing appropriations	464,687
Unity Street Park	335
<i>Unassigned:</i>	
Unassigned - General operations	3,220,612
	<u>\$ 4,173,746</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
June 30, 2012

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

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

SCHEDULE I
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF AGRICULTURE		
Pass Through Payments from New Hampshire Department of Education School Breakfast Program	10.553	\$ 68,761
National School Lunch Program	10.555	297,167
Special Milk Program for Children	10.556	2,725
Fresh Fruit and Vegetable Program	10.582	36,567
Total Department of Agriculture		405,220
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Pass Through Payments from New Hampshire Community Development Finance Authority Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	
#B-09-SP-NH-0089		193,300
#09-053-CDHS		239,714
#09-053-NSPH		163,576
#11-053-NSP3		767,136
		<u>1,363,726</u>
Total Department of Housing and Urban Development		1,363,726
DEPARTMENT OF JUSTICE		
Received directly from U.S. Treasury Department Bulletproof Vest Partnership Program	16.607	6,406
Public Safety Partnership and Community Policing Grants #2010UMWX0212	16.710	57,119
Enforcing Underage Drinking Laws Program #2011CD25	16.727	11,989
Edward Byrne Memorial Justice Assistance Grant Program #20110245	16.738	79,542
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government #2009-SB-B9-0508	16.804	5,900
Total Department of Justice		160,956

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, 2012

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF TRANSPORTATION		
Pass Through Payments from New Hampshire		
Department of Transportation		
Airport Improvement Program	20.106	
#SBG-01-03-2010		6,096
#SBG-01-04-2012		40,768
		<u>46,864</u>
State and Community Highway Safety	20.600	
#314-11B-003		3,865
#315-11B-084		412
#315-11B-088		4,457
#315-11B-089		2,837
#315-11B-187		2,547
#314-12B-004		411
#315-12B-032		2,363
#315-12B-126		1,288
#315-12B-127		2,522
		<u>20,702</u>
Alcohol Impaired Driving Countermeasures		
Incentive Grants I	20.601	
#308-11B-079		3,351
#308-11B-174		6,406
#308-12B-056		2,876
		<u>12,633</u>
Safety Belt Performance Grants	20.609	
#304-12B-022		2,626
		<u>2,626</u>
Total Department of Transportation		<u>82,825</u>
ENVIRONMENTAL PROTECTION AGENCY		
Pass Through Payments from New Hampshire		
Department of Environmental Services		
Capitalization Grants for Clean Water State Revolving Funds	66.458	
#CS-330111-06		376,872
Brownfields Assessment and Cleanup Cooperative Agreements, Recovery Program	66.818	
#BF-96112501		10,126
#13928		273,317
		<u>283,443</u>
Total Environmental Protection Agency		<u>660,315</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, 2012

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF ENERGY		
Pass Through Payments from New Hampshire Office of Energy and Planning Energy Efficiency and Conservation Block Grant Program (EECBG), Recovery Program #DE-EE0003576	81.128	<u>293,059</u>
Total Department of Energy		<u>293,059</u>
DEPARTMENT OF EDUCATION		
Pass Through Payments from New Hampshire Department of Education Title I Grants to Local Educational Agencies	84.010	
#10012		31,909
#10174		6,043
#20012		763,820
#20174		132,976
#20175		13,034
#20900		6,000
#20901		<u>6,000</u>
		<u>959,782</u>
Special Education - Grants to States	84.027	
#22533		343,422
#22759		<u>1,017</u>
		<u>344,439</u>
Career and Technical Education - Basic Grants to States	84.048	
#25011		<u>63,182</u>
Special Education - Preschool Grants	84.173	
#22736		<u>10,725</u>
Twenty-First Century Community Learning Centers	84.287	
#26282		<u>179,904</u>
Rural Education	84.358	
#26242		<u>18,272</u>
Improving Teacher Quality State Grants	84.367	
#14798		602
#24798		136,219
#25393		6,000
#25394		7,200
#25395		<u>7,200</u>
		<u>157,221</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, 2012

