

CITY OF BERLIN, NEW HAMPSHIRE
Financial Statements
With Schedule of Expenditures of Federal Awards
June 30, 2011
and
Independent Auditor's Report

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

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

Schedule of Findings and Questioned Costs

CITY OF BERLIN, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2011

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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, 2011, 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, 2011 and for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Berlin Water Works, component unit of the City, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Berlin, New Hampshire as of June 30, 2011, 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 June 6, 2012 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-xiii and 36-39, 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.

Uachon Clabey & Company PC

June 6, 2012

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, 2011. 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, 2011 by \$44.5 million, an increase of \$6.5 million from the prior year. This amount is presented as "Net Assets" on the Statement of Net Assets for the Total Primary Government (a condensed statement can be seen in the MD&A section of this report on page v). Total unrestricted net assets decreased by \$ 2.2 million to \$5.6 million. Restricted net assets of \$364,159 were restricted primarily for endowments and \$38.5 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 \$38.0 million to \$44.5 million in fiscal year 2011. Net assets of governmental activities had a net increase of \$2.8 million or 17%, and net assets of the business-type activities showed a net increase of \$3.7 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 2011, the City's governmental funds reported a decrease of \$893,545 in the combined ending fund balance of \$3.2 million, compared to last fiscal year. Included in the combined governmental fund balance is the activity of the City's General Fund and the Non-major Governmental Funds. The General Fund ended the fiscal year with an unassigned fund balance of \$2,557,616, which is a decrease of \$935,154 from the previous fiscal year.

Overview of the Financial Statements

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

1. Government-wide financial statements
2. Fund financial statements
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 51-54. The non-major governmental funds are:

- School Federal Projects
 - School Food Service Program
 - Berlin Airport Authority
 - Health Department
 - Mount Carberry Landfill
 - Recreation Activity Programs
 - Grants Fund
 - Neighborhood Stabilization Program
 - CDBG Fund
 - Capital Projects Funds
 - Permanent Funds
- **Proprietary Funds:** The City's proprietary funds provide goods and services to the general public and charge a user fee. These activities are reported in one major fund -
 - Sewer Fund

and three non-major funds -

- Cates Hill Landfill
- Berlin Industrial Park and Development Authority (BIDPA)
- Courthouse Fund

Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. Therefore there is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The basic propriety funds financial statements can be found on [pages 5-7](#), with individual data for each of the City's non-major proprietary funds provided in the combining statements found on [pages 55-57](#).

- **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 10-35](#).

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 36](#)) 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 2011 is the General Fund. Also, included in the required supplementary information is the funding progress for other post-employment benefits (Schedule 2, [page 37](#)). The notes to the required supplementary information can be found on [pages 38-39](#).

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 \$43.7 million at the end of fiscal year 2011, an increase of \$6.5 million compared to the end of the previous fiscal year.

Net assets of the City as of June 30, 2011, 2010 and 2009 are as follows:

Net Assets (in Millions)									
	Governmental Activities			Business-type Activities			Total Primary Government		
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets									
Capital Assets	21.2	17.5	17.8	25.3	19.8	20.7	46.5	37.3	38.5
Other Assets	12.0	12.9	11.9	7.3	9.2	5.0	19.3	22.1	17.4
Total Assets	33.2	30.4	29.7	32.6	29.0	26.1	65.8	59.4	55.9
Liabilities									
Long-term liabilities	6.0	5.7	5.2	5.7	5.4	5.4	11.7	11.2	10.6
Other liabilities	7.9	8.2	9.3	1.7	2.0	0.3	9.6	10.2	9.6
Total liabilities	13.9	13.9	14.5	7.4	7.4	5.7	21.3	21.4	20.2
Net Assets									
Invested in capital									
net of related debt	17.5	14.2	14.0	21.0	15.9	15.2	38.5	30.1	29.2
Restricted	0.4	0.1	0.1	0.0	0.0	0.0	0.4	0.1	0.1
Unrestricted	1.4	2.1	1.1	4.2	5.7	5.2	5.6	7.8	6.3
Total Net Assets	19.3	16.4	15.2	25.2	21.6	20.4	44.5	38.0	35.7
Total Liabilities and Net Assets	33.2	30.4	29.7	32.6	29.0	26.1	65.8	59.4	55.9

The largest portion of the City's net assets consists of its investment in capital assets such as land, buildings, equipment, and infrastructure (roads and bridges), less any related outstanding debt used to acquire those assets. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally cannot be used to liquidate these liabilities. An additional portion of the City's net assets represent resources that are subject to external restrictions on how they may be used.

With the gradual pay down of the 1999 Deficit bond (the last payment was made in July 2010) and the East Milan Landfill Closure bond, none of which has any offsetting assets, the City had been increasing its unrestricted net assets. However, this year it suffered a decrease of \$2.2 million from the prior fiscal year. The City carries a liability for compensated absences and needs to embark on a program to fund this liability in the future.

Statement of Activities

The City's total net assets increased \$6.5 million over the prior fiscal year. Property and other taxes brought in \$13.9 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, 2011, 2010 and 2009 are as follows:

Changes in Net Assets (in Millions)

	Governmental Activities			Business-type Activities			Total Primary Government		
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues									
Program revenues									
Charges for Services	2.5	2.5	2.8	1.5	1.6	1.6	4.0	4.1	4.4
Operating grants and contributions	18.1	17.5	14.7				18.1	17.5	14.7
Capital grants and contributions	3.4	0.7	0.8	5.1	2.1	0.1	8.5	2.8	0.9
General revenues:									
Property and other taxes	13.9	14.1	14.5				13.9	14.1	14.5
Licenses and permits	1.1	1.2	1.2				1.1	1.2	1.2
Grants and contributions	0.5	0.5	1.1				0.5	0.5	1.1
Interest and investment earnings	0	0	0.2	0	0.1	0.1		0.1	0.3
Miscellaneous	0.3	0.4	0.3	0.1	0.2	0.3	0.4	0.6	0.6
Cont. to perm. fund principal	0	0	0				0	0	0
Gain on sale of capital asset						0.1			0.1
Transfers									
Total revenues	39.8	36.9	35.5	6.7	4.0	2.2	46.5	40.9	37.7
Expenses:									
General government	2.3	2.1	2.0				2.3	2.1	2.0
Public Safety	5.0	5.0	5.1				5.0	5.0	5.1
Airport	0.4	0.3	0.4				0.4	0.3	0.4
Highways and streets	2.7	2.4	2.6				2.7	2.4	2.6
Health and Welfare	0.7	0.6	0.7				0.7	0.6	0.7
Sanitation	0.9	0.9	0.9				0.9	0.9	0.9
Culture and recreation	0.7	1.7	0.7				0.7	0.7	0.7
Economic development	2.9	2.1	0.2				2.9	2.1	0.2
Education	18.5	18.5	18.5				18.5	18.5	18.5
Food service	0.6	0.7	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	0.3	0.3	0.4				0.3	0.3	0.4

Lease payments	0.1	0.1	0.1				0.1	0.1	0.1
Intergovernmental	1.3	1.5	1.6				1.3	1.5	1.6
Sewer				2.2	2.6	2.0	2.2	2.6	2.0
Non-major proprietary funds				0.8	0.2	0.1	0.8	0.2	0.1
Total Expenses	37.0	35.7	34.3	3.0	2.8	2.1	40.0	38.5	36.4
Increase (decrease) in net assets	2.8	1.2	1.2	3.7	1.2	0.1	6.5	2.4	1.3
Net assets, beginning of year	16.4	15.2	14.1	21.6	20.4	20.3	38.0	35.7	34.4
Net assets, end of year	19.3	16.4	15.2	25.2	21.6	20.4	44.5	38.0	35.7

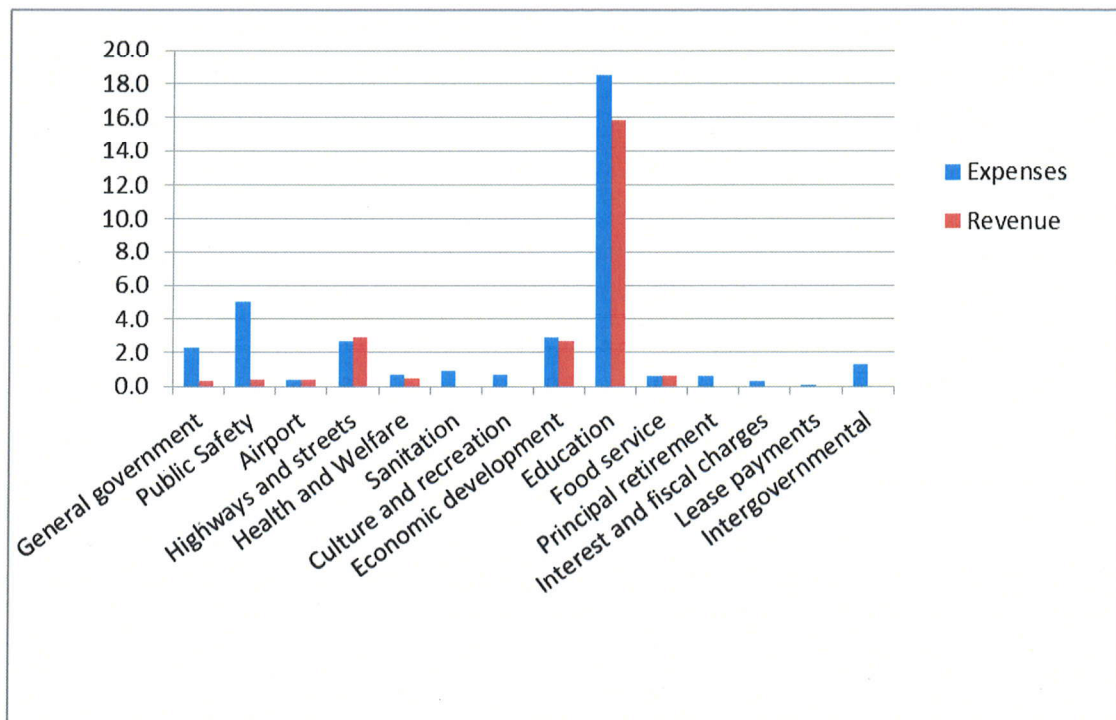
The City's expenses cover a range of services. The largest governmental expenses were for education (50%), public safety (14%), economic development (8%), highways and streets (7%), and general government (6%), which accounted for roughly 90% of total governmental expenditures.

Governmental Activities

Governmental activities revenue totaling \$39.8 million exceeded expenses of \$37.0 million in fiscal year 2011, thereby increasing the City's governmental net assets by \$2.8 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, Economic Development, Highways and Streets and General Government) also primarily represent the activities that have the largest gap between expenses and program revenues (Education, Public Safety and General Government). Since program revenues do not offset these expenditures, the difference is made up from real estate taxes.

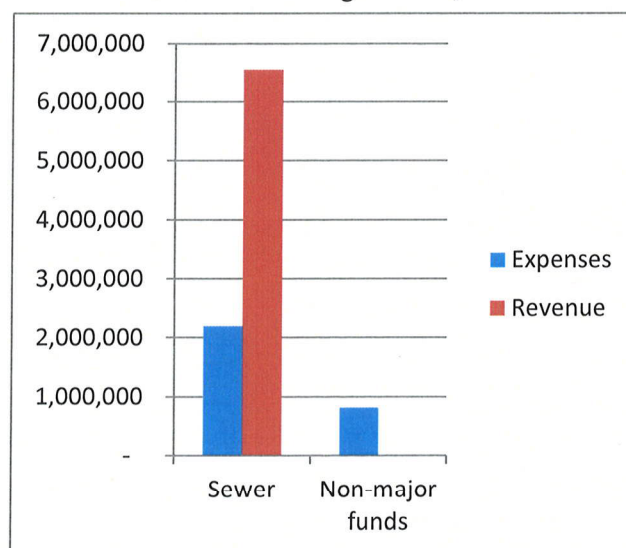
Expenses and Program Revenues – Governmental Activities Fiscal Year Ending June 30, 2011 (See table below on the next page)



Business-type Activities

The charges for goods and services for the City's business-type activities were inadequate to cover the operating expenses. However, with significant capital contributions in the current fiscal year, revenues, particularly from the Bureau of Prisons for the East Milan Road sewer connection project was far more than sufficient to support the current fiscal year expenses.

