

CITY OF BERLIN, NEW HAMPSHIRE
Financial Statements
With Schedule of Expenditures of Federal Awards
June 30, 2013
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 For Each Major Federal Program and
Report on Internal Control Over Compliance**

Schedule of Findings and Questioned Costs

CITY OF BERLIN, NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2013

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FINANCIAL STATEMENTS
June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements 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 (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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, the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Berlin Water Works, is based solely 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 the *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress for other post-employment benefits on pages i-xii and 34-37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Additionally, the combining nonmajor governmental and proprietary fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the combining nonmajor governmental and proprietary fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the combining nonmajor governmental and proprietary fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Berlin, New Hampshire's internal control over financial reporting and compliance.

Vachon Clukay & Company PC

Manchester, New Hampshire
April 14, 2014

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, 2013. As in past years, this narrative should be read in conjunction with the City's basic financial statements, which begin on page 1.

Financial Highlights – Primary Government

Government-wide Highlights:

- **Net Position:** The total assets and deferred outflows of resources of the City exceeded total liabilities and deferred inflows of resources at fiscal year ending June 30, 2013 by \$48.3 million, an increase of \$825 thousand from the prior year. This amount is presented as "Net Position" on the Statement of Net Position 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 position remained consistent with the prior year with an ending balance of \$7.7 million. Restricted net position of \$2.2 million was restricted for capital projects and permanent funds endowments and income, and the net investment in capital assets had an ending balance of \$38.4 million.
- **Changes in Net Position:** The City's total net position increased from last fiscal year's \$47.5 million to \$48.3 million in fiscal year 2013. Net position of governmental activities increased by \$1.1 million or 5.0%, and net position of the business-type activities had a decrease of (\$300 thousand). 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 2013, the City's governmental funds reported a decrease of (\$800 thousand) in the combined ending fund balance of \$5.2 million, compared to last fiscal year. Included in the combined governmental fund balance is the activity of the City's General Fund and the Nonmajor Governmental Funds. The General Fund ended the fiscal year with an unassigned fund balance of \$1,887,920, which is a decrease of (\$600 thousand) from the previous fiscal year.

Overview of the Financial Statements

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

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

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

During the Fiscal Year Ending June 30, 2013, the City implemented GASB Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”*. Under Statement 63, the City has segregated previously reported assets and liabilities as deferred outflows of resources and deferred inflows of resources, respectively. This statement also identifies net position as the residual of all other elements presented in the statement of financial position. See the notes to the basic financial statements for further information.

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the City’s finances. These statements (Statement of Net Position 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 Position**, found on page 1, presents all of the City’s non-fiduciary assets and liabilities. The *difference* between assets and deferred outflows of resources less liabilities and deferred inflows of resources is reported as “Net Position”. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 sick leave). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

The government-wide financial statements have separate sections for three types of City activities. These three types of activities are:

- **Governmental Activities:** The activities in this section represent most of the City’s basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the City include general government, public safety, airport/aviation center, highways and streets, health and welfare, sanitation, culture and recreation, education, food service, economic development, 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 government-wide 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 nonmajor governmental funds is provided as supplementary information in the combining statements found on pages 52-55. The nonmajor governmental funds are:

- Federal Projects Fund
- Food Service Fund
- Airport Authority Fund
- Health Department Fund
- Carberry Fund
- Recreation and Parks Programs Fund
- Grants Fund
- Neighborhood Stabilization Grants Fund
- CDBG Fund
- Capital Projects Fund
- Permanent Funds

- Proprietary Funds: The City's proprietary funds provide goods and services to the general public and charge a user fee. These activities are reported in one major fund -

- Sewer Fund

and three nonmajor funds -

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

Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. Therefore, reconciliation is not necessary between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The basic proprietary funds financial statements can be found on pages 5-7, with individual fund data for each of the City's nonmajor proprietary funds provided as supplementary information in the combining statements found on pages 56-58.

- 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 Fund

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 fund financial statements. The notes to the basic financial statements can be found on pages 10-33.

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 other financing sources and uses for budgetary purposes (Schedule 1, page 34) 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 2013 is the General Fund. Also, included in the required supplementary information is the funding progress for other post-employment benefits (Schedule 2, page 35). The notes to the required supplementary information can be found on pages 36-37.

Other Supplementary Information

Other supplementary information includes combining financial statements for nonmajor governmental and proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

The City's combined net position (governmental and business-type activities) totaled \$48.3 million at the end of fiscal year 2013, an increase of \$825 thousand compared to the end of the previous fiscal year.

Net position of the City as of June 30, 2013 and 2012 are as follows:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Capital assets, net	\$ 23.0	\$ 22.0	\$ 32.6	\$ 26.4	\$ 55.6	\$ 48.4
Other assets	11.6	14.3	9.5	8.0	21.1	22.3
Total Assets	34.6	36.3	42.1	34.4	76.7	70.7
Total Deferred Outflows of Resources	-	-	-	-	-	-
Long-term liabilities	6.7	7.8	14.2	6.8	20.9	14.6
Other liabilities	0.7	1.0	1.5	0.9	2.2	1.9
Total Liabilities	7.4	8.8	15.7	7.7	23.1	16.5
Total Deferred Inflows of Resources	5.3	6.7	-	-	5.3	6.7
Net position:						
Net investment in capital assets	18.9	16.5	19.4	20.9	38.3	37.4
Restricted	2.2	2.4			2.2	2.4
Unrestricted	0.8	1.9	7.0	5.8	7.8	7.7
Total Net Position	\$ 21.9	\$ 20.8	\$ 26.4	\$ 26.7	\$ 48.3	\$ 47.5

The largest portion of the City's net position 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 position represents resources that are subject to external restrictions on how they may be used.