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF EDUCATION (CONTINUED)		
Striving Readers #23811	84.371	<u>2,144</u>
Title I Grants to Local Educational Agencies, Recovery Act	84.389	<u>17,249</u>
Special Education Grants to States, Recovery Act	84.391	<u>3,916</u>
Education Jobs Fund #18134	84.410	<u>9,312</u> <u>249,940</u> <u>259,252</u>
Total Department of Education		<u>2,016,086</u>
DEPARTMENT OF HOMELAND SECURITY		
Pass Through Payments from New Hampshire Department of Homeland Security Homeland Security Grant Program	97.067	<u>6,950</u>
Total Department of Homeland Security		<u>6,950</u>
Total Expenditures of Federal Awards		<u>\$ 4,989,137</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, 2012

NOTE 1—GENERAL

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

NOTE 2—BASIS OF ACCOUNTING

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

NOTE 3—NON-CASH TRANSACTIONS

The City participates in the USDA Food Distribution Program which is a non-cash program. On the Schedule of Expenditures of Federal Awards, \$40,073 has been reported as part of the National School Lunch Program which represents the value of commodities received by the City.

NOTE 4—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The recognition of expenditures of federal awards has been reported in the City's basic financial statements as intergovernmental revenues in the governmental funds as follows:

Major Fund:	
General Fund	\$ 9,312
Nonmajor Governmental Funds:	
Federal Projects Fund	2,006,774
Food Service Fund	365,147
Airport Authority Fund	46,864
Grants Fund	780,369
CDBG Fund	239,714
Neighborhood Stabilization Grant Fund	1,124,012
	<u>\$ 4,572,192</u>

Additionally, the recognition of expenditures of federal awards in the amount of \$376,872 represents thirty percent of the drawdowns from the Clean Water State Revolving Loan Fund Program. Federal financial assistance in the form of principal forgiveness not to exceed \$2,000,000 or 30% of aggregate disbursements, whichever is less, will be forgiven at the time of the initial loan repayment.

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

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, 2012, which collectively comprise the City of Berlin, New Hampshire's basic financial statements, and have issued our report thereon dated April 8, 2013. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Berlin Water Works, component unit of the City, as described in our report on the City of Berlin, New Hampshire's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the City of Berlin, New Hampshire is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Berlin, New Hampshire's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Berlin, New Hampshire's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Berlin, New Hampshire's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Berlin, New Hampshire in a separate letter dated April 8, 2013.

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

Vachon Clulley & Company PC

April 8, 2013

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Berlin, New Hampshire's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Berlin, New Hampshire's major federal programs for the year ended June 30, 2012. 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, New Hampshire complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City of Berlin, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Berlin, New Hampshire's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal

control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Berlin, New Hampshire's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

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

Vachon Clutay & Company PC

April 8, 2013

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

Section I—Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? _____yes X no
 Significant deficiency(ies) identified
 not considered to be material weaknesses? _____yes X none reported
 Type of auditor’s report issued on compliance
 for major programs: *unqualified*
 Any audit findings disclosed that are required
 to be reported in accordance with
 Circular A-133, Section .510(a)? _____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.818	Brownfields Assessment and Cleanup Cooperative Agreements, Recovery Program
81.128	Energy Efficiency and Conservation Block Grant Program (EECBG), Recovery Program
84.010 & 84.389	Title I, Part A Cluster
84.027, 84.173 & 84.391	Special Education Cluster (IDEA)
84.410	Education Jobs Fund

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

Auditee qualified as low-risk auditee? _____yes X 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, 2012

	Special Revenue <u>Funds</u>	Permanent <u>Funds</u>	Capital Projects <u>Fund</u>	Total Nonmajor Governmental <u>Funds</u>
ASSETS				
Cash and cash equivalents	\$ 85,144	\$ 1,250		\$ 86,394
Investments		365,750		365,750
Accounts receivable	21,452			21,452
Due from other governments	1,174,911			1,174,911
Due from other funds	48,710	3,837	\$ 2,043,137	2,095,684
Prepaid expenses	23,576			23,576
Inventory	10,347			10,347
Total Assets	<u>\$ 1,364,140</u>	<u>\$ 370,837</u>	<u>\$ 2,043,137</u>	<u>\$ 3,778,114</u>
LIABILITIES				
Accounts payable	\$ 184,642			\$ 184,642
Accrued expenses	4,497			4,497
Deferred revenue	53,310			53,310
Due to other funds	1,120,467			1,120,467
Total Liabilities	<u>\$ 1,362,916</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,362,916</u>
FUND BALANCES				
Nonspendable	33,923	148,478		182,401
Restricted	1,710	222,359	2,043,137	2,267,206
Committed	20,937			20,937
Assigned	61,117			61,117
Unassigned (Deficit)	(116,463)			(116,463)
Total Fund Balances	<u>1,224</u>	<u>370,837</u>	<u>2,043,137</u>	<u>2,415,198</u>
Total Liabilities and Fund Balances	<u>\$ 1,364,140</u>	<u>\$ 370,837</u>	<u>\$ 2,043,137</u>	<u>\$ 3,778,114</u>