Expenses and Program Revenues – Business Type Activities
Fiscal Year Ending June 30, 2011



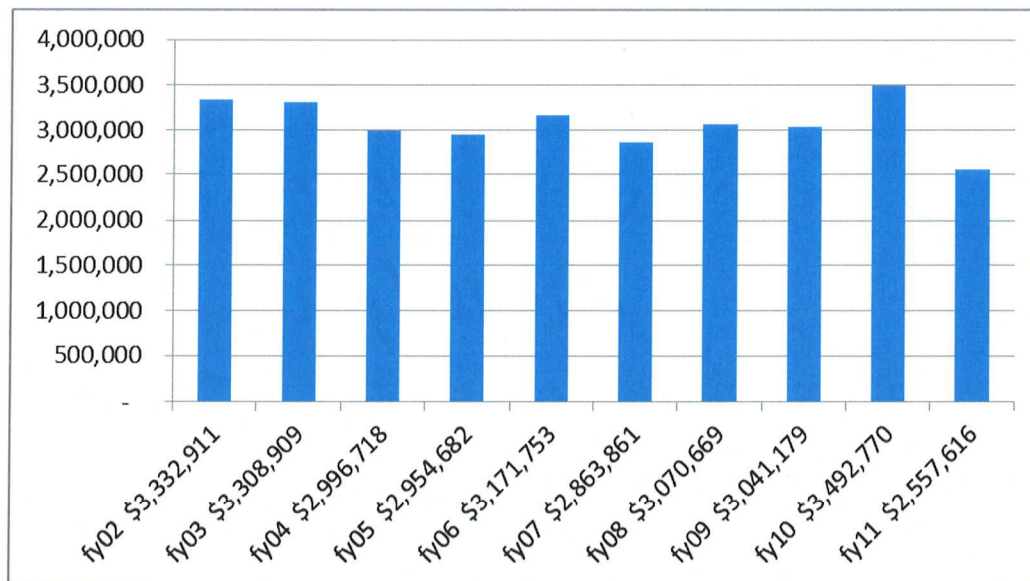
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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, General Fund 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 2011 are as follows:

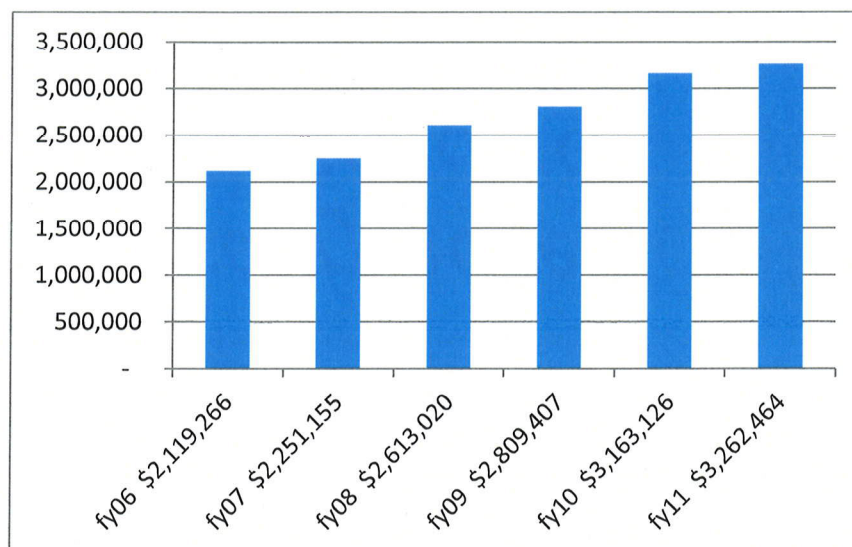


General Fund

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund had an unassigned fund balance of \$2,557,616, while total fund equity was \$3,755,770. The General Fund total fund balance, decreased by \$111,687 from June 30, 2010.

Budgetary Basis

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



As indicated in the above chart, the City's effort to increase its Unassigned Fund Balance has been generally successful, although the difficulty in doing so becomes greater every year.

Other Governmental Funds

The non-major governmental funds total fund balance decreased by (\$781,858) in fiscal year 2011. This was primarily due to Capital Projects Funds spending in excess of bond proceeds received during the year.

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 \$3,693,522 from June 30, 2010. The amount collected from sewer user fees were insufficient to offset operating expenses, however, there were large capital contributions from the Federal Bureau of Prisons which helped result in an increase in net assets of \$4,383,978 in the Sewer Fund for the fiscal year. The Non-major Proprietary Funds had a combined net decrease of \$690,456 in fiscal year 2011. This was due primarily to BIDPA's losses in the Isaacson bankruptcy.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations. A Budget to Actual Schedule for the City's major governmental fund (the General Fund) can be found in the Required Supplementary Information section on [page 36](#).

Actual budgetary revenues were less than the budget for estimated revenues by (\$269,735). Actual property taxes received were (\$43,412) less than the amount budgeted. Actual budgetary expenditures at year-end were \$1,125,214 less than the final budgeted appropriations. Most of the savings were due to budgeted debt service underspent by \$837,069. Several City Departments made a concerted effort to control costs resulting in savings on certain budgeted items. Public Works spent \$122,645 less than budgeted. Fire and Police spent \$167,988 less than budgeted. The School Department spent \$190,024 less than budgeted.

This fiscal year, the City's legal expense line closed with an over-expenditure of \$236,083 due primarily to the City's involvement with the EFSEC and PUC relating to the Berlin Biomass project which is now underway. The cost of participation in the Androscoggin Valley Regional Refuse District was again lower than projected, saving the City \$49,903. The City issued \$132,008 in property tax abatements the majority but not all of which was offset by overlay in the tax rate calculation formula.

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, 2011, amounted to \$85.9 million. Accumulated depreciation was \$39.4 million leaving a net book value of \$46.5 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 21-23 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, 2011 is \$185,501. Additional information regarding the City's OPEB can be found in Note 9 on pages 23-25 of the Notes to the Basic Financial Statements.

Debt Administration

The City may issue general obligation bonds and notes in anticipation of such bonds authorized by the City Council. At the end of the current fiscal year, the City had total bonded debt outstanding of \$7.6 million. This amount does not include bonded debt outstanding by the Berlin Water Works, its component unit. The City is required to issue general obligation debt for the Berlin Water Works (a component unit of the City) and these general obligation bonds are backed by the full faith and credit of the City. Accordingly, this general obligation debt is recognized as a liability of the Berlin Water Works and is not recorded as a long-term obligation of the City. The Berlin Water Works reimburses the City for the annual principal and interest on the debt.

Additional information regarding the City's long-term debt obligations can be found in Note 10 on pages 25-31 of the Notes to the Basic Financial Statements.

ECONOMIC CONDITIONS

Berlin's economic prospects with the final closure of the Fraser Pulp Mill (and the recent closure of the nearby paper plant in Groveton) have nowhere to go but up, although that upward trajectory is taking its time in getting here. The entire closed pulp mill site in Berlin has been cleared except for a few buildings thought to be worthy of preservation by the owner. The black liquor boiler is being groomed to be converted to a biomass boiler. All the approvals for the conversion project have been received from both the EFSEC and the PUC. The second proposed biomass project which was expected to be located next to the City's Wastewater Treatment Facility has been dropped.

The City's dilapidated surplus housing problem has been markedly reduced by the City's efforts at demolishing such structures and enforcing housing codes which set a minimum housing standard. The majority of the City's very worst derelict buildings have been torn or 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 -- mostly by the City. Unfortunately, most of this cleanup has been at the expense of the City and not at the expense of the responsible property owners. However, for the first time, the City has obtained some federal funding for the demolition of such structures which will be a great help. It has also obtained about \$4M in federal Neighborhood Stabilization funds for the rehabilitation of housing to a reasonable standard. This NSP work is nearing completion and has without doubt completely refurbished the worst area on the East Side of the City, as well as one or two other neighborhoods.

The Berlin Industrial Development Park Authority (BIDPA) has conducted a feasibility study into a major expansion of the City's existing industrial park. Except for two empty buildings recently vacated due to the national recession, all of the current industrial park buildings are in full use and all of the lots in the Industrial Park have been sold to private parties, except for the Maynesboro building, which is fully occupied by several tenants, but is still owned by the City. The most recent BIDPA project has been the development of Bickford Place which is a beautiful outdoor park addition in the middle of the downtown area. This will be a focal point for events and for people to meet and relax, thereby adding new life and vitality to Main Street.

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

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

Phase II of the Rt 110 improvement 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 is having a very significant impact on the City's image and economic base. In addition, the City is in the process of developing a first of its kind in the State ATV connection between this Park and the many trails in Success on the east side of the City.

Finally, the long-awaited Federal Bureau of Prisons project is fully constructed and now is slowly starting up its process for operating the new prison. This process takes a year or more, 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, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 8,289,424		\$ 8,289,424	\$ 452,325
Investments	1,524,804		1,524,804	168,264
Taxes receivable, net	4,642,042		4,642,042	
Accounts receivable, net	13,273	\$ 357,706	370,979	175,941
Due from other governments	2,772,323	224,147	2,996,470	424,542
Internal balances	(5,972,294)	5,972,294	-	
Prepaid expenses	22,524	6,629	29,153	
Inventory	12,690	70,019	82,709	539,892
Total Current Assets	11,304,786	6,630,795	17,935,581	1,760,964
Noncurrent Assets:				
Due from other governments		686,973	686,973	
Tax deeded property	687,603		687,603	
Capital assets:				
Non-depreciable capital assets	4,661,841	7,323,190	11,985,031	2,553,807
Depreciable capital assets, net	16,512,226	17,958,600	34,470,826	35,374,522
Total Noncurrent Assets	21,861,670	25,968,763	47,830,433	37,928,329
Total Assets	\$ 33,166,456	\$ 32,599,558	\$ 65,766,014	\$ 39,689,293
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 572,047	\$ 610,790	\$ 1,182,837	\$ 200,976
Accrued expenses	351,426	74,183	425,609	185,200
Retainage payable	10,457	302,700	313,157	
Refunds payable				6,509
Deferred revenue	6,984,529	679,240	7,663,769	
Due to other governments	9,520		9,520	
Other liabilities				11,756
Current portion of bonds payable	456,703	133,638	590,341	1,150,681
Current portion of notes payable	563,312	63,426	626,738	1,720,304
Current portion of capital leases payable	273,958		273,958	95,685
Current portion of compensated absences payable	33,648		33,648	33,192
Current portion of estimated liability for landfill postclosure care costs	11,300	12,450	23,750	
Total Current Liabilities	9,266,900	1,876,427	11,143,327	3,404,303
Noncurrent Liabilities:				
Bonds payable	683,516	4,439,443	5,122,959	7,427,925
Notes payable	985,022	287,855	1,272,877	
Other long-term obligations		430,564	430,564	
Capital leases payable	1,043,275		1,043,275	135,206
Compensated absences payable	1,591,263	64,996	1,656,259	162,204
Other post-employment benefits payable	182,977	2,524	185,501	
Estimated liability for landfill postclosure care costs	169,500	286,450	455,950	
Total Noncurrent Liabilities	4,655,553	5,511,832	10,167,385	7,725,335
Total Liabilities	13,922,453	7,388,259	21,310,712	11,129,638
NET ASSETS				
Invested in capital assets, net of related debt	17,508,500	20,985,806	38,494,306	27,398,528
Restricted	364,159		364,159	
Unrestricted	1,371,344	4,225,493	5,596,837	1,161,127
Total Net Assets	19,244,003	25,211,299	44,455,302	28,559,655
Total Liabilities and Net Assets	\$ 33,166,456	\$ 32,599,558	\$ 65,766,014	\$ 39,689,293