This year the City had an increase in unrestricted net position of \$100 thousand from the prior fiscal year. The City carries a liability for compensated absences. While this currently seems like a relatively small liability for most municipalities, at some point in the future funds should begin to be reserved for it.

Statement of Activities

The City's total net position increased \$100 thousand during this fiscal year. Property and other taxes brought in \$13.8 million in revenues. Other revenues consisted of charges for services, operating grants and contributions, capital grants and contributions, interest and investment earnings, and miscellaneous revenues. Changes in net position for the year ending June 30, 2013 and 2012 are as follows:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 2.7	\$ 2.7	\$ 1.6	\$ 1.5	\$ 4.3	\$ 4.2
Operating grants and contributions	15.1	17.1			15.1	17.1
Capital grants and contributions	1.3	2.0	1.3	2.0	2.6	4.0
General revenues:						
Property and other taxes	14.2	13.8			14.2	13.8
Licenses and permits	1.2	1.2			1.2	1.2
Intergovernmental	0.4	0.4			0.4	0.4
Interest and investment earnings	-	-			-	-
Miscellaneous	0.9	0.6	(0.1)	0.5	0.8	1.1
Total revenues	<u>35.8</u>	<u>37.8</u>	<u>2.8</u>	<u>4.0</u>	<u>38.6</u>	<u>41.8</u>
Expenses						
General government	2.2	2.5			2.2	2.5
Public safety	5.4	5.3			5.4	5.3
Airport/Aviation center	0.4	0.4			0.4	0.4
Highways and streets	2.8	2.5			2.8	2.5
Health and welfare	0.6	0.6			0.6	0.6
Sanitation	0.8	0.8			0.8	0.8
Culture and recreation	0.7	0.7			0.7	0.7
Economic development	0.6	1.8			0.6	1.8
Education	18.5	18.3			18.5	18.3
Food service	0.6	0.6			0.6	0.6
Debt service	0.9	0.9			0.9	0.9
Intergovernmental	1.7	1.7			1.7	1.7
Sewer	-	-	2.5	2.4	2.5	2.4
Nonmajor enterprise funds	-	-	0.1	0.1	0.1	0.1
Total expenses	<u>35.2</u>	<u>36.1</u>	<u>2.6</u>	<u>2.5</u>	<u>37.8</u>	<u>38.6</u>
Excess (Deficiency) before transfers	0.6	1.7	0.2	1.5	0.8	3.2
Transfers	<u>0.5</u>	<u>-</u>	<u>(0.5)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	1.1	1.7	(0.3)	1.5	0.8	3.2
Net position, beginning of year, restated	<u>20.8</u>	<u>19.1</u>	<u>26.7</u>	<u>25.2</u>	<u>47.5</u>	<u>44.3</u>
Net position, end of year	<u>\$ 21.9</u>	<u>\$ 20.8</u>	<u>\$ 26.4</u>	<u>\$ 26.7</u>	<u>\$ 48.3</u>	<u>\$ 47.5</u>

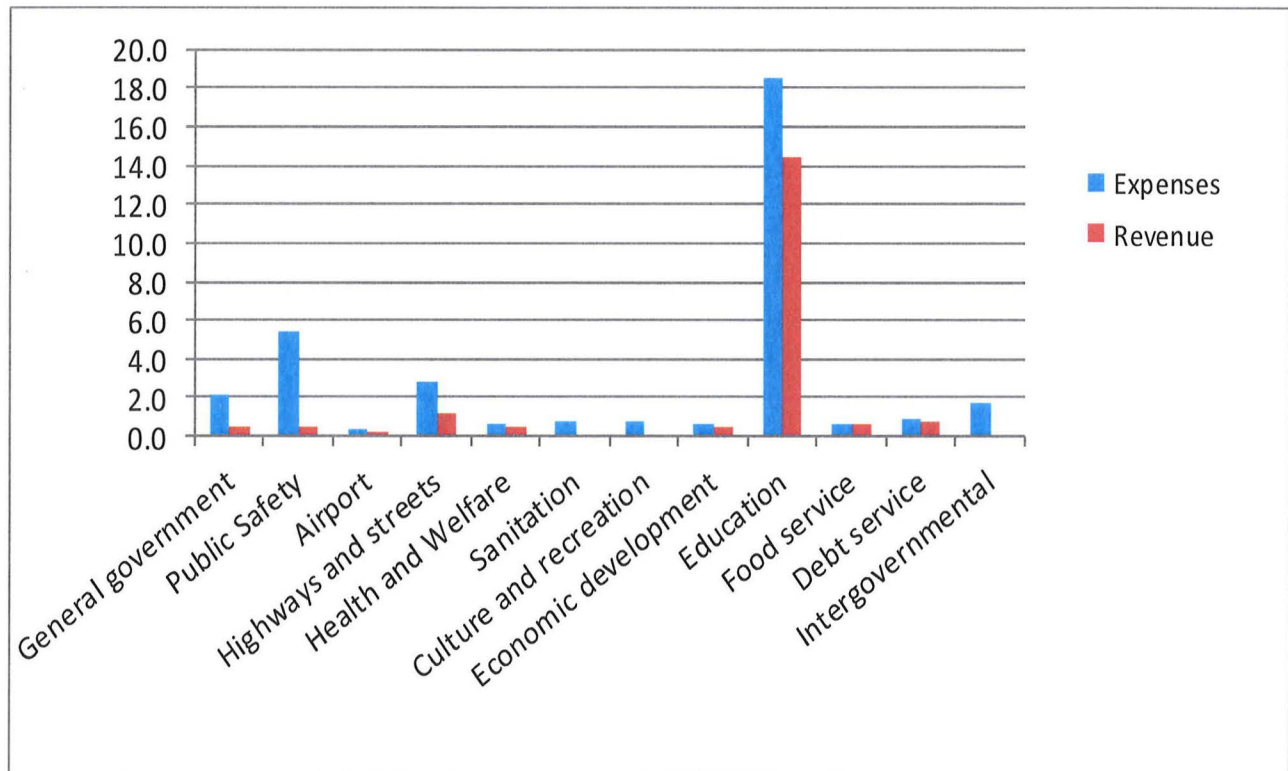
The City's expenses cover a range of services. The largest governmental expenses were for education (53%), public safety (15%), highways and streets (8%), and general government (6%), which accounted for roughly 82% of total governmental expenditures.

