

CITY OF BERLIN, NEW HAMPSHIRE
Financial Statements
With Schedule of Expenditures of Federal Awards
June 30, 2009
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 Applicable
to Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Schedule of Findings and Questioned Costs

CITY OF BERLIN, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2009

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FINANCIAL STATEMENTS
June 30, 2009

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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, 2009, 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, 2009 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 provides 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, 2009, 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 March 5, 2010 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.

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 33-36, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Vachon Clukay & Company PC

March 5, 2010

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, 2009. 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, 2009 by \$35.7 million, an increase of \$1.3 million from the prior year. This amount is presented as "Net Assets" on the Statement of Net Assets for the Total Primary Government (a condensed statement can be seen in the MD&A section of this report on page v). Total unrestricted assets increased by \$ 1.2 million to \$6.3 million. Restricted net assets of \$146,578 were restricted for endowments and \$29.2 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 \$34.4 million to \$35.7 million in fiscal year 2009. Net assets of governmental activities increased by \$1.2 million or 12%, and net assets of the business-type activities showed a net increase of \$0.1 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 2009, the City's governmental funds reported an increase of \$145,241 in the combined ending fund balance of \$3.7 million, compared to last year. Included in the combined governmental fund balance is the activity of the City's General Fund and the Non-major Governmental Funds. The General Fund ended the fiscal year with an unreserved fund balance of \$3,041,179, which is a decrease of \$29,490 from the previous year.

Overview of the Financial Statements

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

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

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

Government-wide Financial Statements

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

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

Both of the government-wide financial statements have separate sections for 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, 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 government-wide financial statements. Reconciliations are provided between the Governmental Fund Statements and the Government-Wide Statements, which can also be found on pages 3-4.

The City's 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 48-51. The non-major governmental funds are:

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

- Courthouse Fund

Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. Therefore there is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The basic propriety funds financial statements can be found on pages 5-7, with individual data for each of the City's non-major proprietary funds provided in the combining statements found on pages 52-54.

- **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 10-32.

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 33) 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 2009 is the General Fund. Also, included in the required supplementary information is the funding progress for other post-employment benefits (Schedule 2, page 34). The notes to the required supplementary information can be found on pages 35-36.

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 \$35.7 million at the end of fiscal year 2009, an increase of \$1.3 million compared to the end of the previous year.

Net assets of the City as of June 30, 2009, 2008 and 2007 are as follows:

The	Net Assets									largest
	(in Millions)									
	Governmental Activities			Business-type Activities			Total Primary Government			
	2009	2008	2007	2009	2008	2007	2009	2008	2007	
Assets										
Current Assets	11.9	12.6	12.5	5.4	5.5	4.2	17.4	18.1	16.7	
Noncurrent assets	17.8	17.6	17.6	20.7	20.8	21.1	38.5	38.4	38.8	
Total Assets	29.7	30.2	30.1	26.1	26.3	25.4	55.9	56.5	55.5	
Liabilities										
Current Liabilities	9.3	9.7	9.4	0.3	0.4	0.2	9.6	10.1	9.6	
Noncurrent Liabilities	5.2	6.4	7.7	5.4	5.6	4.7	10.6	12.1	12.4	
Total Liabilities	14.5	16.1	17.1	5.7	6.0	4.9	20.2	22.1	22.0	
Net Assets										
Invested in capital assets, net of related debt	14.0	13.3	12.7	15.2	15.9	17.3	29.2	29.1	30.0	
Restricted	0.1	0.1	0.1	-	-	-	0.1	0.1	0.1	
Unrestricted	1.1	0.6	0.2	5.2	4.4	3.2	6.3	5.1	3.3	
Total Net Assets	15.2	14.1	13.0	20.4	20.3	20.5	35.7	34.4	33.5	
Total Liabilities and Net Assets	29.7	30.2	30.1	26.1	26.3	25.4	55.9	56.5	55.5	

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 will be made in July 2009) and the East Milan Landfill Closure bond, none of which has any offsetting assets, the City continues to increase its unrestricted net assets. This year it had an increase of \$1.2 million over the prior year. The City carries a liability for compensated absences. The City needs to embark on a program to fund this liability in the future. This will be addressed in the coming year budget.

Statement of Activities

The City's total net assets increased \$1.3 million during this fiscal year. Property and other taxes brought in \$14.5 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, 2009, 2008 and 2007 are as follows:

Changes in Net Assets (in Millions)									
	Governmental Activities			Business-type Activities			Total Primary Government		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Revenues									
Program revenues:									
Charges for services	2.8	2.9	3.1	1.6	1.4	1.5	4.4	4.3	4.5
Operating grants and contributions	14.7	14.5	15.3			0.1	14.7	14.5	15.5
Capital grants and contributions	0.8	0.9	1.0	0.1	0.2	0.0	0.9	1.1	1.0
General revenues:									
Property and other taxes	14.5	13.1	13.2			-	14.5	13.1	13.2
Licenses and permits	1.2	1.3	1.3			-	1.2	1.3	1.3
Grants and contributions	1.1	1.2	1.1			-	1.1	1.2	1.1
Interest and investment earnings	0.2	0.3	0.3	0.1	0.2	0.2	0.3	0.5	0.5
Miscellaneous	0.3	0.3	0.4	0.3	0.1	0.1	0.6	0.4	0.5
Contributions to permanent fund principal	0.0	0.0	0.0				0.0	0.0	0.0
Gain on sale of capital asset			-	0.1		-	0.1	-	-
Transfers			-			-	-	-	-
Total revenues	35.5	34.5	35.6	2.2	2.0	1.9	37.7	36.4	37.6
Expenses:									
General Government	2.0	2.2	1.8				2.0	2.2	1.8
Public Safety	5.1	4.8	4.6				5.1	4.8	4.6
Airport/Aviation center	0.4	0.4	0.4				0.4	0.4	0.4
Highways and streets	2.6	2.8	2.4				2.6	2.8	2.4
Health and welfare	0.7	0.7	0.7				0.7	0.7	0.7
Sanitation	0.9	0.9	0.9				0.9	0.9	0.9
Culture and recreation	0.7	0.7	0.7				0.7	0.7	0.7
Economic Development	0.2	0.3	1.0				0.2	0.3	1.0
Education	18.5	17.6	17.1				18.5	17.6	17.1
Food service	0.6	0.6	0.6				0.6	0.6	0.6
Principal retirement	0.6	0.6	0.6				0.6	0.6	0.6
Interest and fiscal charges	0.4	0.4	0.5				0.4	0.4	0.5
Lease payments	0.1						0.1		
Intergovernmental	1.6	1.4	1.4				1.6	1.4	1.4
Sewer			-	2.0	1.9	2.0	2.0	1.9	2.0
Nonmajor proprietary funds			-	0.1	0.2	0.2	0.1	0.2	0.2
Total expenses	34.3	33.4	32.9	2.1	2.1	2.2	36.4	35.5	35.1
Increase (decrease) in net assets	1.2	1.1	2.8	0.1	(0.2)	(0.3)	1.3	0.9	2.5
Net assets, beginning of year	14.1	13.0	10.2	20.3	20.5	20.7	34.4	33.5	31.0
Net assets, end of year	15.2	14.1	13.0	20.4	20.3	20.5	35.7	34.4	33.5

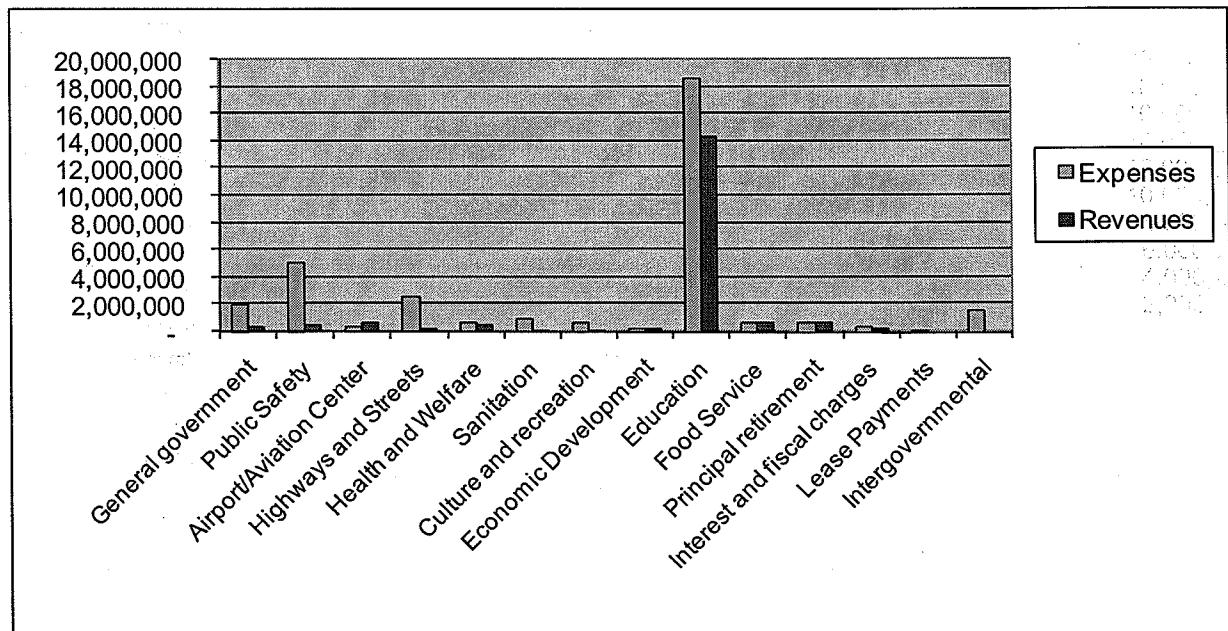
The City's expenses cover a range of services. The largest governmental expenses were for education (54%), public safety (15%), highways and streets (7%), and general government (6%), which accounted for 82% of total governmental expenditures.

Government Activities

Governmental activities revenue totaling \$35.5 million exceeded expenses of \$34.3 million in fiscal year 2009, thereby increasing the City's governmental net assets by \$1.2 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.