See accompanying notes to the basic financial statements

EXHIBIT B
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Activities
For the Year Ended June 30, 2011

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	\$ 2,275,225	\$ 261,189	\$ 2,074	\$ (2,011,962)		\$ (2,011,962)	
Public safety	5,042,946	144,080	278,452	(4,620,414)		(4,620,414)	
Airport/Aviation center	362,911	135,531		98,185		98,185	
Highways and streets	2,702,464	25,299	222,414	262,207		262,207	
Health and welfare	663,931	227,019	262,209	(174,703)		(174,703)	
Sanitation	905,543	2,004		(903,539)		(903,539)	
Culture and recreation	735,248	51,529	997	(682,722)		(682,722)	
Economic development	2,937,366		2,676,388	(260,978)		(260,978)	
Education	18,523,102	1,467,751	13,538,392	(3,189,078)		(3,189,078)	
Food service	607,517	191,789	381,870	(33,858)		(33,858)	
Principal retirement	605,000		605,000	-		-	
Interest and fiscal charges	250,317		176,117	(74,200)		(74,200)	
Lease payments	67,221			(67,221)		(67,221)	
Intergovernmental	1,305,955			(1,305,955)		(1,305,955)	
Total governmental activities	36,984,746	2,506,191	18,143,913	(12,964,238)	\$ -	(12,964,238)	
Business-type activities:							
Sewer	2,196,070	1,466,938		5,070,133	4,341,001	4,341,001	
Nonmajor funds	817,303			8,816	(808,487)	(808,487)	
Total business-type activities	3,013,373	1,466,938	-	-	3,532,514	3,532,514	
Total primary government	\$ 39,998,119	\$ 3,973,129	\$ 18,143,913	(12,964,238)	3,532,514	(9,431,724)	
Component unit:							
Water	\$ 3,208,248	\$ 1,901,175		\$ 1,926,861		\$ 619,788	
Total component unit	\$ 3,208,248	\$ 1,901,175	\$ -	\$ 1,926,861		619,788	
General revenues:							
Property and other taxes				13,872,600		13,872,600	
Licenses and permits				1,135,293		1,135,293	
Grants and contributions:							
Rooms and meals tax distribution				452,936		452,936	
State and federal forest land				39,240		39,240	
Interest and investment earnings				19,971	30,460	50,431	3,097
Miscellaneous				248,488	130,548	379,036	98,760
Contributions to permanent fund principal				525		525	
Total general revenues and contributions to permanent fund principal				15,769,053	161,008	15,930,061	101,857
Change in net assets				2,804,815	3,693,522	6,498,337	721,645
Net assets - beginning, as restated				16,439,188	21,517,777	37,956,965	27,838,010
Net assets - ending				\$ 19,244,003	\$ 25,211,299	\$ 44,455,302	\$ 28,559,655

See accompanying notes to the basic financial statements

EXHIBIT C
CITY OF BERLIN, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 8,084,173	\$ 205,251	\$ 8,289,424
Investments	1,166,225	358,579	1,524,804
Taxes receivable, net	4,642,042		4,642,042
Accounts receivable	8,302	3,572	11,874
Due from other governments	109,167	2,663,156	2,772,323
Due from other funds	3,493,376	79,099	3,572,475
Prepaid expenses	1,689	20,835	22,524
Inventory		12,690	12,690
Tax deeded property	687,603		687,603
Total Assets	<u>\$ 18,192,577</u>	<u>\$ 3,343,182</u>	<u>\$ 21,535,759</u>
LIABILITIES			
Accounts payable	\$ 268,578	\$ 303,469	\$ 572,047
Accrued expenses	268,404	3,428	271,832
Retainage payable		10,457	10,457
Note payable	189,676		189,676
Deferred revenue	7,560,688	128,689	7,689,377
Due to other governments	9,520		9,520
Due to other funds	6,139,941	3,403,429	9,543,370
Total Liabilities	<u>14,436,807</u>	<u>3,849,472</u>	<u>18,286,279</u>
FUND BALANCES			
Nonspendable	689,292	182,003	871,295
Restricted		215,681	215,681
Committed		23,621	23,621
Assigned	508,862	95,983	604,845
Unassigned (deficit)	<u>2,557,616</u>	<u>(1,023,578)</u>	<u>1,534,038</u>
Total Fund Balances (deficit)	<u>3,755,770</u>	<u>(506,290)</u>	<u>3,249,480</u>
Total Liabilities and Fund Balances	<u>\$ 18,192,577</u>	<u>\$ 3,343,182</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			21,174,067
Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis			704,848
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			(1,140,219)
Note payable			(1,358,658)
Capital leases payable			(1,317,233)
Accrued interest on long-term obligations			(79,594)
Compensated absences payable			(1,624,911)
Other post-employment benefits payable			(182,977)
Estimated liability for landfill postclosure care costs			<u>(180,800)</u>
Net assets of governmental activities			<u>\$ 19,244,003</u>

See accompanying notes to the basic financial statements

EXHIBIT D

CITY OF BERLIN, NEW HAMPSHIRE

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

For the Year Ended June 30, 2011

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, 2011

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds	
Revenues:				
Taxes	\$ 13,802,824		\$ 13,802,824	
Licenses and permits	1,135,293		1,135,293	
Intergovernmental	13,458,646	\$ 5,830,889	19,289,535	
Charges for services	2,120,485	369,483	2,489,968	
Interest income	12,924	7,047	19,971	
Miscellaneous	128,999	136,237	265,236	
Total Revenues	<u>30,659,171</u>	<u>6,343,656</u>	<u>37,002,827</u>	Change in Fund Balances - Total Governmental Funds \$ (893,545)
Expenditures:				
Current operations:				
General government	2,176,963	2,638	2,179,601	
Public safety	4,900,573	104,606	5,005,179	
Airport/Aviation center		167,855	167,855	
Highways and streets	1,992,902		1,992,902	
Health and welfare	663,532	543	664,075	
Sanitation	873,696	469	874,165	
Culture and recreation	587,066	58,180	645,246	
Economic development		2,676,388	2,676,388	
Education	15,763,376	2,435,354	18,198,730	
Food service		603,399	603,399	
Capital outlay	616,188	2,167,435	2,783,623	
Debt service:				
Principal retirement	1,303,688		1,303,688	
Interest and fiscal charges	265,866		265,866	
Lease payments	329,700		329,700	
Intergovernmental	1,305,955		1,305,955	
Total Expenditures	<u>30,779,505</u>	<u>8,216,867</u>	<u>38,996,372</u>	189,676
Excess of revenues over (under) expenditures	<u>(120,334)</u>	<u>(1,873,211)</u>	<u>(1,993,545)</u>	262,479
Other financing sources (uses):				
Proceeds from note payable issued		1,100,000	1,100,000	
Transfers in	8,647		8,647	
Transfers out		(8,647)	(8,647)	
Total other financing sources (uses)	<u>8,647</u>	<u>1,091,353</u>	<u>1,100,000</u>	15,549
Net change in fund balances	<u>(111,687)</u>	<u>(781,858)</u>	<u>(893,545)</u>	
Fund balances at beginning of year	<u>3,867,457</u>	<u>275,568</u>	<u>4,143,025</u>	68,930
Fund balances (deficit) at end of year	<u>\$ 3,755,770</u>	<u>\$ (506,290)</u>	<u>\$ 3,249,480</u>	\$ 2,804,815

See accompanying notes to the basic financial statements

EXHIBIT E
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
ASSETS			
Current Assets:			
Accounts receivable, net	\$ 351,018	\$ 6,688	\$ 357,706
Due from other governments	89,981	134,166	224,147
Due from other funds	5,471,003	611,729	6,082,732
Prepaid expenses		6,629	6,629
Inventory	70,019		70,019
Total Current Assets	<u>5,982,021</u>	<u>759,212</u>	<u>6,741,233</u>
Noncurrent Assets:			
Due from other governments	686,973		686,973
Non-depreciable capital assets	6,820,000	503,190	7,323,190
Depreciable capital assets, net	<u>17,230,888</u>	<u>727,712</u>	<u>17,958,600</u>
Total Noncurrent Assets	<u>24,737,861</u>	<u>1,230,902</u>	<u>25,968,763</u>
Total Assets	<u>\$ 30,719,882</u>	<u>\$ 1,990,114</u>	<u>\$ 32,709,996</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 608,983	\$ 1,807	\$ 610,790
Accrued expenses	74,086	97	74,183
Retainage payable	281,500	21,200	302,700
Deferred revenue	675,119	4,121	679,240
Due to other funds		110,438	110,438
Current portion of bonds payable	133,638		133,638
Current portion of notes payable		63,426	63,426
Current portion of estimated liability for landfill postclosure care costs		<u>12,450</u>	<u>12,450</u>
Total Current Liabilities	<u>1,773,326</u>	<u>213,539</u>	<u>1,986,865</u>
Noncurrent Liabilities:			
Bonds payable	4,439,443		4,439,443
Notes payable		287,855	287,855
Other long-term obligations	430,564		430,564
Compensated absences payable	64,996		64,996
Other post-employment benefits payable	2,524		2,524
Estimated liability for landfill postclosure care costs		<u>286,450</u>	<u>286,450</u>
Total Noncurrent Liabilities	<u>4,937,527</u>	<u>574,305</u>	<u>5,511,832</u>
Total Liabilities	<u>6,710,853</u>	<u>787,844</u>	<u>7,498,697</u>
NET ASSETS			
Invested in capital assets, net of related debt	19,754,904	1,230,902	20,985,806
Unrestricted (deficit)	<u>4,254,125</u>	<u>(28,632)</u>	<u>4,225,493</u>
Total Net Assets	<u>24,009,029</u>	<u>1,202,270</u>	<u>25,211,299</u>
Total Liabilities and Net Assets	<u>\$ 30,719,882</u>	<u>\$ 1,990,114</u>	<u>\$ 32,709,996</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, 2011

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Operating revenues:			
Charges for services	\$ 1,466,938		\$ 1,466,938
Miscellaneous	13,430	\$ 117,118	130,548
Total operating revenues	<u>1,480,368</u>	<u>117,118</u>	<u>1,597,486</u>
Operating expenses:			
Personnel services	552,902	3,976	556,878
Contractual services	33,660	61,691	95,351
Repairs and maintenance	36,788	27,187	63,975
Administrative	114,909		114,909
Materials and supplies	193,301	75	193,376
Utilities	175,308	16,173	191,481
Bad debt expense		641,608	641,608
Depreciation	887,224	47,382	934,606
Total operating expenses	<u>1,994,092</u>	<u>798,092</u>	<u>2,792,184</u>
Operating income (loss)	<u>(513,724)</u>	<u>(680,974)</u>	<u>(1,194,698)</u>
Non-operating revenues (expenses):			
Interest revenue	29,547	913	30,460
Interest expense	(201,978)	(19,211)	(221,189)
Net non-operating revenues (expenses)	<u>(172,431)</u>	<u>(18,298)</u>	<u>(190,729)</u>
Income (loss) before capital contributions	(686,155)	(699,272)	(1,385,427)
Capital contributions	<u>5,070,133</u>	<u>8,816</u>	<u>5,078,949</u>
Change in net assets	4,383,978	(690,456)	3,693,522
Total net assets at beginning of year, as restated	<u>19,625,051</u>	<u>1,892,726</u>	<u>21,517,777</u>
Total net assets at end of year	<u>\$ 24,009,029</u>	<u>\$ 1,202,270</u>	<u>\$ 25,211,299</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, 2011