SCHEDULE A-1
CITY OF BERLIN, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Special Revenue Funds
June 30, 2012

	Federal Projects Fund	Food Service Fund	Airport Authority Fund	Health Department Fund	Carberry Fund	Grants Fund	CDBG Fund	Neighborhood Stabilization Grant Fund	Recreation and Parks Programs Fund	Combining Totals
ASSETS										
Cash and cash equivalents				\$ 3,205			\$ 81,939			\$ 85,144
Accounts receivable	\$ 570	\$ 944	\$ 9,347		\$ 10,591					21,452
Due from other governments	605,583	67,623	58,068		109,043			\$ 334,594		1,174,911
Due from other funds					\$ 5,883	21,890			\$ 20,937	48,710
Prepaid expenses			23,576							23,576
Inventory		10,347								10,347
Total Assets	<u>\$ 606,153</u>	<u>\$ 78,914</u>	<u>\$ 90,991</u>	<u>\$ 3,205</u>	<u>\$ 5,883</u>	<u>\$ 141,524</u>	<u>\$ 81,939</u>	<u>\$ 334,594</u>	<u>\$ 20,937</u>	<u>\$ 1,364,140</u>
LIABILITIES										
Accounts payable	\$ 47,264		\$ 27,135			\$ 16,878	\$ 16,951	\$ 76,414		\$ 184,642
Accrued expenses			1,267			2,821	409			4,497
Deferred revenue	27,967					22,694	2,649			53,310
Due to other funds	529,212	\$ 15,369	155,476	\$ 1,169		99,131	61,930	258,180		1,120,467
Total Liabilities	<u>604,443</u>	<u>15,369</u>	<u>183,878</u>	<u>1,169</u>	<u>\$ -</u>	<u>141,524</u>	<u>81,939</u>	<u>334,594</u>	<u>\$ -</u>	<u>1,362,916</u>
FUND BALANCES										
Nonspendable										33,923
Restricted	1,710	10,347	23,576							1,710
Committed									20,937	20,937
Assigned		53,198		2,036	5,883					61,117
Unassigned (Deficit)			(116,463)							(116,463)
Total Fund Balances (Deficit)	<u>1,710</u>	<u>63,545</u>	<u>(92,887)</u>	<u>2,036</u>	<u>5,883</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,937</u>	<u>1,224</u>
Total Liabilities and Fund Balances	<u>\$ 606,153</u>	<u>\$ 78,914</u>	<u>\$ 90,991</u>	<u>\$ 3,205</u>	<u>\$ 5,883</u>	<u>\$ 141,524</u>	<u>\$ 81,939</u>	<u>\$ 334,594</u>	<u>\$ 20,937</u>	<u>\$ 1,364,140</u>

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, 2012

	Special Revenue Funds	Permanent Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
Revenues:				
Intergovernmental	\$ 4,634,539			\$ 4,634,539
Charges for services	436,723			436,723
Interest income	2	\$ 11,783		11,785
Miscellaneous	245,283			245,283
Total Revenues	<u>5,316,547</u>	<u>11,783</u>	<u>\$ -</u>	<u>5,328,330</u>
Expenditures:				
Current operations:				
General government	406,540			406,540
Public safety	214,433			214,433
Airport/Aviation center	226,126			226,126
Health and welfare	494			494
Sanitation	148			148
Culture and recreation	53,707			53,707
Economic development	1,647,169			1,647,169
Education	2,132,055			2,132,055
Food service	599,437			599,437
Capital outlay	51,714		416,083	467,797
Total Expenditures	<u>5,331,823</u>	<u>-</u>	<u>416,083</u>	<u>5,747,906</u>
Excess of revenues over (under) expenditures	<u>(15,276)</u>	<u>11,783</u>	<u>(416,083)</u>	<u>(419,576)</u>
Other financing sources (uses):				
Proceeds from notes payable issued			3,345,000	3,345,000
Transfers out		(3,936)		(3,936)
Total other financing sources (uses)	<u>-</u>	<u>(3,936)</u>	<u>3,345,000</u>	<u>3,341,064</u>
Net change in fund balances	(15,276)	7,847	2,928,917	2,921,488
Fund balances (deficit) at beginning of year	<u>16,500</u>	<u>362,990</u>	<u>(885,780)</u>	<u>(506,290)</u>
Fund balances at end of year	<u>\$ 1,224</u>	<u>\$ 370,837</u>	<u>\$ 2,043,137</u>	<u>\$ 2,415,198</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, 2012