Governmental Activities

Governmental activities revenue and transfers in totaling \$36.3 million exceeded expenses of \$35.2 million in fiscal year 2013, thereby increasing the City's governmental net position by \$1.1 million.

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

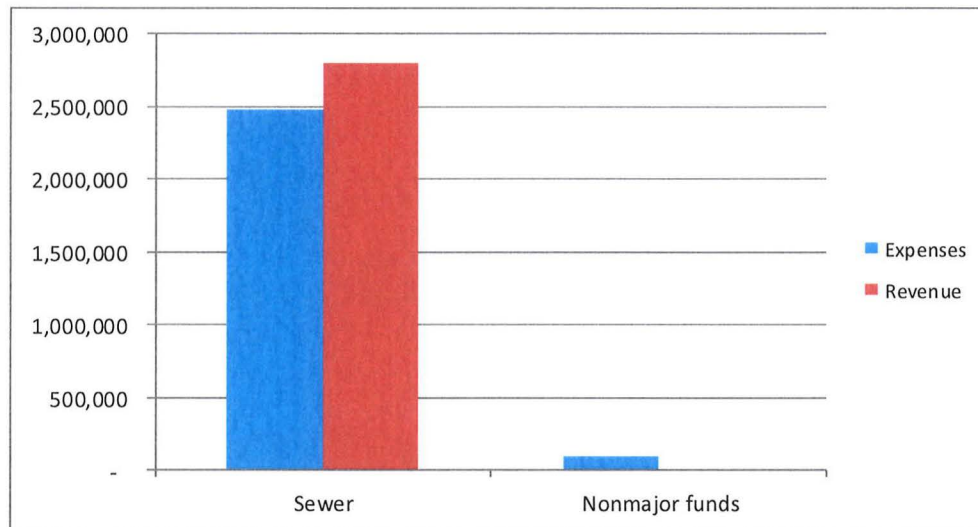
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ending June 30, 2013



Business-type Activities

The charges for goods and services for the City's Sewer Fund, the major proprietary fund, were inadequate to cover the operating expenses. However, this does not include the inflow of capital from the Bureaus of Prison and State Revolving Loan Fund Program for the significant sewer improvements currently being undertaken.

Expenses and Program Revenues – Business Type Activities
Fiscal Year Ending June 30, 2013

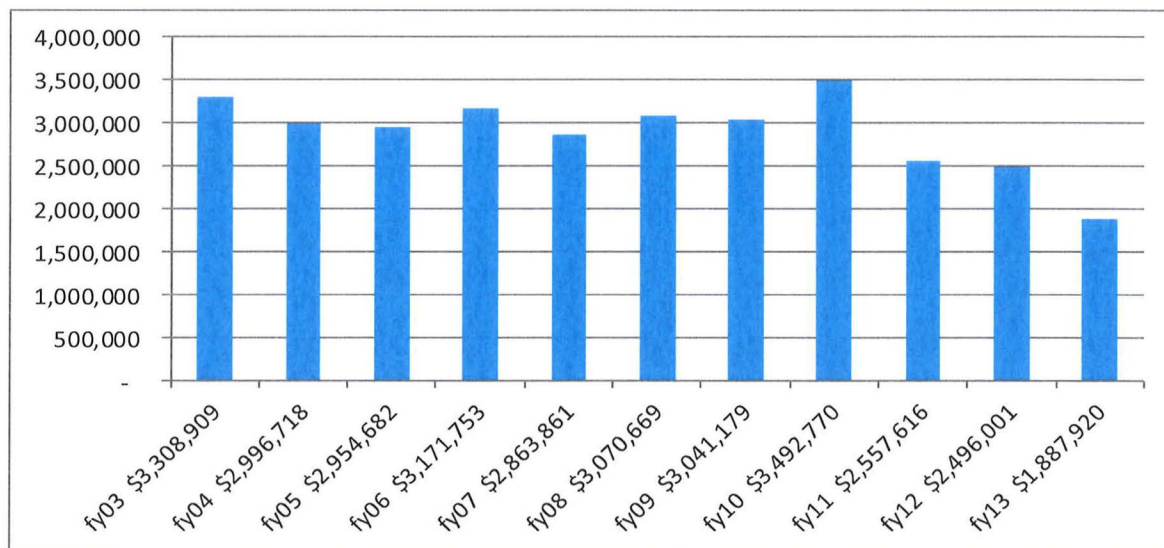


FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's near-term financing requirements. In particular, the General Fund unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Unassigned General Fund Balances from FY 2003 through FY 2013 are as follows:

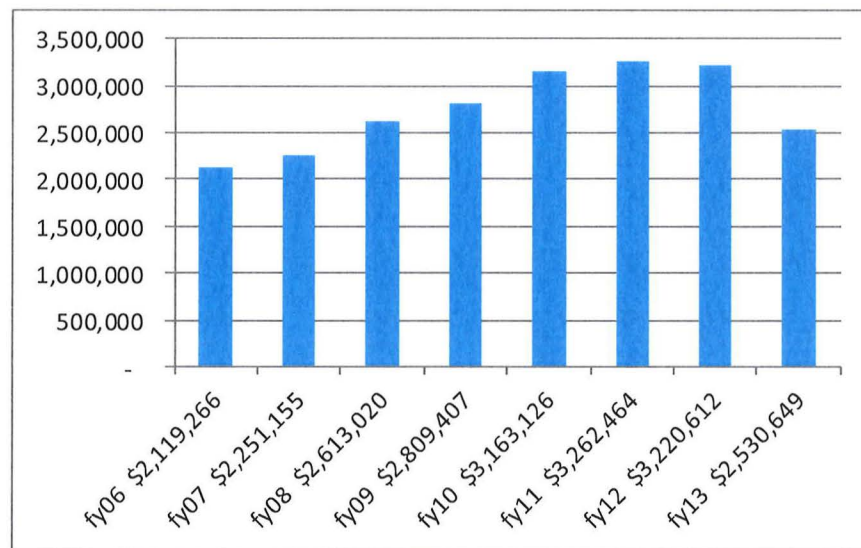


General Fund

As indicated above, the General Fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund had an unassigned fund balance of \$1,887,920, while total fund equity was \$3,094,874. The total fund equity includes nonspendable balances for prepaid expenses and tax deeded property, as well as assignments for encumbrances and continuing appropriations at fiscal year-end. The total General Fund unassigned fund balance decreased by (\$608,081) from June 30, 2013.

Budgetary Basis

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



As indicated in the above chart, the City's effort to increase its Unassigned Fund Balance has been generally successful, although the difficulty in doing so becomes greater every year. In FY13, the General Fund Unassigned Fund Balance is down at \$2,530,649.

Other Governmental Funds

The fund balance of the nonmajor governmental funds decreased by (\$334,182) to \$2,081,016 due primarily to outflows from the Capital Projects Fund for capital outlays in fiscal year 2013.

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.

Total net position of the proprietary funds decreased by (\$267,085) from the prior year. The amount collected from sewer user fees was insufficient to offset operating expenses. This is primarily because depreciation does not show up in the City sewer fund budget as an expense when figuring sewer rates. The Sewer Fund itself had an increase of net position of \$358,861. The Nonmajor Proprietary Funds had a combined net position decrease of (\$625,946) in fiscal year 2013.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations. A Budget to Actual Schedule for the major governmental fund (the General Fund) can be found in the Required Supplementary Information section beginning on page 34.

Actual budgetary revenues were more than the budgeted estimated revenues by \$784,220. There was an unfavorable variance of (\$61,092) in actual property taxes received from the amount budgeted. Miscellaneous revenues were significantly more than budgeted due to an unanticipated payment received for the Berlin Station Agreement of \$500,000. Actual budgetary expenditures at fiscal year-end were \$605,903 less than the final budgeted appropriations. Several City Departments made a concerted effort to control costs resulting in savings on certain budgeted items. The Schools spent \$397,801 less than budgeted. Public Safety spent \$240,862 less than budgeted. The Departments that make up the General Government saved \$4,962. Sanitation spent \$60,289 less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounted to \$98.8 million. Accumulated depreciation was \$43.2 million leaving a net book value of \$55.6 million. This investment in capital assets includes equipment, real property, infrastructure, computer software, and construction in progress. Infrastructure assets are items that are normally immovable, of value only to the City, which include roads and bridges. GASB 34 requires assets, including infrastructure, for the City's governmental funds to be reported in the Government-Wide Statements. Additional information on the City's capital assets can be found in Note 6 on pages 20-23 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, 2013 is \$388,344. Additional information regarding the City's OPEB can be found in Note 8 on pages 22-24 of the Notes to the Basic Financial Statements.

Debt Administration

The City may issue general obligation bonds and notes in anticipation of such bonds authorized by the City Council. At the end of the current fiscal year, the City had total bonded debt outstanding of \$8.2 million. This amount does not include bonded debt outstanding by the Berlin Water Works, its component unit, of \$8.8 million. The City is required to issue general obligation debt for the Berlin Water Works (a component unit of the City) and these general obligation bonds are backed by the full faith and credit of the City. Accordingly, this general obligation debt is recognized as a liability of the Berlin Water Works and is not recorded as a long-term obligation of the City. The Berlin Water Works reimburses the City for the annual principal and interest on the debt. Additional information regarding the City's long-term debt obligations can be found in Note 9 on pages 24-29 of the Notes to the Basic Financial Statements.

ECONOMIC CONDITIONS

Construction of the \$175M Berlin biomass plant on the former Fraser pulp mill site was completed in late 2013. Although the facility has been in operation, the owners continue to work on several start-up issues that have prevented the facility from operating at full capacity. These issues are expected to be resolved in the first half of 2014. Currently, approximately 25 new positions have been created and it is expected that forty total new full time jobs will have been added when the facility is fully operational. The Gorham Paper Mill, while struggling with some energy costs, continues to operate and produce paper.

The City's dilapidated surplus housing problem has been markedly reduced by the City's efforts at demolishing such structures and enforcing housing codes which set a minimum housing standard. The majority of the City's very worst derelict buildings have been torn down or have burned down. The City experienced the loss of approximately 22 structures in the late 2000's to major fires. All of these properties have been cleaned up -- most by the City. Unfortunately, most of this cleanup has been at the expense of the City and not at the expense of the responsible property owners. Fortunately, the City obtained some federal funding for the demolition of such structures. It also obtained about \$4M in Federal Neighborhood Stabilization funds for the rehabilitation of housing to a reasonable standard. The NSP work was completed in 2013 and has without doubt completely refurbished the worst area on the East Side, as well as one or two other neighborhoods. In total, the City has demolished approximately 254 of its 500 surplus housing units through a variety of funding sources. The City remains focused on the effort of removing surplus housing.