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 1,446,003	\$ 90,433	\$ 1,536,436
Cash paid to suppliers	(770,551)	(61,447)	(831,998)
Cash paid to employees	(380,497)	(11,760)	(392,257)
Net cash provided by operating activities	<u>294,955</u>	<u>17,226</u>	<u>312,181</u>
Cash flows from capital and related financing activities:			
Proceeds from note collections		65,971	65,971
Proceeds from other long-term obligations	361,271		361,271
Principal paid on bonds payable	(128,133)		(128,133)
Principal paid on notes payable		(60,338)	(60,338)
Interest paid on long-term debt	(198,566)	(19,211)	(217,777)
Capital contributions	4,342,885	8,816	4,351,701
Purchases of capital assets	(5,467,553)	(432,152)	(5,899,705)
Net cash (used) for capital and related financing activities	<u>(1,090,096)</u>	<u>(436,914)</u>	<u>(1,527,010)</u>
Cash flows from investing activities:			
Interest on investments	<u>29,547</u>	<u>913</u>	<u>30,460</u>
Net cash provided by investing activities	<u>29,547</u>	<u>913</u>	<u>30,460</u>
Net (decrease) in cash and cash equivalents	(765,594)	(418,775)	(1,184,369)
Cash and cash equivalents at beginning of year	<u>6,236,597</u>	<u>920,066</u>	<u>7,156,663</u>
Cash and cash equivalents at end of year	<u>\$ 5,471,003</u>	<u>\$ 501,291</u>	<u>\$ 5,972,294</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (513,724)	\$ (680,974)	\$ (1,194,698)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Bad debt expense		641,608	641,608
Depreciation expense	887,224	47,382	934,606
Changes in assets and liabilities:			
Accounts receivable, net	(34,365)	(13,022)	(47,387)
Due from other governments		(14,359)	(14,359)
Prepaid expenses		(6,629)	(6,629)
Inventory	(413)		(413)
Accounts payable	(20,164)	(1,807)	(21,971)
Accrued expenses	(1,753)	(989)	(2,742)
Deferred revenue		696	696
Due to other governments	(8,644)		(8,644)
Compensated absences payable	(12,889)	(3,580)	(16,469)
Other post-employment benefits	(317)		(317)
Estimated liability for landfill postclosure care costs		48,900	48,900
Net cash provided by operating activities	<u>\$ 294,955</u>	<u>\$ 17,226</u>	<u>\$ 312,181</u>
Supplemental disclosure of non-cash transactions:			
Capital asset additions included in year end liabilities	<u>\$ 881,546</u>	<u>\$ 21,200</u>	<u>\$ 902,746</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, 2011

	Private- Purpose Trusts	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 2,037	\$ 200,253
Investments	<u>129,999</u>	<u></u>
Total Assets	<u>\$ 132,036</u>	<u>\$ 200,253</u>
LIABILITIES		
Due to other funds	\$ 1,399	
Due to student groups	<u></u>	<u>\$ 200,253</u>
Total Liabilities	<u>1,399</u>	<u>\$ 200,253</u>
NET ASSETS		
Held in trust	<u>130,637</u>	
Total Net Assets	<u>130,637</u>	
Total Liabilities and Net Assets	<u>\$ 132,036</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, 2011

	Private- Purpose <u>Trusts</u>
ADDITIONS:	
Investment earnings:	
Investment income	\$ 1,532
Total Additions	<u>1,532</u>
DEDUCTIONS:	
Benefits	<u>1,000</u>
Total Deductions	<u>1,000</u>
Change in Net Assets	532
Net assets - beginning of year	<u>130,105</u>
Net assets - end of year	<u><u>\$ 130,637</u></u>

See accompanying notes to the basic financial statements

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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 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, 2011

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, 2011

2. Proprietary Funds:

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

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

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

3. Fiduciary Funds:

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

Measurement Focus

1. Government-Wide Financial Statements:

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

2. Fund Financial Statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include 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, 2011

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, 2011

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, 2011, the City applied \$850,415 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:

	Due from other funds	Due to other funds	Totals
Proprietary Funds:			
Sewer fund	\$ 5,471,003		\$ 5,471,003
Nonmajor funds	611,729	\$ (110,438)	501,291
	<u>\$ 6,082,732</u>	<u>\$ (110,438)</u>	<u>\$ 5,972,294</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

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, 2011 are recorded as receivables net of reserves for estimated uncollectibles of \$413,497.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2011 are recorded as prepaid items.

Inventory

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

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

Capital Assets

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

All capital assets including infrastructure are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the date received. The City maintains a capitalization threshold of \$10,000. The City's infrastructure consists of roads, bridges, sidewalks, 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:

<u>Description</u>	<u>Years</u>
Infrastructure	15-50
Land improvements	10-30
Buildings and improvements	5-60
Vehicles and equipment	3-30

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

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 Policy

During the year ended June 30, 2011, the City implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 establishes new fund balance classifications and changes the definition of governmental fund types. Under Statement 54, the City has segregated fund balance into five classifications: Non-spendable, Restricted, Committed, Assigned, and Unassigned. The components of fund balance are defined as follows:

- Non-spendable Fund Balance: Amounts that are not in a spendable form or are required to be maintained intact.
- Restricted Fund Balance: Amounts constrained to specific purposes by their providers through constitutional provisions or by enabling legislation. Restrictions may be changed or lifted only upon the consent of the external resource provider or enabling legislation.
- Committed Fund Balance: Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority. Commitments may be changed or lifted only upon

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

the governing body taking the same formal action that imposed the constraint originally. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

- Assigned Fund Balance: Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned Fund Balance: Amounts that are available for any purpose; these amounts are reported only in the General Fund, except for any deficit fund balance of another governmental fund.

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

Spending Prioritizations

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

Deficit Fund Balance

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

Minimum Fund Balance

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

Interfund Activity

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

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

Operating Revenues and Expenses

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

Estimates

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

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$446,261,457 as of April 1, 2010) and are due in two installments on July 1, 2010 and December 7, 2010. 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, 2011 were \$1,305,955. The City bears responsibility for uncollected taxes.

NOTE 3—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At June 30, 2011 the Capital Projects Fund and Airport Authority Fund, both Nonmajor Governmental Funds, had unassigned deficit fund balances of (\$885,780) and (\$137,798), respectively.

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, 2011, the City was a member of the New Hampshire Public Risk Management Exchange (PRIMEX). The City currently reports all of its risk management activities in its General Fund. The Trust is classified as a "Risk Pool" in accordance with accounting principles generally accepted in the United States of America.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

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, 2011.

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 and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance.

Deposits and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 8,289,424
Investments	1,524,804
Statement of fiduciary net assets:	
Cash and cash equivalents	202,290
Investments	129,999
Total deposits and investments	<u>\$ 10,146,517</u>

Deposits and investments as of June 30, 2011 consist of the following:

Cash on hand	\$ 8,950
Deposits with financial institutions	10,134,868
Investments	2,699
Total deposits and investments	<u>\$ 10,146,517</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City does not have an investment policy regarding credit risk. As of June 30, 2011, the City's investment in the NHPDIP, a state investment pool, is unrated.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City has an investment policy for assurance against custodial credit risk by requiring federal depository insurance or collateralization for all City deposits.

Of the City's deposits with financial institutions at year end \$10,148,243 was collateralized by securities held by the bank in the bank's name.

Investment in NHPDIP

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

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

NOTE 6—DUE FROM OTHER GOVERNMENTS

Receivables from other governments at June 30, 2011 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:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

Governmental activities:

Medicare Part D subsidy reimbursement	\$ 13,504
State and Federal public safety grants	90,183
State of NH Medicaid	4,818
Gorham, New Hampshire School District	12,374
Neighborhood Stabilization Grant	1,053,003
Community Development Block Grant	2,233
Brownfields Assessment and Cleanup Grants	120,760
School lunch program	62,862
Airport improvement program grants	358,325
State and Federal education grants	985,612
Other miscellaneous State of NH	19,513
Berlin Water Works	49,136

Business-type activities:

Cates Hill Landfill - Various Participating Towns	134,166
State of NH - Sewer State Aid Grant	707,661
State of NH - State Revolving Loan Funds	69,293
	<u>\$ 3,683,443</u>

NOTE 7—CAPITAL ASSETS

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

	Balance 07/01/10	Additions	Reductions	Balance 06/30/11
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 711,156			\$ 711,156
Construction in progress	266,413	\$ 3,728,068	\$ (43,796)	3,950,685
Total capital assets not being depreciated	977,569	3,728,068	(43,796)	4,661,841
Other capital assets:				
Infrastructure	8,190,700	594,951		8,785,651
Land improvements	5,172,964			5,172,964
Buildings and improvements	10,647,971	21,755		10,669,726
Vehicles and equipment	8,189,851	476,900		8,666,751
Total other capital assets at historical cost	32,201,486	1,093,606	-	33,295,092
Less accumulated depreciation for:				
Infrastructure	(4,130,478)	(260,062)		(4,390,540)
Land improvements	(2,411,372)	(177,202)		(2,588,574)
Buildings and improvements	(4,494,566)	(211,214)		(4,705,780)
Vehicles and equipment	(4,651,510)	(446,462)		(5,097,972)
Total accumulated depreciation	(15,687,926)	(1,094,940)	-	(16,782,866)
Total other capital assets, net	16,513,560	(1,334)	-	16,512,226
Total capital assets, net	<u>\$ 17,491,129</u>	<u>\$ 3,726,734</u>	<u>\$ (43,796)</u>	<u>\$ 21,174,067</u>

Depreciation expense was charged to governmental functions as follows:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

General government	\$ 13,888
Public safety	132,029
Airport/Aviation center	195,624
Highways and streets	394,495
Health and welfare	4,098
Sanitation	23,151
Culture and recreation	59,554
Education	267,983
Food service	4,118
Total governmental activities depreciation expense	<u>\$ 1,094,940</u>

The balance of the assets acquired through capital leases as of June 30, 2011 is as follows:

Buildings and improvements	\$ 1,652,511
Vehicles and equipment	1,008,238
Less accumulated depreciation for:	
Buildings and improvements	(132,201)
Vehicles and equipment	(472,132)
	<u>\$ 2,056,416</u>

During the year ended June 30, 2011, the State of New Hampshire's Department of Transportation administered a road reconstruction project on a City highway. The City will be responsible for 20% of the project's total cost, with the remaining 80% funded by the State of New Hampshire through a federal grant. On the Statement of Net Assets and the Statement of Activities, \$2,716,958 has been included as an addition to capital assets and a capital contribution, respectively.