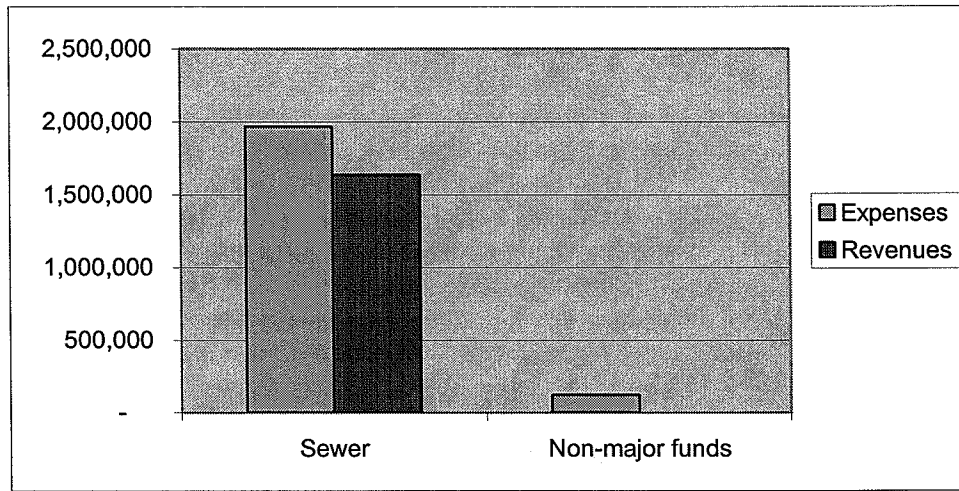
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ending June 30, 2009



Business-type Activities

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

Expenses and Program Revenues – Business Type Activities
Fiscal Year Ending June 30, 2009



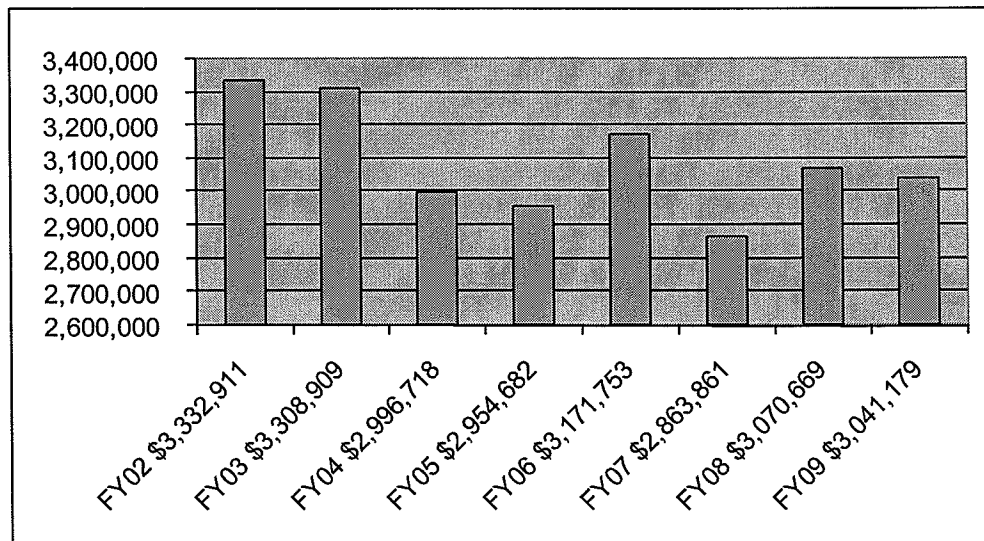
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Unreserved Fund Balances from FY 2002 through FY 2009 are as follows:



General Fund

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund had an unreserved fund balance of \$3,041,179, while total fund equity was \$3,337,109. The total fund equity includes reserves for encumbrances, prepaid expenses and special purposes at year-end. The total General Fund unreserved fund balance, decreased \$29,490 from June 30, 2008.

Other Governmental Funds

The non-major governmental funds fund balance decreased by \$36,780 in fiscal year 2009.

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 \$101,569 from June 30, 2008. The amount collected from sewer user fees was again insufficient to offset operating expenses resulting in a net loss of \$82,327 in the Sewer Fund for the year. However, the Non-major Proprietary Funds had a combined net increase of \$183,896 in fiscal year 2009.

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 33.

The City was fortunate the actual budgetary revenues were more than the budget for estimated revenues by \$602,716. This occurred even with the loss of \$474,616 in State Shared Revenues in the current fiscal year. The remainder of State Revenues came in higher than projected by \$32,688. The City collected \$719,394 more than projected from timber taxes, interest and costs on delinquent taxes and tax lien redemptions. This year, the motor vehicle fees brought in \$28,390 less than anticipated, while cable franchise fees brought in an additional \$3,500. Also, the City was short \$3,340 in its projection for code enforcement fees. Revenues in the School Department also came in more than estimated by \$287,470. The Health Department revenues from Medicare Reimbursement were \$132,932 less than projected. Revenues in the Public Works Department were more than estimated by \$27,321. The Police Department revenues were \$46,762 more than estimated mostly due to outside detail revenues. Planning Board fees were \$2,978 which is \$3,846 less than in fiscal year 2008. Interest rates on investments continued to decline during the past year which resulted in a shortfall of \$11,979.

Actual budgetary expenditures at year-end were \$672,079 less than the final budgeted appropriations. Most of this savings is due to budgeted capital improvement items of \$1.2 million carried over into the next fiscal year and not spent in FY 2009. The City had various supplemental appropriations in FY2009. The appropriations of \$4,804 in matching funds for the Fire Department clothing grant received from the USDA Rural Development and \$169,638 for

the purchase of 2 school buses and a ¾ ton Pickup with Sander for the School Department were offset by funds carried in the Undesignated Fund Balance. The remaining supplemental appropriations were offset by grant revenues in the same amount.

This year, the City's legal expense line closed with an over-expenditure of \$32,951 due to the number of issues with burned out properties, dilapidated housing and the repurchase of tax deeded properties. The cost of participation in the Androscoggin Valley Regional Refuse District was again lower than projected, saving the City \$88,653. The City issued \$101,503 in property tax abatements and this amount was almost completely offset by overlay in the tax rate calculation formula. This past year, the City expended \$50,391 in costs related to tax deeded properties; \$44,342 was paid to the Coos County Superior Court for unclaimed excess proceeds from the sale of a tax deeded property in 2006. The remaining amount was paid to Berlin Water Works for water bills on tax deeded properties. The City will recoup some of the expenses when those properties are sold in the future.

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, 2009, amounted to \$73.1 million. Accumulated depreciation was \$35.6 million leaving a net book value of \$37.5 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 20-22 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, 2009 is \$105,000. Additional information regarding the City's OPEB can be found in Note 9 on pages 23-24 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 \$7.4 million. This amount does not include bonded debt outstanding by the Berlin Water Works, its component unit, of \$10.6 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 24-29 of the Notes to the Basic Financial Statements.

ECONOMIC CONDITIONS

Berlin's economic prospects with the final closure of the Fraser Pulp Mill (and the recent closure of the nearby paper plant in Groveton) have nowhere to go, but up. The entire closed pulp mill site in Berlin has been cleared except for a few buildings worthy of preservation. The black liquor boiler may or may not be converted to a biomass boiler depending on the EFSEC review and other issues, which such a development must deal with. The second proposed biomass project located next to the City's Wastewater Treatment Facility is also very much still in the works.

The City's dilapidated surplus housing problem has been markedly reduced by the City's efforts at demolishing such structures and enforcing housing codes which set a minimum housing standard. A significant number of the City's very worst derelict buildings have been torn down or have burned down. The City experienced the loss of approximately 22 structures in the last few years 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 \$3M in federal Neighborhood Stabilization funds for the rehabilitation of housing to a reasonable standard.

The Berlin Industrial Development Park Authority 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.

It appears that the major wood pellet plant development which was actively being pursued and is now permitted on three lots in the existing City Industrial Park will be put on hold for a while as a result of the national recession. This is very unfortunate, as it would have served to provide a real desperately needed shot in the arm to the local economy.

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

A major fire that destroyed two buildings in the heart of the downtown has now been cleaned up by the City and has added to the attractiveness of the downtown. This is the first major cleanup which has been undertaken with outside federal funding.

The State for both the District Court and Health and Human Services was finally able to have a new building constructed to house these services. The new building is on the land where the mill administration building used to be. Unfortunately, both operations will move to this new location

from their current locations in the Downtown despite State law, which encourages just the opposite.

The Phase I Green Street/Route 110 project is pretty well complete. This will dramatically improve the truck route through the City. Phase II of this project, which after years of planning is now about ready 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 50 miles of first-class trail development. This development should have 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 under construction with completion slated for later in the year of 2010. 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 is actively involved in extending sewer services to the site.

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, 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, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 10,488,572		\$ 10,488,572	\$ 443,988
Investments	2,809,079		2,809,079	907,214
Taxes receivable, net	2,347,749		2,347,749	
Accounts receivable, net	103,001	\$ 347,041	450,042	159,715
Notes receivable		75,462	75,462	
Due from other governments	831,928	215,227	1,047,155	304,366
Internal balances	(4,726,215)	4,726,215	-	
Prepaid expenses	68,655		68,655	
Inventory	9,732	59,644	69,376	185,687
Total Current Assets	<u>11,932,501</u>	<u>5,423,589</u>	<u>17,356,090</u>	<u>2,000,970</u>
Noncurrent Assets:				
Restricted cash	9,198		9,198	
Notes receivable		701,240	701,240	
Tax deeded property	307,015		307,015	
Capital assets:				
Non-depreciable capital assets	1,335,862	810,846	2,146,708	647,815
Depreciable capital assets, net	<u>16,123,422</u>	<u>19,214,944</u>	<u>35,338,366</u>	<u>35,921,199</u>
Total Noncurrent Assets	<u>17,775,497</u>	<u>20,727,030</u>	<u>38,502,527</u>	<u>36,569,014</u>
Total Assets	<u>\$ 29,707,998</u>	<u>\$ 26,150,619</u>	<u>\$ 55,858,617</u>	<u>\$ 38,569,984</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 385,278	\$ 11,772	\$ 397,050	\$ 32,312
Accrued expenses	591,646	86,677	678,323	233,661
Deferred revenue	6,954,223	3,425	6,957,648	
Due to other governments	9,520		9,520	
Deposits		10,000	10,000	
Current portion of bonds payable	967,377	122,854	1,090,231	1,133,939
Current portion of notes payable		57,402	57,402	12,250
Current portion of capital leases payable	255,203		255,203	71,919
Current portion of compensated absences payable	79,263		79,263	24,680
Current portion of estimated liability for landfill postclosure care costs	<u>10,522</u>	<u>10,000</u>	<u>20,522</u>	
Total Current Liabilities	<u>9,253,032</u>	<u>302,130</u>	<u>9,555,162</u>	<u>1,508,761</u>
Noncurrent Liabilities:				
Payable from restricted assets	9,198		9,198	
Bonds payable	1,596,921	4,702,289	6,299,210	9,484,507
Notes payable		411,619	411,619	
Capital leases payable	1,606,395		1,606,395	145,476
Compensated absences payable	1,715,192	70,233	1,785,425	121,346
Other post-employment benefits payable	103,011	1,989	105,000	
Estimated liability for landfill postclosure care costs	<u>178,883</u>	<u>250,000</u>	<u>428,883</u>	
Total Noncurrent Liabilities	<u>5,209,600</u>	<u>5,436,130</u>	<u>10,645,730</u>	<u>9,751,329</u>
Total Liabilities	<u>14,462,632</u>	<u>5,738,260</u>	<u>20,200,892</u>	<u>11,260,090</u>
NET ASSETS				
Invested in capital assets, net of related debt	13,997,012	15,200,647	29,197,659	25,720,923
Restricted	146,578		146,578	
Unrestricted	<u>1,101,776</u>	<u>5,211,712</u>	<u>6,313,488</u>	<u>1,588,971</u>
Total Net Assets	<u>15,245,366</u>	<u>20,412,359</u>	<u>35,657,725</u>	<u>27,309,894</u>
Total Liabilities and Net Assets	<u>\$ 29,707,998</u>	<u>\$ 26,150,619</u>	<u>\$ 55,858,617</u>	<u>\$ 38,569,984</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, 2009