The Berlin Industrial Development Park Authority's (BIDPA) mission is to promote the development and preservation of business and industry to serve the City of Berlin. The most recent BIDPA project has been the development of Bickford Place which is a beautiful outdoor park addition in the middle of the downtown which is a downtown focal point for events and for people to meet and relax thereby adding new life and vitality to Main Street. The City has been working hard at carrying out the vision of the recently completed Downtown Master Plan. BIDPA manages land and buildings in the City's Maynesboro Industrial Park and works with businesses to help retain and add jobs to the community when feasible.

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 continue to look for a rebound in property values in the near future, with the

elimination of much of the blighted surplus housing and the opening up of the new federal prison. The only question is when it will start as it has not yet kicked in.

Phase II of the Rte. 110 improvement project, which after years of planning is now under construction. The majority of this improvement will occur in 2014 and its completion will have a dramatic effect on this transportation corridor. While improving general traffic and truck traffic flow through the City it will also improve the adjacent neighborhoods as well as access to several businesses recreational opportunities. The City previously zoned the extended portion of Route 110 as a recreation zone. The State of New Hampshire is continuing the development of 7,200 acres in this quadrant of the City for its multi-use trail, Jericho Mountain State Park. The City donated the 300 acres on Jericho Lake Park to the State as a sort of icing-on-the cake, which should be a New England-wide attraction. This park currently has about 60 miles of first-class trail development. This development is having a very significant impact on the City's image and economic base. In addition, the City is in the process of developing a first of its kind in the State ATV connection between this Park and the many trails in Success on the east side of the City. The City participates in the annual ATV Festival and this year worked with the Main Street Program to host a downtown Festival event on the first night of the Festival weekend.

Finally, the long-awaited Federal Bureau of Prisons project is fully in its start-up process. As of March 2014, FCI Berlin had approximately 265 staff and 740 inmates. Total staff is projected to be 330 and the total inmate population is projected to be 1,500. Staffing is expected to be completed in 2014. At \$240M, this is the second or third largest public works project ever undertaken in the State and already has added very significant economic activity to the region during the construction phase. The City has completed sewer service to the site and is nearing completion of upgrading the City WWTF to handle the additional load. Efforts to reduce inflow and infiltration into the City's sewers appear to have been successful in creating capacity for the additional BOP load.

Berlin has weathered everything that has been thrown at it – the national recession being the latest thing to make things slightly more difficult. In spite of this, Berlin is well positioned to make an economic comeback. We believe Berlin has begun to turn the corner and is on its way to a solid and diversified economic base. Once largely dependent on paper manufacturing, Berlin now benefits from growth in several industries. Paper making remains just over the City line in Gorham. This facility employs many Berlin residents. In addition, we now make electricity from biomass from the forest at the Berlin Bipower facility. This “green” source of electricity is added to the portfolio of 3 hydro-electric facilities on the Androscoggin River in Berlin. We are hopeful that within the next year the planned Jericho Wind Power project will be under construction and added to this mix. The ATV Park and the new Coos Coalition ATV trail effort bode well for significant recreation dollars. In smaller form, but not to be discounted, several rafting companies now provide guided trips on the Androscoggin River, bringing these tourists to the area. And of course, there is the significant job creation and secondary economic benefits from the Federal and State correctional facilities. These facilities provide a stable economic base for the City.

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 Position
June 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 15,006,570		\$ 15,006,570	\$ 439,872
Investments	369,182		369,182	33,031
Taxes receivable, net	730,609		730,609	
Accounts receivable, net	170,792	\$ 287,831	458,623	169,570
Due from other governments	831,062	2,539,799	3,370,861	462,821
Internal balances	(5,992,018)	5,992,018	-	
Prepaid expenses	52,576	1,855	54,431	
Inventory	12,864	72,459	85,323	475,666
Tax deeded property	443,870		443,870	
Total Current Assets	11,625,507	8,893,962	20,519,469	1,580,960
Noncurrent Assets:				
Due from other governments		642,893	642,893	
Capital assets:				
Non-depreciable capital assets	7,584,251	11,201,496	18,785,747	3,588,158
Depreciable capital assets, net	15,402,779	21,359,806	36,762,585	37,276,433
Total Noncurrent Assets	22,987,030	33,204,195	56,191,225	40,864,591
Total Assets	34,612,537	42,098,157	76,710,694	42,445,551
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	-	-	-	-
LIABILITIES				
Current Liabilities:				
Accounts payable	266,814	604,738	871,552	271,991
Accrued expenses	476,509	85,609	562,118	177,415
Retainage payable		681,789	681,789	
Current portion of bonds payable	56,703	145,369	202,072	1,242,196
Current portion of notes payable	591,444	86,178	677,622	2,961,868
Current portion of capital leases payable	41,139		41,139	61,920
Current portion of compensated absences payable	30,000		30,000	34,995
Current portion of estimated liability for landfill postclosure care costs	11,300	12,450	23,750	
Total Current Liabilities	1,473,909	1,616,133	3,090,042	4,750,385
Noncurrent Liabilities:				
Bonds payable	170,109	4,154,694	4,324,803	7,531,330
Notes payable	2,893,349	38,978	2,932,327	
Other long-term obligations		9,464,529	9,464,529	
Capital leases payable	757,666		757,666	84,879
Compensated absences payable	1,658,293	116,664	1,774,957	171,364
Estimated liability for landfill postclosure care costs	146,900	261,450	408,350	
Other post-employment benefits payable	377,965	10,379	388,344	
Total Noncurrent Liabilities	6,004,282	14,046,694	20,050,976	7,787,573
Total Liabilities	7,478,191	15,662,827	23,141,018	12,537,958
DEFERRED INFLOWS OF RESOURCES				
Property taxes collected in advance	5,182,632		5,182,632	
Unearned grant revenue	104,267		104,267	
Unearned revenue		236	236	
Total Deferred Inflows of Resources	5,286,899	236	5,287,135	-
NET POSITION				
Net investment in capital assets	18,922,240	19,462,106	38,384,346	28,982,400
Restricted	2,154,981		2,154,981	
Unrestricted	770,226	6,972,988	7,743,214	925,193
Total Net Position	\$ 21,847,447	\$ 26,435,094	\$ 48,282,541	\$ 29,907,593