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

	Restated Balance 07/01/10	Additions	Reductions	Balance 06/30/11
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 57,672			\$ 57,672
Construction in progress	880,903	\$ 6,384,615		7,265,518
Total capital assets not being depreciated	<u>938,575</u>	<u>6,384,615</u>	<u>\$ -</u>	<u>7,323,190</u>
Other capital assets:				
Buildings and improvements	39,756,447			39,756,447
Vehicles and equipment	851,143			851,143
Total other capital assets at historical cost	<u>40,607,590</u>	<u>-</u>	<u>-</u>	<u>40,607,590</u>
Less accumulated depreciation for:				
Buildings and improvements	(20,917,420)	(923,123)		(21,840,543)
Vehicles and equipment	(796,964)	(11,483)		(808,447)
Total accumulated depreciation	<u>(21,714,384)</u>	<u>(934,606)</u>	<u>-</u>	<u>(22,648,990)</u>
Total other capital assets, net	<u>18,893,206</u>	<u>(934,606)</u>	<u>-</u>	<u>17,958,600</u>
Total capital assets, net	<u>\$ 19,831,781</u>	<u>\$ 5,450,009</u>	<u>\$ -</u>	<u>\$ 25,281,790</u>

Depreciation expense was charged to proprietary funds as follows:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

Sewer Fund	\$ 887,224
Nonmajor Funds	<u>47,382</u>
Total business-type activities depreciation expense	<u>\$ 934,606</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 14.63%, 18.52%, 8.02%, and 9.16%, respectively. The City contributes 75% of the employer cost for police officers, fire employees, and teachers, and the State contributes the remaining 25% 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 \$314,739 and \$22,272 have been reported as a revenue and expenditure of the General Fund and Federal Projects Fund, respectively, 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, 2011, 2010, and 2009 were \$1,378,805, \$1,314,034, and \$1,130,821, respectively, equal to the required contributions for each year.

NOTE 9—OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the City provides healthcare and life insurance benefits to its eligible retirees and their spouses and dependents. Most regular active employees who retire directly from the City and meet the eligibility criteria may participate. The amount the City pays for medical and life insurance premiums for retirees and their spouses varies by employee group. All eligible employees are allowed to continue medical coverage under the City plan for the lifetime of the employee; however, for most employee groups this coverage is not paid for by the City. Board of Education employees are eligible at age 55 with 5 years of service and receive life insurance coverage with no cost to the retiree. Employees who are members of OPEIU/Local 345 or the Teamsters and Non-Union Supervisory Employees/Local 633 are eligible at age 62 and 10 years of service. Employees who are members of Local 1444 are eligible at age 62. Police and Fire employees are eligible after 20 years of service and are eligible for the NHRS subsidy at age 45 with 20 years of service. The City pays for 100% of the cost of

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

life insurance premiums for all groups. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of July 1, 2010, the most recent actuarial valuation date, approximately 71 retirees (excludes 131 retirees with post-65 medical coverage not subsidized by the City) and 248 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

Annual OPEB Costs

The City's fiscal 2011 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, 2011 including the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2010 is as follows:

Annual Required Contribution (ARC)	\$ 395,640
Interest on net OPEB obligation	6,750
Amortization of net OPEB obligation	(5,225)
Annual OPEB cost	397,165
Contributions made	(361,664)
Increase in net OPEB obligation	35,501
Net OPEB obligation - beginning of year	150,000
Net OPEB obligation - end of year	<u>\$ 185,501</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2011, 2010 and 2009 are as follows:

Fiscal Year <u>Ended</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
6/30/2009	\$ 443,000	76.3%	\$ 105,000
6/30/2010	\$ 465,000	90.3%	\$ 150,000
6/30/2011	\$ 397,165	91.1%	\$ 185,501

The City's total net OPEB obligation as of June 30, 2011 is recognized as a liability in these financial statements.

Funded Status and Funding Progress for OPEB

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

Actuarial Accrued Liability (AAL)	\$ 5,335,764
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 5,335,764</u>
Funded ratio (actuarial value of plan assets/AAL)	0%

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

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, 2010 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 4.5% investment rate of return (discount rate) and an initial annual healthcare cost trend rate of 9.5% which decreases to a 5.0% long-term rate for all medical benefits after ten years. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level percentage of pay for a period of thirty years on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5% per year.

NOTE 10—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the City's long-term obligations for the year ended June 30, 2011 are as follows:

	Balance 07/01/10	Additions	Reductions	Balance 06/30/11	Due Within One Year
Governmental activities:					
Bonds payable	\$ 1,596,922		\$ (456,703)	\$ 1,140,219	\$ 456,703
Note payable	500,643	\$ 1,100,000	(52,309)	1,548,334	563,312
Capital leases payable	1,579,712		(262,479)	1,317,233	273,958
Compensated absences payable	1,731,576	39,236	(145,901)	1,624,911	33,648
Estimated liability for landfill postclosure care costs	178,883	5,473	(3,556)	180,800	11,300
Total governmental activities	<u>\$ 5,587,736</u>	<u>\$ 1,144,709</u>	<u>\$ (920,948)</u>	<u>\$ 5,811,497</u>	<u>\$ 1,338,921</u>

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

	Balance 07/01/10	Additions	Reductions	Balance 06/30/11	Due Within One Year
Business-type activities:					
Bonds payable	\$ 4,701,214		\$ (128,133)	\$ 4,573,081	\$ 133,638
Notes payable	411,619		(60,338)	351,281	63,426
Other long-term obligations	-	\$ 430,564		430,564	
Compensated absences payable	81,465	2,221	(18,690)	64,996	
Estimated liability for landfill postclosure care costs	250,000	58,649	(9,749)	298,900	12,450
Total business-type activities	<u>\$ 5,444,298</u>	<u>\$ 491,434</u>	<u>\$ (216,910)</u>	<u>\$ 5,718,822</u>	<u>\$ 209,514</u>
Component unit:					
Bonds payable	\$ 9,484,507	\$ 234,000	\$(1,139,901)	\$ 8,578,606	\$ 1,150,681
Total component unit	<u>\$ 9,484,507</u>	<u>\$ 234,000</u>	<u>\$(1,139,901)</u>	<u>\$ 8,578,606</u>	<u>\$ 1,150,681</u>

Payments on the general obligation bonds, notes payable and landfill postclosure care costs of the business-type activities are paid out of the Sewer, Industrial Development and Park Authority and Cates Hill Landfill Funds, respectively. The compensated absences will be paid from the 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, 2011 are comprised of the following individual issues:

\$1,134,062 Landfill Closure Bonds due in annual installments of \$56,703 through November 2016; interest at 4.48%	\$ 340,219
\$4,500,000 State Guaranteed School Improvement Bonds due in annual installments of \$300,000 through January 2013; interest at 4.15% - 4.9%	600,000
\$1,500,000 School Improvement Bonds due in annual installments of \$100,000 through January 2013; interest at 4.3% - 4.95%	<u>200,000</u>
	<u>\$ 1,140,219</u>

Debt service requirements to retire general obligation bonds for governmental activities at June 30, 2011 are as follows:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

Year Ending June 30,	Principal	Interest	Totals
2012	\$ 456,703	\$ 54,142	\$ 510,845
2013	456,703	32,351	489,054
2014	56,703	10,161	66,864
2015	56,703	7,621	64,324
2016	56,703	5,081	61,784
2017	56,704	2,540	59,244
	<u>\$ 1,140,219</u>	<u>\$ 111,896</u>	<u>\$ 1,252,115</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, 2011, the landfill closure reimbursement was \$11,073.

As included on the Statement of Activities (Exhibit B), interest expense for the year ended June 30, 2011 was \$225,377 on general obligation debt for governmental activities.

Business-type Activities:

Bonds payable at June 30, 2011 is comprised of the following individual issue:

\$5,000,000 Sewer Fund Wastewater Treatment Facility Bond due in semi-annual installments of \$163,350 through September 2032; including interest at 4.25%	<u>\$ 4,573,081</u>
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Debt service requirements to retire general obligation bonds for business-type activities at June 30, 2011 are as follows:

Year Ending June 30,	Principal	Interest	Totals
2012	\$ 133,638	\$ 193,062	\$ 326,700
2013	139,380	187,320	326,700
2014	145,369	181,331	326,700
2015	151,615	175,085	326,700
2016	158,129	168,571	326,700
2017-2021	898,588	734,912	1,633,500
2022-2026	1,108,949	524,551	1,633,500
2027-2031	1,368,557	264,943	1,633,500
2032-2033	468,856	20,119	488,975
	<u>\$ 4,573,081</u>	<u>\$ 2,449,894</u>	<u>\$ 7,022,975</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, 2011, the sewer related reimbursement was \$51,770.

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, 2011 was \$201,978 on general obligation debt for business-type activities.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

Component Unit:

Bonds payable at June 30, 2011 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%	\$ 450,000
Bond payable due in annual installments of \$150,000 through August 2014; interest at 6.125% - 7.0%	600,000
Bond payable due in annual installments of \$305,000 through August 2015; interest at 5.25% - 5.625%	1,525,000
State revolving loan payable due in variable annual installments of \$110,477 to \$14,462 through December 2020; interest at 3.8%	731,725
State revolving loan payable due in variable annual installments of \$142,470 to \$18,479 through November 2020; interest at 3.8%	943,495
State revolving loan payable due in variable annual installments of \$56,016 to \$6,934 through December 2021; interest at 3.704%	416,263
State revolving loan payable due in variable annual installments of \$137,384 to \$17,007 through December 2021; interest at 3.704%	1,020,922
State revolving loan payable due in variable annual installments of \$103,859 to \$53,742 through May 2023; interest at 3.728%	1,327,206
State revolving loan payable due in variable annual installments of \$132,242 to \$100,537 through September 2024; interest at 3.688%	1,329,995
Bond payable due in variable annual installments through December 2040; interest at 2.25%	234,000
	<u>\$ 8,578,606</u>

Debt service requirements to retire general obligation bonds for the component unit at June 30, 2011 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 1,150,681	\$ 352,647	\$ 1,503,328
2013	1,155,085	297,651	1,452,736
2014	1,158,230	242,443	1,400,673
2015	1,009,694	191,284	1,200,978
2016	858,862	147,418	1,006,280
2017-2021	2,477,116	396,938	2,874,054
2022-2026	632,598	60,102	692,700
2027-2031	40,499	13,556	54,055

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

2032-2036	45,265	8,791	54,056
2037-2041	50,576	3,464	54,040
	<u>\$ 8,578,606</u>	<u>\$ 1,714,294</u>	<u>\$ 10,292,900</u>

Interest expense for the year ended June 30, 2011 was \$392,729 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, 2011, the reimbursement was \$770,044, which consists of \$605,000 in principal and \$165,044 in interest.

Notes Payable

Governmental Activities:

Notes payable for governmental activities at June 30, 2011 is comprised of the following individual issue:

\$1,655,000 Notes payable for various capital projects due in semi-annual installments of \$206,068 through December 2014; including interest at 2.990%	<u>\$ 1,548,334</u>
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Debt service requirements to retire notes payable for governmental activities at June 30, 2011 are as follows:

Year Ending June 30,	Principal	Interest	Totals
2012	\$ 563,312	\$ 55,798	\$ 619,110
2013	385,146	26,990	412,136
2014	396,910	15,225	412,135
2015	202,966	3,102	206,068
	<u>\$ 1,548,334</u>	<u>\$ 101,115</u>	<u>\$ 1,649,449</u>

As included on the Statement of Activities (Exhibit B), interest expense for the year ended June 30, 2011 was \$24,940 on notes payable for governmental activities.