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total	
				Governmental Activities	Business-type Activities		
Governmental Activities:							
General government	\$ 2,013,690	\$ 352,611	\$ 450	\$ (1,660,629)		\$ (1,660,629)	
Public safety	5,069,792	249,338	303,198	(4,517,256)		(4,517,256)	
Airport/Aviation center	393,141	187,939	\$ 404,221	199,019		199,019	
Highways and streets	2,568,162	35,032	199,476	(2,327,779)		(2,327,779)	
Health and welfare	652,587	210,470	317,068	(125,049)		(125,049)	
Sanitation	913,498	41,616	7,997	(863,885)		(863,885)	
Culture and recreation	689,207	57,422	2,815	(628,970)		(628,970)	
Economic development	245,385		242,123	(3,262)		(3,262)	
Education	18,538,145	1,450,886	12,393,944	(4,332,235)		(4,332,235)	
Food service	612,744	240,980	383,029	11,265		11,265	
Principal retirement	605,000		605,000	-		-	
Interest and fiscal charges	362,951		245,553	(117,398)		(117,398)	
Lease payments	88,904			(88,904)		(88,904)	
Intergovernmental	1,584,264			(1,584,264)		(1,584,264)	
Total governmental activities	<u>34,337,470</u>	<u>2,826,294</u>	<u>14,700,653</u>	<u>(16,039,347)</u>	<u>\$ -</u>	<u>(16,039,347)</u>	
Business-type activities:							
Sewer	1,967,188	1,557,967	79,884		(329,337)	(329,337)	
Nonmajor funds	123,198				(123,198)	(123,198)	
Total business-type activities	<u>2,090,386</u>	<u>1,557,967</u>	<u>-</u>	<u>-</u>	<u>(452,535)</u>	<u>(452,535)</u>	
Total primary government	<u>\$ 36,427,856</u>	<u>\$ 4,384,261</u>	<u>\$ 14,700,653</u>	<u>(16,039,347)</u>	<u>(452,535)</u>	<u>(16,491,882)</u>	
Component unit:							\$ 1,000,185
Water	<u>\$ 2,829,314</u>	<u>\$ 1,956,166</u>	<u>\$ -</u>				<u>1,000,185</u>
Total component unit							
General revenues:							
Property and other taxes				14,466,045		14,466,045	
Licenses and permits				1,218,047		1,218,047	
Grants and contributions:							
State shared revenues				568,836		568,836	
Rooms and meals tax distribution				459,943		459,943	
State and federal forest land				52,089		52,089	
Interest and investment earnings				154,264	107,516	261,780	36,481
Miscellaneous				313,316	321,910	635,226	72,656
Gain on sale of capital assets					124,678	124,678	
Contributions to permanent fund principal				525		525	
Total general revenues and contributions to permanent fund principal				17,233,065	554,104	17,787,169	109,137
Change in net assets				1,193,718	101,569	1,295,287	1,109,322
Net assets - beginning				14,051,648	20,310,790	34,362,438	26,200,572
Net assets - ending				\$ 15,245,366	\$ 20,412,359	\$ 35,657,725	\$ 27,309,894

See accompanying notes to the basic financial statements

EXHIBIT C
CITY OF BERLIN, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 10,485,346	\$ 3,226	\$ 10,488,572
Investments	2,443,369	365,710	2,809,079
Taxes receivable, net	2,347,749		2,347,749
Accounts receivable	99,608	762	100,370
Due from other governments	382,348	449,580	831,928
Due from other funds	525,489	205,385	730,874
Prepaid expenses	53,320	15,335	68,655
Inventory		9,732	9,732
Tax deeded property	307,015		307,015
Restricted cash	9,198		9,198
Total Assets	<u>\$ 16,653,442</u>	<u>\$ 1,049,730</u>	<u>\$ 17,703,172</u>
LIABILITIES			
Accounts payable	\$ 352,910	\$ 32,368	\$ 385,278
Accrued expenses	457,648	12,404	470,052
Deferred revenue	7,487,184	149,845	7,637,029
Due to other governments	9,520		9,520
Due to other funds	4,999,873	454,585	5,454,458
Payable from restricted assets	9,198		9,198
Total Liabilities	<u>13,316,333</u>	<u>649,202</u>	<u>13,965,535</u>
FUND BALANCES			
Reserved for endowments		146,578	146,578
Reserved for encumbrances	242,275		242,275
Reserved for prepaid expenses	53,320	15,335	68,655
Reserved for special purposes	335		335
Unreserved, reported in:			
General fund	3,041,179		3,041,179
Special revenue funds		18,327	18,327
Permanent funds		220,288	220,288
Total Fund Balances	<u>3,337,109</u>	<u>400,528</u>	<u>3,737,637</u>
Total Liabilities and Fund Balances	<u>\$ 16,653,442</u>	<u>\$ 1,049,730</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 17,459,284

Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis 682,806

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 (2,564,298)
Capital leases payable (1,861,598)
Accrued interest on long-term obligations (121,594)
Compensated absences payable (1,794,455)
Other post-employment benefits payable (103,011)
Estimated liability for landfill postclosure care costs (189,405)

Net assets of governmental activities \$ 15,245,366

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, 2009

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 14,674,415		\$ 14,674,415
Licenses and permits	1,218,047		1,218,047
Intergovernmental	13,213,778	\$ 3,338,919	16,552,697
Charges for services	2,311,021	492,048	2,803,069
Interest income	148,021	6,243	154,264
Miscellaneous	230,459	108,959	339,418
Total Revenues	31,795,741	3,946,169	35,741,910
Expenditures:			
Current operations:			
General government	1,843,961	60,943	1,904,904
Public safety	4,781,166	49,006	4,830,172
Airport/Aviation center		222,630	222,630
Highways and streets	2,031,230		2,031,230
Health and welfare	653,101	32	653,133
Sanitation	886,220	18,354	904,574
Culture and recreation	559,810	46,071	605,881
Economic development		242,123	242,123
Education	15,950,584	2,307,068	18,257,652
Food service		621,339	621,339
Capital outlay	1,025,259	414,557	1,439,816
Debt service:			
Principal retirement	1,571,703	1,866	1,573,569
Interest and fiscal charges	391,748	99	391,847
Lease payments	333,535		333,535
Intergovernmental	1,584,264		1,584,264
Total Expenditures	31,612,581	3,984,088	35,596,669
Excess of revenues over (under) expenditures	183,160	(37,919)	145,241
Other financing sources (uses):			
Transfers in	7,015	8,154	15,169
Transfers out	(8,154)	(7,015)	(15,169)
Total other financing sources (uses)	(1,139)	1,139	-
Net change in fund balances	182,021	(36,780)	145,241
Fund balances at beginning of year	3,155,088	437,308	3,592,396
Fund balances at end of year	\$ 3,337,109	\$ 400,528	\$ 3,737,637

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, 2009	
Change in Fund Balances - Total Governmental Funds	\$ 145,241
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	83,294
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss of disposed capital assets reduced by the actual proceeds received from the sale of capital assets.	(20,350)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(208,370)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	968,569
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.	267,141
In the statement of activities, interest is accrued on outstanding bonds and capital leases, whereas in governmental funds, an interest expenditure is reported when due.	29,614
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.	(71,421)
Change in Net Assets of Governmental Activities	\$ 1,193,718

EXHIBIT E
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
ASSETS			
Current Assets:			
Accounts receivable	\$ 347,036	\$ 5	\$ 347,041
Notes receivable		75,462	75,462
Due from other governments	116,170	99,057	215,227
Due from other funds	3,834,013	994,243	4,828,256
Inventory	59,644		59,644
Total Current Assets	<u>4,356,863</u>	<u>1,168,767</u>	<u>5,525,630</u>
Noncurrent Assets:			
Notes receivable		701,240	701,240
Non-depreciable capital assets	773,608	37,238	810,846
Depreciable capital assets, net	18,907,351	307,593	19,214,944
Total Noncurrent Assets	<u>19,680,959</u>	<u>1,046,071</u>	<u>20,727,030</u>
Total Assets	<u>\$ 24,037,822</u>	<u>\$ 2,214,838</u>	<u>\$ 26,252,660</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 10,605	\$ 1,167	\$ 11,772
Accrued expenses	84,054	2,623	86,677
Deferred revenue		3,425	3,425
Deposits	10,000		10,000
Due to other funds	17,051	84,990	102,041
Current portion of bonds payable	122,854		122,854
Current portion of notes payable		57,402	57,402
Current portion of estimated liability for landfill postclosure care costs		10,000	10,000
Total Current Liabilities	<u>244,564</u>	<u>159,607</u>	<u>404,171</u>
Noncurrent Liabilities:			
Bonds payable	4,702,289		4,702,289
Notes payable		411,619	411,619
Compensated absences payable	66,963	3,270	70,233
Other post-employment benefits payable	1,989		1,989
Estimated liability for landfill postclosure care costs		250,000	250,000
Total Noncurrent Liabilities	<u>4,771,241</u>	<u>664,889</u>	<u>5,436,130</u>
Total Liabilities	<u>5,015,805</u>	<u>824,496</u>	<u>5,840,301</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,855,816	344,831	15,200,647
Unrestricted	4,166,201	1,045,511	5,211,712
Total Net Assets	<u>19,022,017</u>	<u>1,390,342</u>	<u>20,412,359</u>
Total Liabilities and Net Assets	<u>\$ 24,037,822</u>	<u>\$ 2,214,838</u>	<u>\$ 26,252,660</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, 2009