	Federal Projects Fund	Food Service Fund	Airport Authority Fund	Health Department Fund	Carberry Fund	Grants Fund	CDBG Fund	Neighborhood Stabilization Grant Fund	Recreation and Parks Programs Fund	Combining Totals
Revenues:										
Intergovernmental	\$ 2,063,807	\$ 374,170	\$ 48,317		\$ 210	\$ 784,519	\$ 239,714	\$ 1,124,012	\$ 37,966	\$ 4,634,539
Charges for services		188,293	210,254							436,723
Interest income				\$ 2						2
Miscellaneous	68,789	43,345		195		132,954				245,283
Total Revenues	<u>2,132,596</u>	<u>562,463</u>	<u>301,916</u>	<u>197</u>	<u>210</u>	<u>917,473</u>	<u>239,714</u>	<u>1,124,012</u>	<u>37,966</u>	<u>5,316,547</u>
Expenditures:										
Current operations:										
General government						406,540				406,540
Public safety						214,433				214,433
Airport/Aviation center			226,126							226,126
Health and welfare				494						494
Sanitation										148
Culture and recreation									40,650	40,650
Economic development						13,057				53,707
Education	2,132,055					283,443	239,714	1,124,012		1,647,169
Food service		599,437								2,132,055
Capital outlay										599,437
Total Expenditures	<u>2,132,055</u>	<u>599,437</u>	<u>277,840</u>	<u>494</u>	<u>148</u>	<u>917,473</u>	<u>239,714</u>	<u>1,124,012</u>	<u>40,650</u>	<u>51,714</u>
Net change in fund balances	541	(36,974)	24,076	(297)	62	-	-	-	(2,684)	(15,276)
Fund balances (deficit) at beginning of year	<u>1,169</u>	<u>100,519</u>	<u>(116,963)</u>	<u>2,333</u>	<u>5,821</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,621</u>	<u>16,500</u>
Fund balances (deficit) at end of year	<u>\$ 1,710</u>	<u>\$ 63,545</u>	<u>\$ (92,887)</u>	<u>\$ 2,036</u>	<u>\$ 5,883</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,937</u>	<u>\$ 1,224</u>

SCHEDULE C
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Net Assets
All Nonmajor Proprietary Funds
June 30, 2012

	Industrial Development and Park Authority Fund	Courthouse Fund	Cates Hill Landfill Fund	Combining Totals
ASSETS				
Current Assets:				
Due from other governments			\$ 124,888	\$ 124,888
Due from other funds	\$ 225,643		297,106	522,749
Total Current Assets	<u>225,643</u>	<u>\$ -</u>	<u>421,994</u>	<u>647,637</u>
Noncurrent Assets:				
Non-depreciable capital assets	49,838			49,838
Depreciable capital assets, net	<u>1,041,559</u>	<u>115,592</u>		<u>1,157,151</u>
Total Noncurrent Assets	<u>1,091,397</u>	<u>115,592</u>	<u>-</u>	<u>1,206,989</u>
Total Assets	<u>\$ 1,317,040</u>	<u>\$ 115,592</u>	<u>\$ 421,994</u>	<u>\$ 1,854,626</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 280	\$ 115		\$ 395
Deferred revenue	3,425			3,425
Due to other funds		121,231		121,231
Current portion of notes payable	79,549			79,549
Current portion of estimated liability for landfill postclosure care costs			\$ 12,450	12,450
Total Current Liabilities	<u>83,254</u>	<u>121,346</u>	<u>12,450</u>	<u>217,050</u>
Noncurrent Liabilities:				
Notes payable	118,527			118,527
Estimated liability for landfill postclosure care costs			273,900	273,900
Total Noncurrent Liabilities	<u>118,527</u>	<u>-</u>	<u>273,900</u>	<u>392,427</u>
Total Liabilities	<u>201,781</u>	<u>121,346</u>	<u>286,350</u>	<u>609,477</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,091,397	115,592		1,206,989
Unrestricted (Deficit)	<u>23,862</u>	<u>(121,346)</u>	<u>135,644</u>	<u>38,160</u>
Total Net Assets (Deficit)	<u>1,115,259</u>	<u>(5,754)</u>	<u>135,644</u>	<u>1,245,149</u>
Total Liabilities and Net Assets	<u>\$ 1,317,040</u>	<u>\$ 115,592</u>	<u>\$ 421,994</u>	<u>\$ 1,854,626</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, 2012