Business-type Activities:

Notes payable for business-type activities at June 30, 2011 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>\$ 351,281</u>
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CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

Debt service requirements to retire notes payable for business-type activities at June 30, 2011 are as follows:

Year Ending June 30,	Principal	Interest	Totals
2012	\$ 63,426	\$ 16,124	\$ 79,550
2013	66,671	12,879	79,550
2014	70,081	9,467	79,548
2015	73,667	5,882	79,549
2016	77,436	2,112	79,548
	<u>\$ 351,281</u>	<u>\$ 46,464</u>	<u>\$ 397,745</u>

As included on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds (Exhibit F), interest expense for the year ended June 30, 2011 was \$19,211 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, 2011:

Equipment, due in annual installments of \$69,673, including interest at 4.09%, through April 2013	\$ 134,712
Equipment, due in annual installments of \$49,515, including interest at 4.65%, through September 2012	92,527
Equipment, due in annual installments of \$210,513, including interest at 4.295%, through July 2016	1,089,994
	<u>\$ 1,317,233</u>

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2011 are as follows:

Year Ending June 30,	Principal	Interest	Totals
2012	\$ 273,958	\$ 55,742	\$ 329,700
2013	285,941	43,800	329,741
2014	177,337	33,176	210,513
2015	185,105	25,407	210,512
2016	193,214	17,298	210,512
2017	201,678	8,835	210,513
	<u>\$ 1,317,233</u>	<u>\$ 184,258</u>	<u>\$ 1,501,491</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

Other Long-Term Obligations

The City has drawn \$430,564 of approximately \$15,000,000 in funds under the State of New Hampshire, State Water Pollution Control Revolving Loan Fund Program for improvements to the Wastewater Treatment Facility. Payments are not scheduled to commence until the first anniversary of the scheduled completion date of the project or the date of substantial completion, whichever is earliest. Interest is accrued at 1% during the construction period of the project and is to be paid upon completion of the construction project within the following year. Total funding to date of \$430,564 has been reported as 'Other long-term obligations' of the business-type activities.

Authorized and Unissued Debt

The following debt was authorized and unissued as of June 30, 2011:

Governmental Funds:	
Capital Improvements Projects	\$ 3,345,000
Business-type Funds:	
Sewer Wastewater Treatment Facility Phase II	15,000,000
Industrial Development Revenue Bonds - Greenova Project	10,000,000
	<u>\$ 28,345,000</u>

NOTE 11—LANDFILL POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the City place final covers on its two landfills when closed and perform certain maintenance and monitoring functions at the landfill sites for thirty years after closure. An estimated liability has been recorded based on the future post-closure care costs that will be incurred. The estimated liability for landfill post-closure care costs for the two landfills has a balance of \$479,700 as of June 30, 2011. The estimated liability for the post-closure care costs of the East Milan landfill (\$180,800) and the Cates Hill landfill (\$298,900) have been reported as a liability of the Governmental Activities and the Cates Hill Landfill Proprietary Fund, respectively. The East Milan landfill was capped during fiscal year 1997, and the Cates Hill landfill was capped during fiscal year 2005. The estimated total current cost of the landfill post-closure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfills were acquired as of June 30, 2011. However, the actual cost of post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The closure costs of the East Milan landfill were financed through the issuance of debt under the State of New Hampshire, State Water Pollution Control Revolving Fund Program. The remaining post-closure care costs for the East Milan landfill are expected to be financed through annual taxation.

The City has entered into an inter-municipal agreement with surrounding communities for the reimbursement of their share of the Cates Hill landfill closure and post-closure care costs. The remaining post-closure care costs for the Cates Hill landfill are expected to be financed from the motor vehicle surcharges previously collected in the Cates Hill Landfill Fund.

The following is a summary of changes in the estimated liability for post-closure care costs for the year ended June 30, 2011:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

	Governmental activities	Business-type activities	Totals
Balance - July 1, 2010	\$ 178,883	\$ 250,000	\$ 428,883
Current year expenditures	(3,556)	(9,749)	(13,305)
Net change in estimated liability for postclosure care costs	5,473	58,649	64,122
Balance - June 30, 2011	<u>\$ 180,800</u>	<u>\$ 298,900</u>	<u>\$ 479,700</u>

NOTE 12—INTERFUND BALANCES AND TRANSFERS

The City has combined the cash resources of its governmental and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance. Interfund balances at June 30, 2011 are as follows:

	Due from				Totals
	General Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Fiduciary Funds	
General Fund		\$ 3,381,539	\$ 110,438	\$ 1,399	\$ 3,493,376
Nonmajor Governmental Funds	\$ 57,209	21,890			79,099
Sewer Fund	5,471,003				5,471,003
Nonmajor Enterprise Funds	611,729				611,729
	<u>\$ 6,139,941</u>	<u>\$ 3,403,429</u>	<u>\$ 110,438</u>	<u>\$ 1,399</u>	<u>\$ 9,655,207</u>

During the year, an interfund transaction occurred between funds. The transfer was made in accordance with budgetary authorization. The Permanent Funds, a Nonmajor Governmental Fund, made a transfer of \$8,647 to the General Fund for the reimbursement of lot care expenses.

NOTE 13—PERMANENT FUNDS

Cemetery care funds are accounted for as permanent funds in these financial statements. 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, 2011 are as follows:

	Principal	Income	Total
Cemetery Funds	<u>\$ 148,478</u>	<u>\$ 214,512</u>	<u>\$ 362,990</u>

NOTE 14—RESTRICTED NET ASSETS

Net assets are restricted for specific purposes as follows:

Permanent funds - Endowments	\$ 148,478
Permanent funds - Income	214,512
School donation funds	1,169
	<u>\$ 364,159</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 15—COMPONENTS OF FUND BALANCE

The components of the City's fund balance for its governmental funds at June 30, 2011 are as follows:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Prepaid expenses	\$ 1,689	\$ 20,835	\$ 22,524
Endowments		148,478	148,478
Inventory		12,690	12,690
Tax deeded properties	687,603		687,603
Restricted for:			
Permanent funds		214,512	214,512
School donation funds		1,169	1,169
Committed for:			
Recreation and parks programs		23,621	23,621
Assigned for:			
Continuing appropriations	427,725		427,725
Encumbrances	80,802		80,802
Unity Street Park	335		335
Food service operations		87,829	87,829
Health department		2,333	2,333
Mt. Carberry		5,821	5,821
Unassigned (deficit):			
Unassigned - General operations	2,557,616		2,557,616
Capital projects		(885,780)	(885,780)
Airport Authority		(137,798)	(137,798)
	<u>\$ 3,755,770</u>	<u>\$ (506,290)</u>	<u>\$ 3,249,480</u>

NOTE 16—TOP TAXPAYERS

The following are the five major property owners as they relate to the City's total assessed property valuation of \$446,261,457 (as of April 1, 2010):

<u>Taxpayer</u>	<u>Property Valuation</u>	<u>Percentage of Total Valuation</u>
Public Service of New Hampshire	\$ 63,677,600	14.27%
Great Lakes Hydro America, LLC	35,400,000	7.93%
Portland Natural Gas	14,794,000	3.32%
PJPD Holdings, LLC	5,161,500	1.16%
Issacson Structural Steel, Inc	2,617,700	0.59%

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 17—COMMITMENTS

Ambulance Contract

During 2007, the City entered into a long-term agreement with an independent company to provide emergency ambulance services. The agreement shall be in effect from July 1, 2007 through June 30, 2010, with an automatic three year renewal until June 30, 2013. Terms of the contract include minimum payments, which are payable in monthly installments of \$20,000. For the year ended June 30, 2011, the City expended \$234,000 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. For the year ended June 30, 2011, the City expended and recognized revenue in the amount of \$5,038,627 for the sewer line connection.

NOTE 18—CONTINGENT LIABILITIES

Litigation

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

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 19—RESTATEMENT OF EQUITY

Proprietary Fund Statements

During the year ended June 30, 2011, it was determined that the balance due from other governments and the capital assets of the Sewer Fund, a Major Proprietary Fund, were understated and overstated, respectively. Also, it was concluded that accounts receivable of the Cates Hill Landfill Fund, a Nonmajor Proprietary Fund, were understated.

The impact of these restatements on the proprietary funds as of July 1, 2010 is as follows:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

	Sewer Fund	Nonmajor Enterprise Funds
Net Assets - July 1, 2010 (as previously reported)	\$ 19,675,119	\$ 1,873,392
Amount of restatement due to:		
Understatement of due from other governments	727,925	
Overstatement of capital assets	(777,993)	
Understatement of accounts receivable		19,334
Net Assets - July 1, 2010, as restated	<u>\$ 19,625,051</u>	<u>\$ 1,892,726</u>

NOTE 20—SUBSEQUENT EVENTS

During October 2011, the City issued notes payable for various capital projects in the amount of \$1,000,000. The notes payable have an interest rate of 2.99% and mature on December 2014.

SCHEDULE 1
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2011

	<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	\$ 13,916,012	\$ 13,916,012	\$ 13,872,600	\$ (43,412)
Licenses and permits	1,130,150	1,130,150	1,135,293	5,143
Intergovernmental	13,183,950	13,183,950	13,143,907	(40,043)
Charges for services	2,228,053	2,246,481	2,120,485	(125,996)
Interest income	65,000	65,000	12,924	(52,076)
Miscellaneous	142,350	142,350	128,999	(13,351)
Total Revenues	<u>30,665,515</u>	<u>30,683,943</u>	<u>30,414,208</u>	<u>(269,735)</u>
Expenditures:				
Current:				
General government	2,116,774	2,116,774	2,227,335	(110,561)
Public safety	4,891,547	4,932,010	4,764,022	167,988
Highways and streets	2,051,015	2,051,015	1,998,445	52,570
Health and welfare	655,941	655,941	663,532	(7,591)
Sanitation	955,287	955,287	885,212	70,075
Culture and recreation	577,288	577,753	587,066	(9,313)
Education	15,775,124	15,775,124	15,585,100	190,024
Capital outlay	946,165	518,440	572,808	(54,368)
Debt service:				
Principal retirement	2,140,757	2,140,757	1,303,688	837,069
Interest and fiscal charges	255,187	255,187	265,866	(10,679)
Lease payments	329,700	329,700	329,700	-
Intergovernmental	1,305,955	1,305,955	1,305,955	-
Total Expenditures	<u>32,000,740</u>	<u>31,613,943</u>	<u>30,488,729</u>	<u>1,125,214</u>
Excess of revenues over (under) expenditures	<u>(1,335,225)</u>	<u>(930,000)</u>	<u>(74,521)</u>	<u>855,479</u>
Other financing sources:				
Transfers in	<u>7,645</u>	<u>7,645</u>	<u>8,647</u>	<u>1,002</u>
Total other financing sources	<u>7,645</u>	<u>7,645</u>	<u>8,647</u>	<u>1,002</u>
Net change in fund balance	(1,327,580)	(922,355)	(65,874)	856,481
Fund balance at beginning of year, as restated				
- Budgetary Basis	<u>4,445,690</u>	<u>4,445,690</u>	<u>4,445,690</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 3,118,110</u>	<u>\$ 3,523,335</u>	<u>\$ 4,379,816</u>	<u>\$ 856,481</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, 2011

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

See accompanying notes to the required supplementary information

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2011

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 revenues and expenditures were adjusted for encumbrances and on-behalf payments for fringe benefits, as follows:

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Per Exhibit D	\$ 30,667,818	\$ 30,779,505
Difference in property taxes meeting susceptible to accrual criteria	69,776	
Encumbrances, June 30, 2011		80,802
Encumbrances, June 30, 2010		(56,839)
On-behalf fringe benefits	(314,739)	(314,739)
Per Schedule I	<u>\$ 30,422,855</u>	<u>\$ 30,488,729</u>

NOTE 2—BUDGETARY FUND BALANCE

The components of the budgetary fund balance for the General Fund at June 30, 2011 are as follows:

<i>Nonspendable:</i>	
Tax deeded property	\$ 687,603
Prepaid expenses	1,689
<i>Assigned for:</i>	
Continuing appropriations	427,725
Unity Street Park	335
<i>Unassigned:</i>	
Unassigned - General operations	<u>3,262,464</u>
	<u>\$ 4,379,816</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
June 30, 2011