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Operating revenues:			
Charges for services	\$ 1,557,967		\$ 1,557,967
Miscellaneous	150,313	\$ 171,597	321,910
Total operating revenues	<u>1,708,280</u>	<u>171,597</u>	<u>1,879,877</u>
Operating expenses:			
Personnel services	615,912	16,464	632,376
Repairs and maintenance	32,645	18,450	51,095
Administrative	43,801		43,801
Materials and supplies	207,697	5	207,702
Utilities	164,259	32,572	196,831
Depreciation	902,874	30,880	933,754
Total operating expenses	<u>1,967,188</u>	<u>98,371</u>	<u>2,065,559</u>
Operating income (loss)	<u>(258,908)</u>	<u>73,226</u>	<u>(185,682)</u>
Non-operating revenues (expenses):			
Gain on sale of assets		124,678	124,678
Interest revenue	96,697	10,819	107,516
Interest expense		(24,827)	(24,827)
Net non-operating revenues (expenses)	<u>96,697</u>	<u>110,670</u>	<u>207,367</u>
Income (loss) before capital contributions	(162,211)	183,896	21,685
Capital contributions	<u>79,884</u>		<u>79,884</u>
Change in net assets	(82,327)	183,896	101,569
Total net assets at beginning of year	<u>19,104,344</u>	<u>1,206,446</u>	<u>20,310,790</u>
Total net assets at end of year	<u>\$ 19,022,017</u>	<u>\$ 1,390,342</u>	<u>\$ 20,412,359</u>

See accompanying notes to the basic financial statements

EXHIBIT G
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2009

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 1,533,953	\$ 171,343	\$ 1,705,296
Cash paid to suppliers	(656,720)	(59,995)	(716,715)
Cash paid to employees	(413,926)	(14,919)	(428,845)
Net cash provided by operating activities	<u>463,307</u>	<u>96,429</u>	<u>559,736</u>
Cash flows from capital and related financing activities:			
Proceeds from note collections		71,619	71,619
Principal paid on bonds payable	(117,793)		(117,793)
Principal paid on notes payable		(54,608)	(54,608)
Interest paid on long-term debt		(24,827)	(24,827)
Capital contributions	79,884		79,884
Proceeds from sale of capital assets		326,080	326,080
Purchases of capital assets	(338,692)	(16,641)	(355,333)
Net cash provided (used) for capital and related financing activities	<u>(376,601)</u>	<u>301,623</u>	<u>(74,978)</u>
Cash flows from investing activities:			
Interest on investments	<u>96,697</u>	<u>10,819</u>	<u>107,516</u>
Net cash provided by investing activities	<u>96,697</u>	<u>10,819</u>	<u>107,516</u>
Net increase in cash and cash equivalents	183,403	408,871	592,274
Cash and cash equivalents at beginning of year	<u>3,633,559</u>	<u>500,382</u>	<u>4,133,941</u>
Cash and cash equivalents at end of year	<u>\$ 3,816,962</u>	<u>\$ 909,253</u>	<u>\$ 4,726,215</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (258,908)	\$ 73,226	\$ (185,682)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	902,874	30,880	933,754
Changes in assets and liabilities:			
Accounts receivable	(55,106)	2,620	(52,486)
Due from other governments	(17,050)	2,439	(14,611)
Inventory	(12,172)		(12,172)
Accounts payable	398	1,049	1,447
Accrued expenses	1,809	1,234	3,043
Deferred revenue	(107,171)	(5,313)	(112,484)
Deposits	5,000		5,000
Compensated absences	1,644	294	1,938
Other post-employment benefits	1,989		1,989
Estimated liability for landfill postclosure care costs		(10,000)	(10,000)
Net cash provided by operating activities	<u>\$ 463,307</u>	<u>\$ 96,429</u>	<u>\$ 559,736</u>
Supplemental disclosure of non-cash transactions:			
Cost basis of disposed capital assets	<u>\$ -</u>	<u>\$ 210,760</u>	<u>\$ 210,760</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, 2009

	Private- Purpose <u>Trusts</u>	Agency <u>Fund</u>
ASSETS		
Cash and cash equivalents	\$ 2,171	\$ 206,369
Investments	<u>128,292</u>	<u></u>
Total Assets	<u>\$ 130,463</u>	<u>\$ 206,369</u>
LIABILITIES		
Due to other funds	\$ 2,631	
Due to student groups	<u></u>	<u>\$ 206,369</u>
Total Liabilities	<u>2,631</u>	<u>\$ 206,369</u>
NET ASSETS		
Held in trust	<u>127,832</u>	
Total Net Assets	<u>127,832</u>	
Total Liabilities and Net Assets	<u>\$ 130,463</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, 2009

	Private- Purpose <u>Trusts</u>
ADDITIONS:	
Investment earnings:	
Investment income	\$ 5,128
Total Additions	<u>5,128</u>
DEDUCTIONS:	
Benefits	<u>1,629</u>
Total Deductions	<u>1,629</u>
Change in Net Assets	3,499
Net assets - beginning of year	<u>124,333</u>
Net assets - end of year	<u>\$ 127,832</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, 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

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

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

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, 2009

1. Government-Wide Financial Statements:

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

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, 2009

2. Proprietary Funds:

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

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

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

3. Fiduciary Funds:

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

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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

Basis of Accounting

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

In the government-wide financial statements and proprietary fund statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. 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 (except interest on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

2. Deferred Revenue:

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

3. Expenses/Expenditures:

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

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

Budgetary Data

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

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the fiscal year ended June 30, 2009, the City applied \$725,000 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	\$ 3,834,013	\$ (17,051)	\$ 3,816,962
Nonmajor funds	994,243	(84,990)	909,253
	<u>\$ 4,828,256</u>	<u>\$ (102,041)</u>	<u>\$ 4,726,215</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

Investments

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

Taxes Receivable

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2009 are recorded as receivables net of reserves for estimated uncollectibles of \$386,061.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2009 are recorded as prepaid items.

Inventory

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

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

Restricted Cash

Restricted cash consists of deposits held in escrow accounts.

Capital Assets

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

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

Net Assets

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

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

Fund Balance Reserves

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

Interfund Activity

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

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

Operating Revenues and Expenses

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

Estimates

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

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$468,919,442 as of April 1, 2008) and are due in two installments on July 1, 2008 and December 1, 2008. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end) in the governmental fund statements only. Full accrual is reported in the government wide financial statements.

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

In accordance with State law, the City collects taxes for Coos County, an independent governmental unit, which is remitted to the County as required by law. Taxes appropriated to Coos County for the year ended June 30, 2009 were \$1,584,264. The City bears responsibility for uncollected taxes.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

NOTE 3—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At June 30, 2009 the Airport Authority Fund, a nonmajor governmental fund, had an unreserved, deficit fund balance of (\$109,833). The City's management intends to rectify the above condition by transferring funds from the General Fund to offset the deficit position.

NOTE 4—RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2009, 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.

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, 2009.

Property and Liability Insurance

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

Worker's Compensation

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

NOTE 5—DEPOSITS AND INVESTMENTS

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

Deposits and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

Statement of net assets:	
Cash and cash equivalents	\$ 10,488,572
Investments	2,809,079
Restricted cash	9,198
Statement of fiduciary net assets:	
Cash and cash equivalents	208,540
Investments	128,292
Total deposits and investments	<u>\$ 13,643,681</u>

Deposits and investments as of June 30, 2009 consist of the following:

Cash on hand	\$ 2,410
Deposits with financial institutions	13,392,840
Investments	248,431
Total deposits and investments	<u>\$ 13,643,681</u>

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

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. None of the investments held by the City as of June 30, 2009 are rated.

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 has an investment policy for assurance against custodial credit risk which requires collateralization for all City deposits in excess of the Federal Deposit Insurance limits.

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.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

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

NOTE 6—DUE FROM OTHER GOVERNMENTS

Receivables from other governments at June 30, 2009 consist of various federal and state fundings and reimbursements from other local governmental units. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables is as follows:

Medicare Part D subsidy reimbursement	\$	41,751
Public safety grants		58,204
Environmental Protection Agency Grant		7,997
State of NH Medicaid		7,109
Tuition - Various School Districts		175,687
Berlin Water Works reimbursement		23,507
Transportation grant		67,027
Neighborhood Stabilization Grant		661
Justice assistance grant		9,860
School lunch program		25,532
Airport improvement program grants		17,311
State of NH education grants		397,282
Cates Hill Landfill - Various Participating Towns		99,057
Federal Bureau of Prisons		116,170
	\$	<u>1,047,155</u>

NOTE 7—CAPITAL ASSETS

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

	Balance 07/01/08	Additions	Reductions	Balance 06/30/09
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 694,356	\$ 10,000		\$ 704,356
Construction in progress	66,052	565,454		631,506
Total capital assets not being depreciated	<u>760,408</u>	<u>575,454</u>	<u>\$ -</u>	<u>1,335,862</u>
Other capital assets:				
Infrastructure	8,190,700			8,190,700
Land improvements	5,172,964			5,172,964
Buildings and improvements	9,607,303	101,586		9,708,889
Vehicles and equipment	7,632,389	434,416	(183,112)	7,883,693
Total other capital assets at historical cost	<u>30,603,356</u>	<u>536,002</u>	<u>(183,112)</u>	<u>30,956,246</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

Less accumulated depreciation for:

Infrastructure	(3,592,907)	(269,580)		(3,862,487)
Land improvements	(2,056,966)	(177,203)		(2,234,169)
Buildings and improvements	(4,105,405)	(187,151)		(4,292,556)
Vehicles and equipment	(4,212,146)	(394,228)	162,762	(4,443,612)
Total accumulated depreciation	(13,967,424)	(1,028,162)	162,762	(14,832,824)
Total other capital assets, net	16,635,932	(492,160)	(20,350)	16,123,422
Total capital assets, net	<u>\$ 17,396,340</u>	<u>\$ 83,294</u>	<u>\$ (20,350)</u>	<u>\$ 17,459,284</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 17,720
Public safety	128,913
Airport/Aviation center	170,113
Highways and streets	408,149
Health and welfare	4,098
Sanitation	9,850
Culture and recreation	57,653
Education	229,093
Food service	2,573
Total governmental activities depreciation expense	<u>\$ 1,028,162</u>

The balance of the assets acquired through capital leases as of June 30, 2009 is as follows:

Buildings and improvements	\$ 467,847
Vehicles and equipment	1,119,372
Less accumulated depreciation for:	
Buildings and improvements	(218,328)
Vehicles and equipment	(448,213)
	<u>\$ 920,678</u>