	Industrial Development and Park Authority Fund	Courthouse Fund	Cates Hill Landfill Fund	Combining Totals
Operating revenues:				
Miscellaneous	\$ 158,584		\$ 5,262	\$ 163,846
Total operating revenues	<u>158,584</u>	<u>\$ -</u>	<u>5,262</u>	<u>163,846</u>
Operating expenses:				
Personnel services		6,070		6,070
Repairs and maintenance	16,831	1,016		17,847
Administrative	14,393	371		14,764
Materials and supplies	17			17
Utilities	3,377	6,140		9,517
Bad debt expense			3,664	3,664
Depreciation	<u>50,517</u>	<u>6,321</u>		<u>56,838</u>
Total operating expenses	<u>85,135</u>	<u>19,918</u>	<u>3,664</u>	<u>108,717</u>
Operating income (loss)	<u>73,449</u>	<u>(19,918)</u>	<u>1,598</u>	<u>55,129</u>
Non-operating revenues (expenses):				
Interest revenue	140			140
Interest expense	<u>(12,390)</u>			<u>(12,390)</u>
Net non-operating revenues (expenses)	<u>(12,250)</u>	<u>-</u>	<u>-</u>	<u>(12,250)</u>
Change in net assets	61,199	(19,918)	1,598	42,879
Total net assets at beginning of year	<u>1,054,060</u>	<u>14,164</u>	<u>134,046</u>	<u>1,202,270</u>
Total net assets (deficit) at end of year	<u>\$ 1,115,259</u>	<u>\$ (5,754)</u>	<u>\$ 135,644</u>	<u>\$ 1,245,149</u>

SCHEDULE E
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Cash Flows
All Nonmajor Proprietary Funds
For the Year Ended June 30, 2012

	Industrial Development and Park Authority Fund	Courthouse Fund	Cates Hill Landfill Fund	Combining Totals
Cash flows from operating activities:				
Cash received from customers	\$ 161,755	\$ 2,821	\$ 10,876	\$ 175,452
Cash paid to suppliers	(27,709)	(5,862)	(14,322)	(47,893)
Cash paid to employees		(7,752)		(7,752)
Net cash provided (used) by operating activities	<u>134,046</u>	<u>(10,793)</u>	<u>(3,446)</u>	<u>119,807</u>
Cash flows from capital and related financing activities:				
Principal paid on notes payable	(153,205)			(153,205)
Interest paid on long-term debt	(12,390)			(12,390)
Purchases of capital assets	(54,125)			(54,125)
Net cash (used) for capital and related financing activities	<u>(219,720)</u>	<u>-</u>	<u>-</u>	<u>(219,720)</u>
Cash flows from investing activities:				
Interest on investments	140			140
Net cash provided by investing activities	<u>140</u>	<u>-</u>	<u>-</u>	<u>140</u>
Net (decrease) in cash and cash equivalents	(85,534)	(10,793)	(3,446)	(99,773)
Cash and cash equivalents (deficiency) at beginning of year	311,177	(110,438)	300,552	501,291
Cash and cash equivalents (deficiency) at end of year	<u>\$ 225,643</u>	<u>\$ (121,231)</u>	<u>\$ 297,106</u>	<u>\$ 401,518</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 73,449	\$ (19,918)	\$ 1,598	\$ 55,129
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Bad debt expense			3,664	3,664
Depreciation expense	50,517	6,321		56,838
Changes in assets and liabilities:				
Accounts receivable	3,867	2,821		6,688
Due from other governments			5,614	5,614
Prepaid expenses	6,629			6,629
Accounts payable	280	80	(1,772)	(1,412)
Accrued expenses		(97)		(97)
Deferred revenue	(696)			(696)
Estimated liability for landfill postclosure care costs			(12,550)	(12,550)
Net cash provided (used) by operating activities	<u>\$ 134,046</u>	<u>\$ (10,793)</u>	<u>\$ (3,446)</u>	<u>\$ 119,807</u>