See accompanying notes to the basic financial statements

EXHIBIT B
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Business-type	Total	
					Governmental Activities	Activities		
Governmental Activities:								
General government	\$ 2,246,286	\$ 402,129	\$ 91,775		\$ (1,752,382)		\$ (1,752,382)	
Public safety	5,356,842	257,659	245,197		(4,853,986)		(4,853,986)	
Airport/Aviation center	394,856	132,049		\$ 12,397	(250,410)		(250,410)	
Highways and streets	2,751,205	31,439	188,606	968,173	(1,562,987)		(1,562,987)	
Health and welfare	603,473	153,583	344,982		(104,908)		(104,908)	
Sanitation	816,983				(816,983)		(816,983)	
Culture and recreation	696,954	42,028			(654,926)		(654,926)	
Economic development	652,095		527,347		(124,748)		(124,748)	
Education	18,490,092	1,420,692	12,639,749	311,513	(4,118,138)		(4,118,138)	
Food service	643,100	215,260	393,190		(34,650)		(34,650)	
Debt service	882,098		711,098		(171,000)		(171,000)	
Intergovernmental	1,665,902				(1,665,902)		(1,665,902)	
Total governmental activities	<u>35,199,886</u>	<u>2,654,839</u>	<u>15,141,944</u>	<u>1,292,083</u>	<u>(16,111,020)</u>	<u>\$ -</u>	<u>(16,111,020)</u>	
Business-type activities:								
Sewer	2,473,007	1,552,063		1,253,414		332,470	332,470	
Nonmajor enterprise funds	<u>96,542</u>					<u>(96,542)</u>	<u>(96,542)</u>	
Total business-type activities	<u>2,569,549</u>	<u>1,552,063</u>	<u>-</u>	<u>1,253,414</u>	<u>-</u>	<u>235,928</u>	<u>235,928</u>	
Total primary government	<u>\$ 37,769,435</u>	<u>\$ 4,206,902</u>	<u>\$ 15,141,944</u>	<u>\$ 2,545,497</u>	<u>(16,111,020)</u>	<u>235,928</u>	<u>(15,875,092)</u>	
Component unit:								
Water	\$ 3,361,789	\$ 1,842,753		\$ 2,189,187				\$ 670,151
Total component unit	<u>\$ 3,361,789</u>	<u>\$ 1,842,753</u>	<u>\$ -</u>	<u>\$ 2,189,187</u>				<u>670,151</u>
General revenues:								
Property and other taxes					14,232,827		14,232,827	
Licenses and permits					1,199,175		1,199,175	
Grants and contributions:								
Rooms and meals tax distribution					438,336		438,336	
Interest and investment earnings					13,857	2,821	16,678	467
Miscellaneous					853,492	139,623	993,115	58,800
Transfers					465,665	(465,665)	-	
Loss on sale of capital assets						(179,792)	(179,792)	
Total general revenues, transfers, and loss on sale of capital assets					<u>17,203,352</u>	<u>(503,013)</u>	<u>16,700,339</u>	<u>59,267</u>
Change in net position					1,092,332	(267,085)	825,247	729,418
Net position - beginning, as restated					<u>20,755,115</u>	<u>26,702,179</u>	<u>47,457,294</u>	<u>29,178,175</u>
Net position - ending					<u>\$ 21,847,447</u>	<u>\$ 26,435,094</u>	<u>\$ 48,282,541</u>	<u>\$ 29,907,593</u>