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

	<u>Balance</u> <u>07/01/08</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/09</u>
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 222,238	\$ 16,641	\$ (178,978)	\$ 59,901
Construction in progress	644,593	321,642	(215,290)	750,945
Total capital assets not being depreciated	<u>866,831</u>	<u>338,283</u>	<u>(394,268)</u>	<u>810,846</u>
Other capital assets:				
Buildings and improvements	38,946,656	232,340	(31,782)	39,147,214
Vehicles and equipment	843,905			843,905
Total other capital assets at historical cost	<u>39,790,561</u>	<u>232,340</u>	<u>(31,782)</u>	<u>39,991,119</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

Less accumulated depreciation for:

Buildings and improvements	(19,110,559)	(903,779)	9,358	(20,004,980)
Vehicles and equipment	(741,220)	(29,975)		(771,195)
Total accumulated depreciation	(19,851,779)	(933,754)	9,358	(20,776,175)
Total other capital assets, net	19,938,782	(701,414)	(22,424)	19,214,944
Total capital assets, net	<u>\$ 20,805,613</u>	<u>\$ (363,131)</u>	<u>\$ (416,692)</u>	<u>\$ 20,025,790</u>

Depreciation expense was charged to proprietary funds as follows:

Sewer Fund	\$ 902,874
Nonmajor Funds	30,880
Total business-type activities depreciation expense	<u>\$ 933,754</u>

NOTE 8—DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

Covered public safety employees are required to contribute 9.3% of their covered salary, whereas teachers and general employees are required to contribute 5.0% of their covered salary. The City is required to contribute at an actuarially determined rate. The City's contribution rates for the covered payroll of police officers, fire employees, teachers, and general employees were 11.84%, 15.92%, 5.80%, and 8.74%, respectively. The City contributes 65% of the employer cost for police officers, fire employees, and teachers, and the State contributes the remaining 35% of the employer cost. The City contributes 100% of the employer cost for general employees of the City. In accordance with accounting principles generally accepted in the United States of America (GASB #24), on-behalf fringe benefits contributed by the State of New Hampshire of \$417,438 have been reported as a revenue and expenditure of the General Fund in these financial statements.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The City's contributions to the NHRS for the years ending June 30, 2009, 2008, and 2007 were \$1,130,821, \$1,121,754, and \$807,619, respectively, equal to the required contributions for each year.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

NOTE 9—OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the City provides healthcare and life insurance benefits to its retirees and their spouses and dependents. The amount the City pays for medical and life insurance premiums for retirees and their spouses varies by employee group. Most regular active employees who retire directly from the City and meet the eligibility criteria may participate. As of July 1, 2007, the actuarial valuation date, approximately 199 retirees and 377 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

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

Annual OPEB Costs

The City's fiscal 2009 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, 2009 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, 2007 is as follows:

Annual Required Contribution (ARC)	\$ 443,000
Interest on net OPEB obligation	-
Annual OPEB cost	443,000
Contributions made	(338,000)
Increase in net OPEB obligation	105,000
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u>\$ 105,000</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for year ended June 30, 2009 are as follows:

Year	Annual	Percentage of	Net OPEB
<u>Ended</u>	<u>OPEB Cost</u>	<u>OPEB Cost</u>	<u>Obligation</u>
		<u>Contributed</u>	
6/30/2009	\$443,000	76%	\$105,000

The City's net OPEB obligation as of June 30, 2009 is recognized as a liability in these financial statements.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

Funded Status and Funding Progress for OPEB

The funded status of the plan as of July 1, 2007, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 5,686,000
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 5,686,000</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 13,652,000
UAAL as a percentage of covered payroll	42%

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.

In the July 1, 2007 actuarial valuation the Entry Age Normal Cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 5.0% investment rate of return. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level percentage of payroll for a period of thirty years on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 5.0% 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, 2009 are as follows:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

	Balance 07/01/08	Additions	Reductions	Balance 06/30/09	Due Within One Year
Governmental activities:					
Bonds payable	\$ 3,532,867		\$ (968,569)	\$ 2,564,298	\$ 967,377
Capital leases payable	2,128,739		(267,141)	1,861,598	255,203
Compensated absences	1,815,522	\$ 24,262	(45,329)	1,794,455	79,263
Other post-employment benefits	-	103,011		103,011	-
Estimated liability for landfill postclosure care costs	199,928		(10,523)	189,405	10,522
Total governmental activities	<u>\$ 7,677,056</u>	<u>\$ 127,273</u>	<u>\$ (1,291,562)</u>	<u>\$ 6,512,767</u>	<u>\$ 1,312,365</u>
Business-type activities:					
Bonds payable	\$ 4,942,936		\$ (117,793)	\$ 4,825,143	\$ 122,854
Notes payable	523,629		(54,608)	469,021	57,402
Compensated absences	68,295	\$ 1,938		70,233	-
Other post-employment benefits	-	1,989		1,989	-
Estimated liability for landfill postclosure care costs	270,000		(10,000)	260,000	10,000
Total business-type activities	<u>\$ 5,804,860</u>	<u>\$ 3,927</u>	<u>\$ (182,401)</u>	<u>\$ 5,626,386</u>	<u>\$ 190,256</u>
Component unit:					
Bonds payable	\$ 11,745,744		\$(1,127,298)	\$ 10,618,446	\$ 1,133,939
Total component unit	<u>\$ 11,745,744</u>	<u>\$ -</u>	<u>\$(1,127,298)</u>	<u>\$ 10,618,446</u>	<u>\$ 1,133,939</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. 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 and other post-employment benefits will be paid from the fund where the employee's salary is paid.

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, 2009 are comprised of the following individual issues:

\$5,100,000 Deficit Funding Bonds due in annual installments of \$510,000 through July 2009; interest at 4.5% - 5.25%	\$ 510,000
\$1,134,062 Landfill Closure Bonds due in annual installments of \$56,703 through November 2016; interest at 4.48%	453,625

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

\$4,500,000 State Guaranteed School Improvement Bonds due in annual installments of \$300,000 through January 2013; interest at 4.15% - 4.9%	1,200,000
\$1,500,000 School Improvement Bonds due in annual installments of \$100,000 through January 2013; interest at 4.3% - 4.95%	400,000
\$9,063 Airport Authority Equipment Bond due in annual installments of \$2,145 through June 2009 and \$508 through September 2009; interest at 6.75%	673
	<u>\$ 2,564,298</u>

Debt service requirements to retire general obligation bonds for governmental activities at June 30, 2009 are as follows:

Year Ending June 30,	Principal	Interest	Totals
2010	\$ 967,377	\$ 108,420	\$ 1,075,797
2011	456,703	75,882	532,585
2012	456,703	54,142	510,845
2013	456,703	32,352	489,055
2014	56,703	10,161	66,864
2015-2017	170,109	15,242	185,351
	<u>\$ 2,564,298</u>	<u>\$ 296,199</u>	<u>\$ 2,860,497</u>

The State of New Hampshire annually reimburses the City for its share of landfill related debt service payments. For the year ended June 30, 2009, the landfill closure reimbursement was \$11,693.

As included on the Statement of Activities (Exhibit B), interest expense for the year ended June 30, 2009 was \$362,951 on general obligation debt for governmental activities.

Business-type Activities:

Bonds payable at June 30, 2009 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; interest at 4.25%	<u>\$ 4,825,143</u>
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Debt service requirements to retire general obligation bonds for business-type activities at June 30, 2009 are as follows:

Year Ending June 30,	Principal	Interest	Totals
2010	\$ 122,854	\$ 203,846	\$ 326,700
2011	128,133	198,567	326,700
2012	133,638	193,062	326,700

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

2013	139,380	187,320	326,700
2014	145,369	181,331	326,700
2015-2019	826,076	807,424	1,633,500
2020-2024	1,019,462	614,038	1,633,500
2025-2029	1,258,121	375,379	1,633,500
2030-2033	1,052,110	91,340	1,143,450
	<u>\$ 4,825,143</u>	<u>\$ 2,852,307</u>	<u>\$ 7,677,450</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, 2009, the sewer related reimbursement was \$62,834.

Interest incurred for the year ended June 30, 2009 from general obligation debt of the business-type activities in the amount of \$208,184, was capitalized during the construction phase of capital assets.

Component Unit:

Bonds payable at June 30, 2009 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%	\$ 750,000
Bond payable due in annual installments of \$150,000 through August 2014; interest at 6.125% - 7.0%	900,000
Bond payable due in annual installments of \$305,000 through August 2015; interest at 5.25% - 5.625%	2,135,000
State revolving loan payable due in variable annual installments of \$110,477 to \$14,462 through December 2020; interest at 3.8%	902,684
State revolving loan payable due in variable annual installments of \$142,470 to \$18,479 through November 2020; interest at 3.8%	1,163,981
State revolving loan payable due in variable annual installments of \$56,016 to \$6,934 through December 2021; interest at 3.704%	503,331
State revolving loan payable due in variable annual installments of \$137,384 to \$17,007 through December 2021; interest at 3.704%	1,234,463
State revolving loan payable due in variable annual installments of \$103,859 to \$53,742 through May 2023; interest at 3.728%	1,508,682
State revolving loan payable due in variable annual installments of \$132,242 to \$100,537 through September 2024; interest at 3.688%	<u>1,520,305</u>
	<u>\$ 10,618,446</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

Debt service requirements to retire general obligation bonds for the component unit at June 30, 2009 are as follows:

Year Ending June 30,	Principal	Interest	Totals
2010	\$ 1,133,939	\$ 456,196	\$ 1,590,135
2011	1,139,901	401,952	1,541,853
2012	1,145,136	347,382	1,492,518
2013	1,149,414	292,511	1,441,925
2014	1,152,432	237,430	1,389,862
2015-2019	3,452,640	613,005	4,065,645
2020-2024	1,403,442	132,118	1,535,560
2025-2029	41,542	1,532	43,074
	<u>\$ 10,618,446</u>	<u>\$ 2,482,126</u>	<u>\$ 13,100,572</u>

Interest expense for the year ended June 30, 2009 was \$411,025 on general obligation debt for the Berlin Water Works.

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, 2009, the reimbursement was \$838,860, which consists of \$605,000 in principal and \$233,860 in interest.