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

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

SCHEDULE I
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF AGRICULTURE		
Pass Through Payments from New Hampshire		
Department of Education		
School Breakfast Program	10.553	\$ 76,752
National School Lunch Program	10.555	291,533
Special Milk Program for Children	10.556	1,547
Fresh Fruit and Vegetable Program	10.582	36,916
Total Department of Agriculture		<u>406,748</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Pass Through Payments from New Hampshire		
Community Development Finance Authority		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	
#06-053-CDHS		3,606
#09-053-NSPH		2,546,254
#10-053-CDED		5,768
Total Department of Housing and Urban Development		<u>2,555,628</u>
DEPARTMENT OF JUSTICE		
Received directly from U.S. Treasury Department		
Public Safety Partnership and Community Policing Grants #20100245	16.710	39,771
Enforcing Underage Drinking Laws Program #2010CD25	16.727	11,952
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program/Grants to Units of Local Government	16.804	
#2009-SB-B9-0508		8,338
#2009-DJ-BX-0168		3,654
		<u>11,992</u>
Total Department of Justice		<u>63,715</u>
DEPARTMENT OF TRANSPORTATION		
Pass Through Payments from New Hampshire		
Department of Transportation		
Airport Improvement Program #SBG-01-03-2010	20.106	309,287
State and Community Highway Safety	20.600	
#314-10B-004		4,579
#315-10B-064		2,664
#315-10B-065		625
#315-10B-066		950
#315-10B-088		308
#314-11B-003		273
#315-11B-085		547
#315-11B-089		1,098
		<u>11,044</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, 2011

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
DEPARTMENT OF TRANSPORTATION (CONTINUED)		
Alcohol Impaired Driving Countermeasures		
Incentive Grants I	20.601	
#308-10B-048		2,587
#308-10B-171		4,421
#308-11B-079		1,237
		<u>8,245</u>
 Safety Belt Performance Grants	 20.609	
#304-11B-030		<u>2,721</u>
Total Department of Transportation		<u>331,297</u>
ENVIRONMENTAL PROTECTION AGENCY		
Pass Through Payments from New Hampshire		
Department of Environmental Services		
Brownfields Assessment and Cleanup Cooperative Agreements,		
Recovery Program	66.818	
#BF-96112501		7,333
#13928		113,426
Total Environmental Protection Agency		<u>120,759</u>
DEPARTMENT OF ENERGY		
Received Directly from U.S. Treasury Department		
Energy Efficiency and Conservation Block Grant Program		
(EECBG), Recovery Program	81.128	
#DE-EE0003576		2,074
Total Department of Energy		<u>2,074</u>
DEPARTMENT OF EDUCATION		
Pass Through Payments from New Hampshire		
Department of Education		
Title I Grants to Local Educational Agencies	84.010	
#00012		34,334
#00173		10,381
#10012		623,197
#10174		3,775
#10175		9,354
		<u>681,041</u>
 Special Education - Grants to States	 84.027	
#12513		<u>335,599</u>
 Career and Technical Education - Basic Grants to States	 84.048	
#05011		<u>16,157</u>
 Special Education - Preschool Grants	 84.173	
#12736		<u>11,299</u>
 Safe and Drug-Free Schools and Communities - National Programs	 84.184	
		<u>208,448</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, 2011

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF EDUCATION (CONTINUED)		
Twenty-First Century Community Learning Centers #16282	84.287	<u>173,218</u>
Rural Education #16242	84.358	<u>25,028</u>
Improving Teacher Quality State Grants #04643	84.367	7,163
#04967		46,739
#14798		<u>175,466</u>
		<u>229,368</u>
Title I Grants to Local Educational Agencies, Recovery Act	84.389	<u>288,095</u>
Special Education - Grants to States, Recovery Act	84.391	<u>204,609</u>
Special Education - Preschool Grants, Recovery Act	84.392	<u>5,020</u>
Education Jobs Fund	84.410	<u>376,493</u>
Total Department of Education		<u>2,554,375</u>
DEPARTMENT OF HOMELAND SECURITY		
Pass Through Payments from New Hampshire Department of Homeland Security Homeland Security Grant Program #2008-SHSP-Berlin	97.067	<u>51,890</u>
Total Department of Homeland Security		<u>51,890</u>
Total Expenditures of Federal Awards		<u>\$ 6,086,486</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, 2011

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. All federal funds are included on the schedule.

NOTE 2—BASIS OF ACCOUNTING

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

NOTE 3—NON-CASH TRANSACTIONS

The City participates in the USDA Food Distribution Program which is a non-cash program. On the Schedule of Expenditures of Federal Awards, \$34,580 has been reported as part of the National School Lunch Program which represents the value of commodities received by the City.

NOTE 4—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

Major Fund:	
General Fund	\$ 416,264
Nonmajor Governmental Funds:	
Federal Projects Fund	2,177,882
Food Service Fund	372,168
Airport Authority Fund	309,287
Grants Fund	220,677
CDBG Fund	9,374
Neighborhood Stabilization Grant Fund	2,546,254
	<u>\$ 6,051,906</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, 2011, which collectively comprise the City of Berlin, New Hampshire's basic financial statements, and have issued our report thereon dated June 6, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Berlin Water Works, component unit of the City, as described in our report on the City of Berlin, New Hampshire's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings #2011-01 and #2011-02 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Berlin, New Hampshire in a separate letter dated June 6, 2012.

The City of Berlin, New Hampshire's responses to the findings identified in our audit are 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 solely for the information and use of management, the Honorable Mayor, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Vaughan Clarke & Company PC

June 6, 2012

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

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

Compliance

We have audited the City of Berlin, New Hampshire's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Berlin, New Hampshire's major federal programs for the year ended June 30, 2011. The City of Berlin, New Hampshire's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Berlin, New Hampshire's management. Our responsibility is to express an opinion on the City of Berlin, New Hampshire's compliance based on our audit.

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

In our opinion, the City of Berlin, New Hampshire complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

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

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

Vaughan Chubb & Company PC

June 6, 2012

City of Berlin, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

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? X yes no

Significant deficiency(ies) identified
not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? yes X none reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants/State's Program
66.818	Brownfields Assessment and Cleanup Cooperative Agreements, Recovery Program
84.010 & 84.389	Title I, Part A Cluster
84.027, 84.173, 84.391 & 84.392	Special Education Cluster (IDEA)
84.410	Education Jobs Fund

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

Auditee qualified as low-risk auditee? yes X no

Section II—Financial Statement Findings

The following finding relating to the internal control structure is required to be reported by GAGAS.

Finding #2011-01 – Override of Payroll Controls

Criteria: Employers must deduct and withhold employee income taxes in accordance with the tables and computational procedures prescribed by the IRS under Section 3402(a) (1).

Condition: A City finance department employee in a management role circumvented the City's normal payroll policies and procedures by directly making entries and adjustments into the City's payroll system to income tax withholdings and deductions which resulted in personal benefit.

Context: A City finance department employee in a management role adjusted their payroll withholdings for personal benefit during two consecutive pay periods before it was reported to City Management by the City's Payroll Clerk.

Effect: Controls over the City's payroll process are weakened as the established payroll policies and procedures are not being properly adhered to. As a result, the City could be subject to penalties and fines for failure to comply with income tax withholding requirements.

Cause: A City finance department employee in a management role was able to override the City's payroll policies and procedures by directly making adjustments to their individual tax withholding calculation in the City's payroll system.

Recommendation: We recommend that the City contact their payroll software vendor regarding the ability to override the payroll system and adjust or change withholding calculations. The payroll software should prohibit such entries into the system, as withholdings should be based on a master file that is based on the most up to date employee W-4's.

Views of Responsible Officials and Planned Corrective Actions: The City accepts and agrees with this recommendation with the following caveat; as suggested by the auditors, the City contacted the payroll software vendor regarding the above issue and was told that the vendor could not prohibit such entries from being made to the system because legitimate adjustments to the system need to be made from time to time. The City has adopted a written policy which requires that no individual employee in the finance department have the authority to perform such an override of the system and that both the Finance Director and Assistant Finance Director must sign-off before such an override could occur.

Finding #2011-02 – General Ledger Accounting

Condition: Numerous accounts in the City's general ledger accounting system were not reconciled by the City's finance personnel within an acceptable time frame.

Context: City finance personnel did not complete/perform numerous general ledger account reconciliations until several months after the City's fiscal year end, which delayed the audit and financial reporting process.

Effect: Controls over the City's general ledger accounting system are weakened as the reconciliation process is not being completed in a timely manner. As a result, errors or mispostings can remain undetected and financial decisions may be made by City Management on incomplete or incorrect data. Additionally, the delay in the audit and reporting process diminishes the usefulness of the financial statements, as management responses to audit recommendations may not be implemented in a timely manner.

Cause: The City's finance personnel did not complete general ledger account reconciliations in a timely manner.

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 controls over the recorded account balances. Any discrepancies should be identified and properly adjusted in a timely manner. This will ensure an accurate financial position of the City will be available upon which management and City Council may make important business decisions.

Views of Responsible Officials and Planned Corrective Actions: The City accepts and agrees with this recommendation and will implement the recommendation as described. The City is on its third Finance Director in as many years and is only now beginning to sort out issues and areas where the finance department had fallen behind. All accounts are now reconciled on a monthly basis.

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, 2011

	Special Revenue Funds	Permanent Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 204,002	\$ 1,249		\$ 205,251
Investments		358,579		358,579
Accounts receivable	3,572			3,572
Due from other governments	2,663,156			2,663,156
Due from other funds	75,937	3,162		79,099
Prepaid expenses	20,835			20,835
Inventory	12,690			12,690
Total Assets	<u>\$ 2,980,192</u>	<u>\$ 362,990</u>	<u>\$ -</u>	<u>\$ 3,343,182</u>
LIABILITIES				
Accounts payable	\$ 303,469			\$ 303,469
Accrued expenses	3,428			3,428
Retainage payable			\$ 10,457	10,457
Deferred revenue	128,689			128,689
Due to other funds	2,528,106		875,323	3,403,429
Total Liabilities	<u>2,963,692</u>	<u>\$ -</u>	<u>885,780</u>	<u>3,849,472</u>
FUND BALANCES				
Nonspendable	33,525	148,478		182,003
Restricted	1,169	214,512		215,681
Committed	23,621			23,621
Assigned	95,983			95,983
Unassigned (deficit)	(137,798)		(885,780)	(1,023,578)
Total Fund Balances (deficit)	<u>16,500</u>	<u>362,990</u>	<u>(885,780)</u>	<u>(506,290)</u>
Total Liabilities and Fund Balances	<u>\$ 2,980,192</u>	<u>\$ 362,990</u>	<u>\$ -</u>	<u>\$ 3,343,182</u>

SCHEDULE A-1
CITY OF BERLIN, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Special Revenue Funds
June 30, 2011