See accompanying notes to the basic financial statements

EXHIBIT C
CITY OF BERLIN, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 14,916,062	\$ 90,508	\$ 15,006,570
Investments	2,274	366,908	369,182
Taxes receivable, net	730,609		730,609
Accounts receivable	170,542		170,542
Due from other governments		831,062	831,062
Due from other funds	889,857	1,815,543	2,705,400
Prepaid expenses	227,644	35,445	263,089
Inventory		12,864	12,864
Tax deeded property	443,870		443,870
Total Assets	<u>17,380,858</u>	<u>3,152,330</u>	<u>20,533,188</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 17,380,858</u>	<u>\$ 3,152,330</u>	<u>\$ 20,533,188</u>
LIABILITIES			
Accounts payable	\$ 211,813	\$ 55,001	\$ 266,814
Accrued expenses	457,547	6,141	463,688
Due to other funds	7,791,181	905,987	8,697,168
Total Liabilities	<u>8,460,541</u>	<u>967,129</u>	<u>9,427,670</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes collected in advance	5,182,632		5,182,632
Unearned property tax revenue	642,729		642,729
Unearned grant revenue	82	104,185	104,267
Total Deferred Inflows of Resources	<u>5,825,443</u>	<u>104,185</u>	<u>5,929,628</u>
FUND BALANCES			
Nonspendable	671,514	198,312	869,826
Restricted		2,004,978	2,004,978
Committed		18,820	18,820
Assigned	535,440	22,209	557,649
Unassigned (Deficit)	1,887,920	(163,303)	1,724,617
Total Fund Balances	<u>3,094,874</u>	<u>2,081,016</u>	<u>5,175,890</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 17,380,858</u>	<u>\$ 3,152,330</u>	
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			22,987,030
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis			642,729
Prepaid expenses for debt service requirements reduce long-term liabilities on the accrual basis in the statement of net position, not the modified accrual basis in the funds			(210,513)
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			(226,812)
Notes payable			(3,484,793)
Capital leases payable			(798,805)
Accrued interest on long-term obligations			(12,821)
Compensated absences payable			(1,688,293)
Estimated liability for landfill postclosure care costs			(158,200)
Other post-employment benefits payable			(377,965)
Net Position of governmental activities			<u>\$ 21,847,447</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, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 14,314,709		\$ 14,314,709
Licenses and permits	1,199,175		1,199,175
Intergovernmental	13,014,828	\$ 2,889,362	15,904,190
Charges for services	2,256,009	381,317	2,637,326
Interest income	8,965	4,892	13,857
Miscellaneous	767,915	103,090	871,005
Total Revenues	<u>31,561,601</u>	<u>3,378,661</u>	<u>34,940,262</u>
Expenditures:			
Current operations:			
General government	2,028,740	111,852	2,140,592
Public safety	4,922,081	247,252	5,169,333
Airport/Aviation center		184,621	184,621
Highways and streets	1,941,936		1,941,936
Health and welfare	594,520	1,952	596,472
Sanitation	800,897	5,000	805,897
Culture and recreation	560,794	50,458	611,252
Economic development		527,347	527,347
Education	16,552,131	1,670,336	18,222,467
Food service		638,982	638,982
Capital outlay	817,513	277,321	1,094,834
Debt service:			
Principal retirement	1,635,618		1,635,618
Interest and fiscal charges	246,751		246,751
Lease payments	329,700		329,700
Intergovernmental	1,665,902		1,665,902
Total Expenditures	<u>32,096,583</u>	<u>3,715,121</u>	<u>35,811,704</u>
Excess of revenues over (under) expenditures	<u>(534,982)</u>	<u>(336,460)</u>	<u>(871,442)</u>
Other financing sources (uses):			
Proceeds from capital lease issuance	218,808		218,808
Transfers in	9,222	11,500	20,722
Transfers out	(132,846)	(9,222)	(142,068)
Total Other Financing Sources (Uses)	<u>95,184</u>	<u>2,278</u>	<u>97,462</u>
Net change in fund balances	(439,798)	(334,182)	(773,980)
Fund balances at beginning of year	<u>3,534,672</u>	<u>2,415,198</u>	<u>5,949,870</u>
Fund balances at end of year	<u>\$ 3,094,874</u>	<u>\$ 2,081,016</u>	<u>\$ 5,175,890</u>

CITY OF BERLIN, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2013

Change in Fund Balances - Total Governmental Funds	\$ (773,980)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(475,973)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	889,541
Transfers of capital assets received from proprietary funds increase noncurrent assets in the statement of net position and are reported as transfers on the statement of activities, but do not provide current financial resources and are not reported as other financing sources in the funds.	587,011
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss of disposed capital assets reduced by the actual proceeds received from the sale.	(10,392)
Prepayment of capital lease principal and interest is an asset in the governmental funds, but the prepayment of principal reduces long-term liabilities in the statement of net position and the prepayment of interest is expensed in the statement of activities.	(210,513)
Repayment of bond and note payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,030,618
Repayment of principal on capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	463,278
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.	46,588
Proceeds from capital leases are other financing sources in the funds, but capital leases increase long-term liabilities in the statement of net position.	(218,808)
Some expenses reported in the statement of activities, such as compensated absences, other post-employment benefits and the estimated liability for landfill postclosure care costs, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	(235,038)
Change in Net Position of Governmental Activities	<u>\$ 1,092,332</u>

See accompanying notes to the basic financial statements

EXHIBIT E
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
ASSETS			
Current Assets:			
Accounts receivable	\$ 285,013	\$ 2,818	\$ 287,831
Due from other governments	2,423,189	116,610	2,539,799
Due from other funds	5,202,918	789,100	5,992,018
Prepaid expenses	1,855		1,855
Inventory	72,459		72,459
Total Current Assets	<u>7,985,434</u>	<u>908,528</u>	<u>8,893,962</u>
Noncurrent Assets:			
Due from other governments	642,893		642,893
Capital assets:			
Non-depreciable capital assets	11,164,258	37,238	11,201,496
Depreciable capital assets, net	21,283,238	76,568	21,359,806
Total Noncurrent Assets	<u>33,090,389</u>	<u>113,806</u>	<u>33,204,195</u>
Total Assets	<u>41,075,823</u>	<u>1,022,334</u>	<u>42,098,157</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	600,899	3,839	604,738
Accrued expenses	85,609		85,609
Retainage payable	681,789		681,789
Current portion of bonds payable	145,369		145,369
Current portion of note payable		86,178	86,178
Current portion of estimated liability for landfill postclosure care costs		12,450	12,450
Total Current Liabilities	<u>1,513,666</u>	<u>102,467</u>	<u>1,616,133</u>
Noncurrent Liabilities:			
Bonds payable	4,154,694		4,154,694
Note payable		38,978	38,978
Other long-term obligations	9,464,529		9,464,529
Compensated absences payable	116,664		116,664
Other post-employment benefits payable	10,379		10,379
Estimated liability for landfill postclosure care costs		261,450	261,450
Total Noncurrent Liabilities	<u>13,746,266</u>	<u>300,428</u>	<u>14,046,694</u>
Total Liabilities	<u>15,259,932</u>	<u>402,895</u>	<u>15,662,827</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue		236	236
Total Deferred Inflows of Resources	<u>-</u>	<u>236</u>	<u>236</u>
NET POSITION			
Net investment in capital assets	19,348,300	113,806	19,462,106
Unrestricted	6,467,591	505,397	6,972,988
Total Net Position	<u>\$ 25,815,891</u>	<u>\$ 619,203</u>	<u>\$ 26,435,094</u>