Notes Payable

Notes payable for business-type activities at June 30, 2009 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 June 2016; interest at 5.0%	<u>\$ 469,021</u>
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Debt service requirements to retire notes payable for business-type activities at June 30, 2009 are as follows:

Year Ending June 30,	Principal	Interest	Totals
2010	\$ 57,402	\$ 22,147	\$ 79,549
2011	60,338	19,211	79,549
2012	63,426	16,124	79,550
2013	66,670	12,879	79,549
2014	70,081	9,468	79,549
2015-2016	151,104	7,994	159,098
	<u>\$ 469,021</u>	<u>\$ 87,823</u>	<u>\$ 556,844</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

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, 2009 was \$24,827 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, 2009:

Equipment, due in annual installments of \$69,673, including interest at 4.09%, through April 2013	\$ 258,861
Equipment, due in annual installments of \$49,515, including interest at 4.65%, through September 2012	177,014
Equipment, due in annual installments of \$214,347, including interest at 4.295%, through July 2016	1,425,723
	<u>\$ 1,861,598</u>

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2009 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2010	\$ 255,203	\$ 78,332	\$ 333,535
2011	266,233	67,301	333,534
2012	277,740	55,794	333,534
2013	289,746	41,849	331,595
2014	181,160	33,187	214,347
2015-2017	591,516	51,523	643,039
	<u>\$ 1,861,598</u>	<u>\$ 327,986</u>	<u>\$ 2,189,584</u>

Authorized and Unissued Debt

The following debt was authorized and unissued as of June 30, 2009:

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

Subsequent to year end, the City Council authorized the issuance of general obligation bonds in an amount not to exceed \$5,000,000 (see Note 17 below).

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

NOTE 11—LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the City place final covers on its two landfills when closed and perform certain maintenance and monitoring functions at the landfill sites for thirty years after closure. An estimated liability has been recorded based on the future post-closure care costs that will be incurred. The estimated liability for landfill post-closure care costs has a balance of \$449,405 as of June 30, 2009. The estimated liability for the post-closure care costs of the East Milan landfill (\$189,405) and the Cates Hill landfill (\$260,000) has been reported as a liability of the Governmental Funds and the Cates Hill Landfill Proprietary Fund, respectively. The East Milan landfill was capped during fiscal year 1997, and the Cates Hill landfill was capped during fiscal year 2005. The estimated total current cost of the landfill post-closure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfills were acquired as of June 30, 2009. 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 closure and post-closure care costs for the year ended June 30, 2009:

	Governmental activities	Business-type activities	Totals
Balance - July 1, 2008	\$ 199,928	\$ 270,000	\$ 469,928
Current year expenditures	(8,513)	(7,036)	(15,549)
Net change in estimated liability for postclosure care costs	(2,010)	(2,964)	(4,974)
Balance - June 30, 2009	<u>\$ 189,405</u>	<u>\$ 260,000</u>	<u>\$ 449,405</u>

NOTE 12—INTERFUND BALANCES AND TRANSFERS

The City has combined the cash resources of its governmental, proprietary, and fiduciary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance. Interfund balances at June 30, 2009 are as follows:

Fund	Due from other funds	Due to other funds
Major Funds:		
General Fund	\$ 525,489	\$ 4,999,873
Sewer Fund	3,834,013	17,051

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

Nonmajor Funds:		
Governmental Funds	205,385	454,585
Proprietary Funds	994,243	84,990
Fiduciary Funds:		
Private-Purpose Trusts		2,631
	<u>\$ 5,559,130</u>	<u>\$ 5,559,130</u>

During the year, several interfund transactions occurred between funds. The transfers were made in accordance with budgetary authorizations. The Permanent Funds, a Nonmajor Governmental Fund, made a transfer of \$7,015 for the reimbursement of lot care expenses paid by the General Fund during the year. The General Fund made a transfer of \$8,154 to the Airport Authority Fund, a Nonmajor Governmental Fund, to help offset the deficit fund balance position. Interfund transfers for the year ended June 30, 2009 are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General Fund	\$ 7,015	\$ 8,154
Nonmajor Governmental Funds	8,154	7,015
	<u>\$ 15,169</u>	<u>\$ 15,169</u>

NOTE 13—PERMANENT FUNDS

Cemetery care funds are accounted for as permanent funds in these financials. The principal amounts of all cemetery care funds are restricted in that only income earned may be expended. Principal and income balances at June 30, 2009 are as follows:

	<u>Principal</u>	<u>Income</u>	<u>Total</u>
Cemetery Funds	<u>\$ 146,578</u>	<u>\$ 220,288</u>	<u>\$ 366,866</u>

NOTE 14—RESTRICTED NET ASSETS

Net assets are restricted on the Exhibit A – Statement of Net Assets for ‘Endowments’ in the amount of \$146,578.

NOTE 15—TOP TAXPAYERS

The following are the five major property owners as they relate to the City’s total assessed property valuation of \$468,919,442 (as of April 1, 2008):

<u>Taxpayer</u>	<u>Property Valuation</u>	<u>Percentage of Total Valuation</u>
Public Service of New Hampshire	\$ 52,697,100	11.24%
Great Lakes Hydro America, LLC	35,983,900	7.67%
Portland Natural Gas	12,273,600	2.62%
PJPD Holdings, LLC	3,352,800	0.72%
Individual taxpayer	3,100,500	0.66%

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2009

NOTE 16—COMMITMENTS AND CONTINGENCIES

Ambulance Contract

During 2007, the City entered into a long-term agreement with an independent company to provide emergency ambulance services. The agreement shall be in effect from July 1, 2007 through June 30, 2010, with an automatic three year renewal until June 30, 2013. Terms of the contract include minimum payments, which are payable in monthly installments of \$20,000. For the year ended June 30, 2009, the City expended \$238,500 under the terms of the emergency ambulance service agreements.

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. As of June 30, 2009, the City has yet to commence work or incur any expenses for the sewer line connection.

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.

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.

NOTE 17—SUBSEQUENT EVENT

Debt Authorization

During November 2009, the City Council authorized the issuance of general obligation bonds in an amount not to exceed \$5,000,000 to assist in the funding of various capital improvement projects and acquisitions.

SCHEDULE 1
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues:				
Taxes	\$ 13,746,651	\$ 13,746,651	\$ 14,466,045	\$ 719,394
Licenses and permits	1,251,800	1,251,800	1,218,047	(33,753)
Intergovernmental	13,195,626	13,222,936	12,796,340	(426,596)
Charges for services	1,918,503	1,967,231	2,311,021	343,790
Interest income	160,000	160,000	148,021	(11,979)
Miscellaneous	205,900	218,599	230,459	11,860
Total Revenues	<u>30,478,480</u>	<u>30,567,217</u>	<u>31,169,933</u>	<u>602,716</u>
Expenditures:				
Current:				
General government	1,805,392	1,816,146	1,857,104	(40,958)
Public safety	4,694,701	4,739,437	4,586,712	152,725
Highways and streets	1,944,469	1,944,469	2,031,374	(86,905)
Health and welfare	712,192	712,192	653,101	59,091
Sanitation	997,053	997,053	895,630	101,423
Culture and recreation	584,903	584,903	559,810	25,093
Education	16,000,132	16,004,124	15,720,256	283,868
Capital outlay	1,762,523	1,358,657	1,180,913	177,744
Debt service:				
Principal retirement	1,571,703	1,571,703	1,571,703	-
Interest and fiscal charges	391,748	391,748	391,748	-
Lease payments	333,533	333,533	333,535	(2)
Intergovernmental	1,584,264	1,584,264	1,584,264	-
Total Expenditures	<u>32,382,613</u>	<u>32,038,229</u>	<u>31,366,150</u>	<u>672,079</u>
Excess of revenues over				
(under) expenditures	<u>(1,904,133)</u>	<u>(1,471,012)</u>	<u>(196,217)</u>	<u>1,274,795</u>
Other financing sources (uses):				
Transfers in	10,353	10,353	7,015	(3,338)
Transfers out	<u>(8,154)</u>	<u>(8,154)</u>	<u>(8,154)</u>	<u>-</u>
Total other financing sources (uses)	<u>2,199</u>	<u>2,199</u>	<u>(1,139)</u>	<u>(3,338)</u>
Net change in fund balances	(1,901,934)	(1,468,813)	(197,356)	1,271,457
Fund balances at beginning of year				
- Budgetary Basis	<u>3,974,996</u>	<u>3,974,996</u>	<u>3,974,996</u>	<u>-</u>
Fund balances at end of year				
- Budgetary Basis	<u>\$ 2,073,062</u>	<u>\$ 2,506,183</u>	<u>\$ 3,777,640</u>	<u>\$ 1,271,457</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, 2009

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</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%

See accompanying notes to the required supplementary information

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2009

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 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 and on-behalf payments for fringe benefits.

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 31,802,756	\$ 31,620,735
Difference in property taxes meeting susceptible to accrual criteria	(208,370)	
Encumbrances, June 30, 2009		242,275
Encumbrances, June 30, 2008		(71,268)
On-behalf fringe benefits	(417,438)	(417,438)
Per Schedule 1	<u>\$ 31,176,948</u>	<u>\$ 31,374,304</u>

NOTE 2—BUDGETARY FUND BALANCES

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

Reserved for tax deeded property	\$ 307,015
Reserved for prepaid expenses	53,320
Reserved for special purposes	335
Unreserved:	
Designated for continuing appropriations	607,563
Undesignated	<u>2,809,407</u>
	<u>\$ 3,777,640</u>

NOTE 3—RESERVED FOR SPECIAL PURPOSES

The balance reserved for special purposes at June 30, 2009 is as follows:

Unity Street Park	<u>\$ 335</u>
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CITY OF BERLIN, NEW HAMPSHIRE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

June 30, 2009

NOTE 4—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 most recent actuarial valuation report. 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, 2009

<u>Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
DEPARTMENT OF AGRICULTURE		
Pass Through Payments from New Hampshire Department of Education		
School Breakfast Program	10.553	\$ 75,261
National School Lunch Program	10.555	300,431
Special Milk Program for Children	10.556	2,060
Fresh Fruit and Vegetable Program	10.582	33,568
		<u>411,320</u>
Received directly from U.S. Treasury Department Community Facilities Loans and Grants #RD-3570-3	10.780	27,310
Total Department of Agriculture		<u>438,630</u>
DEPARTMENT OF COMMERCE		
Received directly from U.S. Treasury Department Economic Development - Technical Assistance #95059	11.303	50,000
Total Department of Commerce		<u>50,000</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Pass Through Payments from Community Development Finance Authority Community Development Block Grants - State's Program #06-053-CDHS	14.228	241,462
Neighborhood Stabilization Program	14.256	661
Total Department of Housing and Urban Development		<u>242,123</u>
DEPARTMENT OF JUSTICE		
Received directly from U.S. Treasury Department Enforcing Underage Drinking Laws Programs #2008CD25	16.727	11,000
Edward Byrne Memorial Justice Assistance Grant Program #20080245	16.738	39,771
Total Department of Justice		<u>50,771</u>
DEPARTMENT OF TRANSPORTATION		
Pass Through Payments from New Hampshire Department of Transportation Airport Improvement Program #SBG-01-01-2008 #SBG-01-02-2009	20.106	380,942 12,887 <u>393,829</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, 2009