	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		\$ 239		\$ 3,008	\$ 999	\$ 2,334		\$ 200,994		\$ 204,002
Accounts receivable	\$ 985,612	62,862	\$ 358,325			201,121	\$ 2,233	1,053,003		3,572
Due from other governments		25,175			4,950	21,890			\$ 23,922	2,663,156
Due from other funds			20,835							75,937
Prepaid expenses		12,690								20,835
Inventory										12,690
Total Assets	<u>\$ 985,612</u>	<u>\$ 100,966</u>	<u>\$ 379,160</u>	<u>\$ 3,008</u>	<u>\$ 5,949</u>	<u>\$ 225,345</u>	<u>\$ 2,233</u>	<u>\$ 1,253,997</u>	<u>\$ 23,922</u>	<u>\$ 2,980,192</u>
LIABILITIES										
Accounts payable	\$ 80,371	\$ 447	\$ 42,509		\$ 128	\$ 115,188	\$ 105	\$ 64,563	\$ 263	\$ 303,469
Accrued expenses			1,855			1,222		208	38	3,428
Deferred revenue	43,008					85,681				128,689
Due to other funds	861,064		451,759	\$ 675		23,254	2,128	1,189,226		2,528,106
Total Liabilities	<u>984,443</u>	<u>447</u>	<u>496,123</u>	<u>675</u>	<u>128</u>	<u>225,345</u>	<u>2,233</u>	<u>1,253,997</u>	<u>301</u>	<u>2,963,692</u>
FUND BALANCES										
Nonspendable		12,690	20,835							33,525
Restricted	1,169									1,169
Committed									23,621	23,621
Assigned		87,829		2,333	5,821					95,983
Unassigned (deficit)			(137,798)							(137,798)
Total Fund Balances (deficit)	<u>1,169</u>	<u>100,519</u>	<u>(116,963)</u>	<u>2,333</u>	<u>5,821</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,621</u>	<u>16,500</u>
Total Liabilities and Fund Balances	<u>\$ 985,612</u>	<u>\$ 100,966</u>	<u>\$ 379,160</u>	<u>\$ 3,008</u>	<u>\$ 5,949</u>	<u>\$ 225,345</u>	<u>\$ 2,233</u>	<u>\$ 1,253,997</u>	<u>\$ 23,922</u>	<u>\$ 2,980,192</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, 2011

	Special Revenue <u>Funds</u>	Permanent <u>Funds</u>	Capital Projects <u>Fund</u>	Total Nonmajor Governmental <u>Funds</u>
Revenues:				
Intergovernmental	\$ 5,830,889			\$ 5,830,889
Charges for services	369,483			369,483
Interest income	2	\$ 7,045		7,047
Miscellaneous	135,712	525		136,237
Total Revenues	<u>6,336,086</u>	<u>7,570</u>	<u>\$ -</u>	<u>6,343,656</u>
Expenditures:				
Current operations:				
General government	2,613	25		2,638
Public safety	104,606			104,606
Airport/Aviation center	167,855			167,855
Health and welfare	543			543
Sanitation	469			469
Culture and recreation	58,180			58,180
Economic development	2,676,388			2,676,388
Education	2,435,354			2,435,354
Food service	603,399			603,399
Capital outlay	325,565		1,841,870	2,167,435
Total Expenditures	<u>6,374,972</u>	<u>25</u>	<u>1,841,870</u>	<u>8,216,867</u>
Excess of revenues over (under) expenditures	<u>(38,886)</u>	<u>7,545</u>	<u>(1,841,870)</u>	<u>(1,873,211)</u>
Other financing sources (uses):				
Proceeds from note payable issued			1,100,000	1,100,000
Transfers out		(8,647)		(8,647)
Total other financing sources (uses)	<u>-</u>	<u>(8,647)</u>	<u>1,100,000</u>	<u>1,091,353</u>
Net change in fund balances	(38,886)	(1,102)	(741,870)	(781,858)
Fund balances (deficit) at beginning of year	<u>55,386</u>	<u>364,092</u>	<u>(143,910)</u>	<u>275,568</u>
Fund balances (deficit) at end of year	<u>\$ 16,500</u>	<u>\$ 362,990</u>	<u>\$ (885,780)</u>	<u>\$ (506,290)</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, 2011

	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	\$ 2,342,774	\$ 381,870	\$ 325,565			\$ 225,052	\$ 9,374	\$ 2,546,254	\$ 40,159	\$ 5,830,889
Charges for services		191,789	135,531		\$ 2,004					369,483
Interest income				\$ 2						2
Miscellaneous	92,580		22,000	1,182		19,950				135,712
Total Revenues	<u>2,435,354</u>	<u>573,659</u>	<u>483,096</u>	<u>1,184</u>	<u>2,004</u>	<u>245,002</u>	<u>9,374</u>	<u>2,546,254</u>	<u>40,159</u>	<u>6,336,086</u>
Expenditures:										
Current operations:										
General government						2,613				2,613
Public safety						104,606				104,606
Airport/Aviation center			167,855							167,855
Health and welfare				543						543
Sanitation					469					469
Culture and recreation						17,023			41,157	58,180
Economic development						120,760	9,374	2,546,254		2,676,388
Education	2,435,354									2,435,354
Food service		603,399								603,399
Capital outlay			325,565							325,565
Total Expenditures	<u>2,435,354</u>	<u>603,399</u>	<u>493,420</u>	<u>543</u>	<u>469</u>	<u>245,002</u>	<u>9,374</u>	<u>2,546,254</u>	<u>41,157</u>	<u>6,374,972</u>
Net change in fund balances	-	(29,740)	(10,324)	641	1,535	-	-	-	(998)	(38,886)
Fund balances (deficit) at beginning of year	<u>1,169</u>	<u>130,259</u>	<u>(106,639)</u>	<u>1,692</u>	<u>4,286</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,619</u>	<u>55,386</u>
Fund balances (deficit) at end of year	<u>\$ 1,169</u>	<u>\$ 100,519</u>	<u>\$ (116,963)</u>	<u>\$ 2,333</u>	<u>\$ 5,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,621</u>	<u>\$ 16,500</u>

SCHEDULE C
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Net Assets
All Nonmajor Proprietary Funds
June 30, 2011

	Industrial Development and Park Authority Fund	Courthouse Fund	Cates Hill Landfill Fund	Combining Totals
ASSETS				
Current Assets:				
Accounts receivable, net	\$ 3,867	\$ 2,821		\$ 6,688
Due from other governments			\$ 134,166	134,166
Due from other funds	311,177		300,552	611,729
Prepaid expenses	6,629			6,629
Total Current Assets	<u>321,673</u>	<u>2,821</u>	<u>434,718</u>	<u>759,212</u>
Noncurrent Assets:				
Non-depreciable capital assets	503,190			503,190
Depreciable capital assets, net	605,799	121,913		727,712
Total Noncurrent Assets	<u>1,108,989</u>	<u>121,913</u>	<u>-</u>	<u>1,230,902</u>
Total Assets	<u>\$ 1,430,662</u>	<u>\$ 124,734</u>	<u>\$ 434,718</u>	<u>\$ 1,990,114</u>
LIABILITIES				
Current Liabilities:				
Accounts payable		\$ 35	\$ 1,772	\$ 1,807
Accrued expenses		97		97
Retainage payable	\$ 21,200			21,200
Deferred revenue	4,121			4,121
Due to other funds		110,438		110,438
Current portion of notes payable	63,426			63,426
Current portion of estimated liability for landfill postclosure care costs			12,450	12,450
Total Current Liabilities	<u>88,747</u>	<u>110,570</u>	<u>14,222</u>	<u>213,539</u>
Noncurrent Liabilities:				
Notes payable	287,855			287,855
Estimated liability for landfill postclosure care costs			286,450	286,450
Total Noncurrent Liabilities	<u>287,855</u>	<u>-</u>	<u>286,450</u>	<u>574,305</u>
Total Liabilities	<u>376,602</u>	<u>110,570</u>	<u>300,672</u>	<u>787,844</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,108,989	121,913		1,230,902
Unrestricted (deficit)	(54,929)	(107,749)	134,046	(28,632)
Total Net Assets	<u>1,054,060</u>	<u>14,164</u>	<u>134,046</u>	<u>1,202,270</u>
Total Liabilities and Net Assets	<u>\$ 1,430,662</u>	<u>\$ 124,734</u>	<u>\$ 434,718</u>	<u>\$ 1,990,114</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, 2011

	Industrial Development and Park Authority <u>Fund</u>	Courthouse <u>Fund</u>	Cates Hill Landfill <u>Fund</u>	Combining <u>Totals</u>
Operating revenues:				
Miscellaneous	\$ 93,187	\$ 2,821	\$ 21,110	\$ 117,118
Total operating revenues	<u>93,187</u>	<u>2,821</u>	<u>21,110</u>	<u>117,118</u>
Operating expenses:				
Personnel services		3,976		3,976
Contractual services	3,042		58,649	61,691
Repairs and maintenance	25,824	1,363		27,187
Materials and supplies	75			75
Utilities	3,433	12,740		16,173
Bad debt expense	641,608			641,608
Depreciation	41,061	6,321		47,382
Total operating expenses	<u>715,043</u>	<u>24,400</u>	<u>58,649</u>	<u>798,092</u>
Operating income (loss)	<u>(621,856)</u>	<u>(21,579)</u>	<u>(37,539)</u>	<u>(680,974)</u>
Non-operating revenues (expenses):				
Interest revenue	913			913
Interest expense	(19,211)			(19,211)
Net non-operating revenues (expenses)	<u>(18,298)</u>	<u>-</u>	<u>-</u>	<u>(18,298)</u>
Income (loss) before capital contributions	(640,154)	(21,579)	(37,539)	(699,272)
Capital contributions	<u>8,816</u>			<u>8,816</u>
Change in net assets	(631,338)	(21,579)	(37,539)	(690,456)
Total net assets at beginning of year, as restated	<u>1,685,398</u>	<u>35,743</u>	<u>171,585</u>	<u>1,892,726</u>
Total net assets at end of year	<u>\$ 1,054,060</u>	<u>\$ 14,164</u>	<u>\$ 134,046</u>	<u>\$ 1,202,270</u>

SCHEDULE E
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Cash Flows
All Nonmajor Proprietary Funds
For the Year Ended June 30, 2011

	Industrial Development and Park Authority Fund	Courthouse Fund	Cates Hill Landfill Fund	Combining Totals
Cash flows from operating activities:				
Cash received from customers	\$ 85,677	\$ 5	\$ 4,751	\$ 90,433
Cash paid to suppliers	(40,256)	(11,236)	(9,955)	(61,447)
Cash paid to employees		(11,760)		(11,760)
Net cash provided (used) by operating activities	<u>45,421</u>	<u>(22,991)</u>	<u>(5,204)</u>	<u>17,226</u>
Cash flows from capital and related financing activities:				
Proceeds from note collections	65,971			65,971
Principal paid on notes payable	(60,338)			(60,338)
Interest paid on long-term debt	(19,211)			(19,211)
Capital contributions	8,816			8,816
Purchases of capital assets	(432,152)			(432,152)
Net cash (used) for capital and related financing activities	<u>(436,914)</u>	<u>-</u>	<u>-</u>	<u>(436,914)</u>
Cash flows from investing activities:				
Interest on investments	913			913
Net cash provided by investing activities	<u>913</u>	<u>-</u>	<u>-</u>	<u>913</u>
Net (decrease) in cash and cash equivalents	(390,580)	(22,991)	(5,204)	(418,775)
Cash and cash equivalents (deficiency) at beginning of year	<u>701,757</u>	<u>(87,447)</u>	<u>305,756</u>	<u>920,066</u>
Cash and cash equivalents (deficiency) at end of year	<u>\$ 311,177</u>	<u>\$ (110,438)</u>	<u>\$ 300,552</u>	<u>\$ 501,291</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (621,856)	\$ (21,579)	\$ (37,539)	\$ (680,974)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Bad debt expense	641,608			641,608
Depreciation expense	41,061	6,321		47,382
Changes in assets and liabilities:				
Accounts receivable, net	(10,206)	(2,816)		(13,022)
Due from other governments	2,000		(16,359)	(14,359)
Prepaid expenses	(6,629)			(6,629)
Accounts payable	(1,253)	(348)	(206)	(1,807)
Accrued expenses		(989)		(989)
Deferred revenue	696			696
Compensated absences payable		(3,580)		(3,580)
Estimated liability for landfill postclosure care costs			48,900	48,900
Net cash provided (used) by operating activities	<u>\$ 45,421</u>	<u>\$ (22,991)</u>	<u>\$ (5,204)</u>	<u>\$ 17,226</u>
Supplemental disclosure of non-cash transactions:				
Capital asset additions included in year end liabilities	<u>\$ 21,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,200</u>