<u>Federal Granting Agency/Recipient</u> <u>State Agency/Grant Program/State</u> <u>Grant Number</u>	<u>Federal</u> <u>Catalogue</u> <u>Number</u>	<u>Expenditures</u>
DEPARTMENT OF TRANSPORTATION (CONTINUED)		
Highway Planning and Construction #X-A000087	20.205	<u>5,875</u>
State and Community Highway Safety #314-08B-004	20.600	3,773
#315-08B-040		3,566
#315-08B-041		2,985
#315-09B-030		<u>4,260</u>
		<u>14,584</u>
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	
#308-08B-053		1,700
#308-08B-085		906
#308-08B-163		1,972
#308-09B-036		435
#308-09B-114		<u>457</u>
		<u>5,470</u>
Safety Belt Performance Grants #304-09B-032	20.609	<u>1,721</u>
Total Department of Transportation		<u>421,479</u>
ENVIRONMENTAL PROTECTION AGENCY		
Received directly from U.S. Treasury Department Brownfields Assessment and Cleanup Cooperative Agreements #BF-97187001	66.818	<u>7,997</u>
Total Environmental Protection Agency		<u>7,997</u>
DEPARTMENT OF EDUCATION		
Pass Through Payments from New Hampshire Department of Education Title I Grants to Local Educational Agencies	84.010	
#80012		33,150
#90206		3,176
#90207		8,221
#90208		3,212
#90209		18,839
#90012		<u>684,945</u>
		<u>751,543</u>
Special Education - Grants to States #92586	84.027	354,673
#92641		<u>7,265</u>
		<u>361,938</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, 2009

<u>Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
DEPARTMENT OF EDUCATION (CONTINUED)		
Vocational Education - Basic Grants to States	84.048A	
#85015		6,255
#95011		29,504
		<u>35,759</u>
Special Education - Preschool Grants	84.173	
#92775		<u>17,933</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	
#96512		<u>18,466</u>
21st Century Community Learning Centers	84.287C	
#96282		<u>236,385</u>
Education Technology - State Grants	84.318X	
#84591		<u>95,597</u>
Reading First - State Grants	84.357	
#80757		31,734
#90750		174,896
		<u>206,630</u>
Rural Education	84.358	
#86252		47,163
#96242		37,780
		<u>84,943</u>
Mathematics and Science Partnerships	84.366	
#65195		44,619
#85191		35,127
#95193		1,000
		<u>80,746</u>
Improving Teacher Quality - State Grants	84.367A	
#84797		38,165
#94798		93,278
		<u>131,443</u>
Statewide Data Systems	84.372	
#98111		<u>11,752</u>
Total Department of Education		<u>2,033,135</u>
Total Expenditures of Federal Awards		<u>\$ 3,244,135</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, 2009

NOTE 1—GENERAL

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

NOTE 2—BASIS OF ACCOUNTING

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

NOTE 3—NON-CASH TRANSACTIONS

The City participates in the USDA Food Distribution Program which is a non-cash program. On the Schedule of Expenditures of Federal Awards, \$39,162 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 General Fund and Nonmajor Special Revenue Funds as follows:

General Fund	\$ 80,953
Nonmajor Special Revenue Funds:	
Federal Projects Fund	2,083,135
Food Service Fund	372,158
Airport Authority Fund	393,829
Grants Fund	32,775
CDBG Fund	241,462
Neighborhood Stabilization Grant Fund	661
	<u>\$ 3,204,973</u>

**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, 2009, and have issued our report thereon dated March 5, 2010. 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

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 opinion 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in item #09-1 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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 that are required to be reported under *Government Auditing Standards*.

The City of Berlin, New Hampshire's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Berlin, New Hampshire's response and, accordingly, we express no opinion on it.

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

Vachon Clark & Company PC

March 5, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO 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 compliance of the City of Berlin, New Hampshire with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Berlin, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Berlin, New Hampshire's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

Vaughn Clukey & Company PC

March 5, 2010

City of Berlin, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

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? X yes _____ no

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? _____ yes X no

Type of auditor's report issued on compliance
for major programs: 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>
14.228	Community Development Block Grants
20.106	Airport Improvement Program
84.010	Title I - Grants to Local Educational Agencies
84.027 & 84.173	Special Education Cluster – Grants to States
84.287	21 st Century Community Learning Centers

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

The following finding relating to the financial statements is required to be reported by GAGAS.

Finding #09-1 – Cash Reconciliation

Observation: During our audit, we noted that the cash balance in the general ledger did not reflect the balance at year end per the bank reconciliation. The General Fund cash balance in the general ledger differed significantly from the bank reconciliation's figure at fiscal year end.

We further noted that the finance personnel attempted to identify differences between the general ledger balance and the bank reconciliation's balance. However, not all discrepancies were detected and several identified differences were not adjusted in the general ledger.

Implication: Internal controls over cash are weakened when the reconciliation process is not completed. Although a bank reconciliation was prepared, it was not reconciled to the balance carried in the City's general ledger. Errors or mispostings can remain undetected if the reconciliation process is not fully completed through the general ledger balance. The reconciliation process is an integral part of sound internal control policies and procedures.

Recommendation: We recommend that the City finance personnel reconcile the general ledger accounts on a monthly basis to detect any errors or omissions and to maintain control over the recorded account balances. The cash balances should be reconciled to the bank reconciliation figures. Any discrepancies should be identified and properly adjusted. This will ensure an accurate financial position of the City will be available upon which management and City Council may make important business decisions.

Response: The major portion of the cash reconciliation difference of \$569,631, was a result of school bond payment checks that were processed and not posted to the school's financial database. In past years for reasons never understood, the City has entered the school bond payments by journal entries. The effect is that the bond payment does not appear as an expense in the school's financial database as it should.

The school bond payment amount is included in the school tax rate calculation. Therefore, it seemed appropriate to show the expense in the school's books. It also seemed appropriate to show the actual payment flow. First, the journal entry to reflect the wire transfer from our bank to the NHMBB. Second, the entry in the school database to reflect the school's expense; and third, the entry reimbursing the City for the bond wire transfer. This is not an unusual process as the City bills various departments including the school department monthly for expenditures such as heating fuel and gasoline that the City has paid up front and then is reimbursed for by the various departments.

In fiscal year 2009, the City did the wire transfers of \$495,500 for the school's bond payments and unlike past years, billed the school for reimbursement of the payments. The school processed the check, but still did not post the expense to its financial database as was expected. The check cleared the bank. However, as stated previously, the school did not include the amount of the check in its books. This discrepancy was identified by the City and recorded in the bank reconciliation summary when it occurred. The City thought the auditors would make the entry to the school's books. However, they did not, and instead, made a journal entry to correct the problem in the City's books. This made the books

look satisfactory, but did not solve the problem of a significant school expense never properly being shown in the school's books.

The City believes the issue has been corrected for fiscal year 2010. The School Department has been reminded that this entry needs to be done and has created expense accounts in their database to show the school bond expenditures. This major portion of the cash discrepancy was never a mystery to anyone. It was simply a disagreement or misunderstanding on how to deal with it.

The remainder of the cash discrepancy of \$67,109 on the other hand, was a mystery to the City because we could not account for it. For this reason, the City hired an independent professional to decipher what had occurred, which they were able to do. In the past the City received a file interface from the School Department which summarized school expenses by account number. This made it difficult to get a listing of the school's outstanding checks individually which led to one large inaccurate posting. The City now posts each school check individually by date, vendor name and amount into its bank reconciliation system, which provides a clear list of the school's individual outstanding checks.

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, 2009

	Special Revenue <u>Funds</u>	Permanent <u>Funds</u>	Combining <u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 2,070	\$ 1,156	\$ 3,226
Investments		365,710	365,710
Accounts receivable	762		762
Due from other governments	449,580		449,580
Due from other funds	205,385		205,385
Prepaid expenses	15,335		15,335
Inventory	9,732		9,732
Total Assets	<u>\$ 682,864</u>	<u>\$ 366,866</u>	<u>\$ 1,049,730</u>
LIABILITIES			
Accounts payable	\$ 32,368		\$ 32,368
Accrued expenses	12,404		12,404
Deferred revenue	149,845		149,845
Due to other funds	454,585		454,585
Total Liabilities	<u>649,202</u>	<u>\$ -</u>	<u>649,202</u>
FUND BALANCES			
Reserved for endowments		146,578	146,578
Reserved for prepaid expenses	15,335		15,335
Unreserved, reported in:			
Special revenue funds	18,327		18,327
Permanent funds		220,288	220,288
Total Fund Balances	<u>33,662</u>	<u>366,866</u>	<u>400,528</u>
Total Liabilities and Fund Balances	<u>\$ 682,864</u>	<u>\$ 366,866</u>	<u>\$ 1,049,730</u>

SCHEDULE A-1
CITY OF BERLIN, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Special Revenue Funds
June 30, 2009

	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		\$ 24	\$ 526	\$ 2,070	\$ 30	\$ 170			\$ 12	\$ 2,070
Accounts receivable		\$ 25,532	17,311			21,098		\$ 661		762
Due from other governments	\$ 384,978	96,485			4,774	33,768	\$ 46,616		23,742	449,580
Due from other funds			15,335							205,385
Prepaid expenses										15,335
Inventory		9,732								9,732
Total Assets	<u>\$ 384,978</u>	<u>\$ 131,773</u>	<u>\$ 33,172</u>	<u>\$ 2,070</u>	<u>\$ 4,804</u>	<u>\$ 55,036</u>	<u>\$ 46,616</u>	<u>\$ 661</u>	<u>\$ 23,754</u>	<u>\$ 682,864</u>
LIABILITIES										
Accounts payable	\$ 11,992		\$ 13,851		\$ 1,670	\$ 827	\$ 4,530	\$ 325	\$ 100	\$ 32,368
Accrued expenses	2,998	\$ 3,717	4,762							12,404
Deferred revenue	43,487	14,589	5,652			44,031	42,086			149,845
Due to other funds	325,331		118,740			10,178		336		454,585
Total Liabilities	<u>383,808</u>	<u>18,306</u>	<u>143,005</u>	<u>\$ -</u>	<u>1,670</u>	<u>55,036</u>	<u>46,616</u>	<u>661</u>	<u>100</u>	<u>649,202</u>
FUND BALANCES										
Reserved for prepaid expenses			15,335							15,335
Unreserved (deficit), reported in:										
Special revenue funds	1,170	113,467	(125,168)	2,070	3,134				23,654	18,327
Total Fund Balances	<u>1,170</u>	<u>113,467</u>	<u>(109,833)</u>	<u>2,070</u>	<u>3,134</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,654</u>	<u>33,662</u>
Total Liabilities and Fund Balances	<u>\$ 384,978</u>	<u>\$ 131,773</u>	<u>\$ 33,172</u>	<u>\$ 2,070</u>	<u>\$ 4,804</u>	<u>\$ 55,036</u>	<u>\$ 46,616</u>	<u>\$ 661</u>	<u>\$ 23,754</u>	<u>\$ 682,864</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, 2009

	Special Revenue <u>Funds</u>	Permanent <u>Funds</u>	Combining <u>Totals</u>
Revenues:			
Intergovernmental	\$ 3,338,919		\$ 3,338,919
Charges for services	492,048		492,048
Interest income	2	\$ 6,241	6,243
Miscellaneous	108,434	525	108,959
Total Revenues	<u>3,939,403</u>	<u>6,766</u>	<u>3,946,169</u>
Expenditures:			
Current operations:			
General government	60,943		60,943
Public safety	49,006		49,006
Airport/Aviation center	222,630		222,630
Health and welfare	32		32
Sanitation	18,354		18,354
Culture and recreation	46,071		46,071
Economic development	242,123		242,123
Education	2,307,068		2,307,068
Food service	621,339		621,339
Capital outlay	414,557		414,557
Debt service:			
Principal retirement	1,866		1,866
Interest and fiscal charges	99		99
Total Expenditures	<u>3,984,088</u>	<u>-</u>	<u>3,984,088</u>
Excess of revenues over (under) expenditures	<u>(44,685)</u>	<u>6,766</u>	<u>(37,919)</u>
Other financing sources (uses):			
Transfers in	8,154		8,154
Transfers out		(7,015)	(7,015)
Total other financing sources (uses)	<u>8,154</u>	<u>(7,015)</u>	<u>1,139</u>
Net change in fund balances	(36,531)	(249)	(36,780)
Fund balances at beginning of year	<u>70,193</u>	<u>367,115</u>	<u>437,308</u>
Fund balances at end of year	<u>\$ 33,662</u>	<u>\$ 366,866</u>	<u>\$ 400,528</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, 2009

	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	\$ 2,260,089	\$ 383,029	\$ 404,221		\$ 15,770	\$ 49,457	\$ 241,462	\$ 661	\$ 47,359	\$ 3,338,919
Charges for services		240,980	187,939							492,048
Interest income				\$ 2						2
Miscellaneous	46,979		617	346		60,492				108,434
Total Revenues	<u>2,307,068</u>	<u>624,009</u>	<u>592,777</u>	<u>348</u>	<u>15,770</u>	<u>109,949</u>	<u>241,462</u>	<u>661</u>	<u>47,359</u>	<u>3,939,403</u>
Expenditures:										
Current operations:										
General government						60,943				60,943
Public safety						49,006				49,006
Airport/Aviation center			222,630							222,630
Health and welfare				32	18,354					32
Sanitation										18,354
Culture and recreation									46,071	46,071
Economic development							241,462	661		242,123
Education	2,307,068									2,307,068
Food service		621,339	414,557							621,339
Capital outlay										414,557
Debt service:										
Principal retirement			1,866							1,866
Interest and fiscal charges			99							99
Total Expenditures	<u>2,307,068</u>	<u>621,339</u>	<u>639,152</u>	<u>32</u>	<u>18,354</u>	<u>109,949</u>	<u>241,462</u>	<u>661</u>	<u>46,071</u>	<u>3,984,088</u>
Excess of revenues over (under) expenditures	-	2,670	(46,375)	316	(2,584)	-	-	-	1,288	(44,685)
Other financing sources:										
Transfers in			8,154							8,154
Total other financing sources			<u>8,154</u>	-	-	-	-	-	-	<u>8,154</u>
Net change in fund balances	-	2,670	(38,221)	316	(2,584)	-	-	-	1,288	(36,531)
Fund balances (deficit) at beginning of year	1,170	110,797	(71,612)	1,754	5,718	-	-	-	22,366	70,193
Fund balances (deficit) at end of year	<u>\$ 1,170</u>	<u>\$ 113,467</u>	<u>\$ (109,833)</u>	<u>\$ 2,070</u>	<u>\$ 3,134</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,654</u>	<u>\$ 33,662</u>

SCHEDULE C
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Net Assets
All Nonmajor Proprietary Funds
June 30, 2009

	Industrial Development and Park Authority <u>Fund</u>	Courthouse <u>Fund</u>	Cates Hill Landfill <u>Fund</u>	Combining <u>Totals</u>
ASSETS				
Current Assets:				
Accounts receivable		\$ 5		\$ 5
Notes receivable	\$ 75,462			75,462
Due from other governments			\$ 99,057	99,057
Due from other funds	685,673		308,570	994,243
Total Current Assets	<u>761,135</u>	<u>5</u>	<u>407,627</u>	<u>1,168,767</u>
Noncurrent Assets:				
Notes receivable	701,240			701,240
Non-depreciable capital assets	37,238			37,238
Depreciable capital assets, net	173,037	134,556		307,593
Total Noncurrent Assets	<u>911,515</u>	<u>134,556</u>	<u>-</u>	<u>1,046,071</u>
Total Assets	<u>\$ 1,672,650</u>	<u>\$ 134,561</u>	<u>\$ 407,627</u>	<u>\$ 2,214,838</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 307	\$ 860		\$ 1,167
Accrued expenses	977	1,646		2,623
Deferred revenue	3,425			3,425
Due to other funds		84,990		84,990
Current portion of notes payable	57,402			57,402
Current portion of estimated liability for landfill postclosure care costs			\$ 10,000	10,000
Total Current Liabilities	<u>62,111</u>	<u>87,496</u>	<u>10,000</u>	<u>159,607</u>
Noncurrent Liabilities:				
Notes payable	411,619			411,619
Compensated absences payable		3,270		3,270
Estimated liability for landfill postclosure care costs			250,000	250,000
Total Noncurrent Liabilities	<u>411,619</u>	<u>3,270</u>	<u>250,000</u>	<u>664,889</u>
Total Liabilities	<u>473,730</u>	<u>90,766</u>	<u>260,000</u>	<u>824,496</u>
NET ASSETS				
Invested in capital assets, net of related debt	210,275	134,556		344,831
Unrestricted (deficit)	988,645	(90,761)	147,627	1,045,511
Total Net Assets	<u>1,198,920</u>	<u>43,795</u>	<u>147,627</u>	<u>1,390,342</u>
Total Liabilities and Net Assets	<u>\$ 1,672,650</u>	<u>\$ 134,561</u>	<u>\$ 407,627</u>	<u>\$ 2,214,838</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, 2009

	Industrial Development and Park Authority Fund	Courthouse Fund	Cates Hill Landfill Fund	Combining Totals
Operating revenues:				
Miscellaneous	\$ 125,049	\$ 42,301	\$ 4,247	\$ 171,597
Total operating revenues	<u>125,049</u>	<u>42,301</u>	<u>4,247</u>	<u>171,597</u>
Operating expenses:				
Personnel services		16,464		16,464
Repairs and maintenance	15,093	3,357		18,450
Materials and supplies	5			5
Utilities	878	31,694		32,572
Depreciation	<u>24,559</u>	<u>6,321</u>		<u>30,880</u>
Total operating expenses	<u>40,535</u>	<u>57,836</u>	<u>-</u>	<u>98,371</u>
Operating income (loss)	<u>84,514</u>	<u>(15,535)</u>	<u>4,247</u>	<u>73,226</u>
Non-operating revenues (expenses):				
Gain on sale of assets	124,678			124,678
Interest revenue	10,819			10,819
Interest expense	<u>(24,827)</u>			<u>(24,827)</u>
Net non-operating revenues (expenses)	<u>110,670</u>	<u>-</u>	<u>-</u>	<u>110,670</u>
Change in net assets	195,184	(15,535)	4,247	183,896
Total net assets at beginning of year	<u>1,003,736</u>	<u>59,330</u>	<u>143,380</u>	<u>1,206,446</u>
Total net assets at end of year	<u>\$ 1,198,920</u>	<u>\$ 43,795</u>	<u>\$ 147,627</u>	<u>\$ 1,390,342</u>

SCHEDULE E
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Cash Flows
All Nonmajor Proprietary Funds
For the Year Ended June 30, 2009

	Industrial Development and Park Authority Fund	Courthouse Fund	Cates Hill Landfill Fund	Combining Totals
Cash flows from operating activities:				
Cash received from customers	\$ 122,361	\$ 42,296	\$ 6,686	\$ 171,343
Cash paid to suppliers	(15,856)	(34,139)	(10,000)	(59,995)
Cash paid to employees		(14,919)		(14,919)
Net cash provided (used) by operating activities	<u>106,505</u>	<u>(6,762)</u>	<u>(3,314)</u>	<u>96,429</u>
Cash flows from capital and related financing activities:				
Proceeds from note collections	71,619			71,619
Principal paid on notes payable	(54,608)			(54,608)
Interest paid on long-term debt	(24,827)			(24,827)
Proceeds from sale of capital assets	326,080			326,080
Purchases of capital assets	(16,641)			(16,641)
Net cash provided for capital and related financing activities	<u>301,623</u>	<u>-</u>	<u>-</u>	<u>301,623</u>
Cash flows from investing activities:				
Interest on investments	<u>10,819</u>			<u>10,819</u>
Net cash provided by investing activities	<u>10,819</u>	<u>-</u>	<u>-</u>	<u>10,819</u>
Net increase (decrease) in cash and cash equivalents	418,947	(6,762)	(3,314)	408,871
Cash and cash equivalents (deficiency) at beginning of year	<u>266,726</u>	<u>(78,228)</u>	<u>311,884</u>	<u>500,382</u>
Cash and cash equivalents (deficiency) at end of year	<u>\$ 685,673</u>	<u>\$ (84,990)</u>	<u>\$ 308,570</u>	<u>\$ 909,253</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 84,514	\$ (15,535)	\$ 4,247	\$ 73,226
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	24,559	6,321		30,880
Changes in assets and liabilities:				
Accounts receivable	2,625	(5)		2,620
Due from other governments			2,439	2,439
Accounts payable	234	815		1,049
Accrued expenses	(114)	1,348		1,234
Deferred revenue	(5,313)			(5,313)
Compensated absences		294		294
Estimated liability for landfill postclosure care costs			(10,000)	(10,000)
Net cash provided (used) by operating activities	<u>\$ 106,505</u>	<u>\$ (6,762)</u>	<u>\$ (3,314)</u>	<u>\$ 96,429</u>
Supplemental disclosure of non-cash transactions:				
Cost basis of disposed capital assets	<u>\$ 210,760</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 210,760</u>