See accompanying notes to the basic financial statements

EXHIBIT F
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Operating revenues:			
Charges for services	\$ 1,552,063		\$ 1,552,063
Miscellaneous	23,764	\$ 115,859	139,623
Total Operating Revenues	<u>1,575,827</u>	<u>115,859</u>	<u>1,691,686</u>
Operating expenses:			
Personnel services	763,819		763,819
Contractual services	6,332	3,800	10,132
Repairs and maintenance	41,663	38,737	80,400
Administrative	121,443	15,177	136,620
Materials and supplies	189,441	18	189,459
Utilities	160,926	2,230	163,156
Depreciation	<u>1,003,791</u>	<u>36,580</u>	<u>1,040,371</u>
Total Operating Expenses	<u>2,287,415</u>	<u>96,542</u>	<u>2,383,957</u>
Operating income (loss)	<u>(711,588)</u>	<u>19,317</u>	<u>(692,271)</u>
Non-operating revenues (expenses):			
Loss on disposal of assets		(179,792)	(179,792)
Interest revenue	2,627	194	2,821
Interest expense	<u>(185,592)</u>		<u>(185,592)</u>
Net non-operating revenues (expenses)	<u>(182,965)</u>	<u>(179,598)</u>	<u>(362,563)</u>
Loss before capital contributions and transfers	(894,553)	(160,281)	(1,054,834)
Capital contributions	1,253,414		1,253,414
Transfers in		121,346	121,346
Transfers out		<u>(587,011)</u>	<u>(587,011)</u>
Change in net position	358,861	(625,946)	(267,085)
Total net position at beginning of year	<u>25,457,030</u>	<u>1,245,149</u>	<u>26,702,179</u>
Total net position at end of year	<u>\$ 25,815,891</u>	<u>\$ 619,203</u>	<u>\$ 26,435,094</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, 2013

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 1,740,593	\$ 105,470	\$ 1,846,063
Cash paid to suppliers	(714,333)	(62,122)	(776,455)
Cash paid to employees	(544,750)		(544,750)
Other cash receipts		5,814	5,814
Net cash provided by operating activities	<u>481,510</u>	<u>49,162</u>	<u>530,672</u>
Cash flows from noncapital financing activities:			
Transfer in from other fund		121,346	121,346
Net cash provided for noncapital financing activities	<u>-</u>	<u>121,346</u>	<u>121,346</u>
Cash flows from capital and related financing activities:			
Proceeds from other long-term obligations	7,552,572		7,552,572
Principal paid on bonds payable	(139,380)		(139,380)
Principal paid on note payable		(72,920)	(72,920)
Interest paid on long-term debt	(187,320)		(187,320)
Capital contributions	1,699,991		1,699,991
Proceeds from sale of capital assets		289,800	289,800
Purchases of capital assets	(7,725,447)		(7,725,447)
Net cash provided for capital and related financing activities	<u>1,200,416</u>	<u>216,880</u>	<u>1,417,296</u>
Cash flows from investing activities:			
Interest on investments	2,627	194	2,821
Net cash provided by investing activities	<u>2,627</u>	<u>194</u>	<u>2,821</u>
Net increase in cash and cash equivalents	1,684,553	387,582	2,072,135
Cash and cash equivalents at beginning of year	<u>3,518,365</u>	<u>401,518</u>	<u>3,919,883</u>
Cash and cash equivalents at end of year	<u>\$ 5,202,918</u>	<u>\$ 789,100</u>	<u>\$ 5,992,018</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (711,588)	\$ 19,317	\$ (692,271)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,003,791	36,580	1,040,371
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
Accounts receivable	164,766	(2,818)	161,948
Due from other governments		8,278	8,278
Prepaid expenses	(1,855)		(1,855)
Inventory	2,023		2,023
Accounts payable	(14,588)	3,444	(11,144)
Accrued expenses	3,238		3,238
Unearned revenue		(3,189)	(3,189)
Compensated absences payable	28,023		28,023
Other post-employment benefits payable	7,700		7,700
Estimated liability for landfill postclosure care costs		(12,450)	(12,450)
Net cash provided by operating activities	<u>\$ 481,510</u>	<u>\$ 49,162</u>	<u>\$ 530,672</u>
Non-cash transactions affecting financial position:			
Capital asset additions included in year end liabilities	\$ 1,262,742		\$ 1,262,742
Net book value of disposed capital assets		\$ 469,592	469,592
Net book value of transferred capital assets		587,011	587,011
	<u>\$ 1,262,742</u>	<u>\$ 1,056,603</u>	<u>\$ 2,319,345</u>

See accompanying notes to the basic financial statements

EXHIBIT H
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	Private- Purpose Trusts	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 2,043	\$ 225,451
Investments	116,370	
Total Assets	<u>118,413</u>	<u>\$ 225,451</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources	<u>-</u>	
LIABILITIES		
Due to other funds	250	
Due to student groups		\$ 225,451
Total Liabilities	<u>250</u>	<u>\$ 225,451</u>
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources	<u>-</u>	
NET POSITION		
Held in trust	<u>118,163</u>	
Total Net Position	<u>\$ 118,163</u>	

See accompanying notes to the basic financial statements

EXHIBIT I
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2013

	Private- Purpose <u>Trusts</u>
ADDITIONS:	
Investment earnings:	
Investment income	\$ 783
Total Additions	<u>783</u>
DEDUCTIONS:	
Benefits	<u>5,805</u>
Total Deductions	<u>5,805</u>
Change in Net Position	(5,022)
Net Position - beginning of year	<u>123,185</u>
Net Position - end of year	<u>\$ 118,163</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, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

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

Governmental Accounting Standards Board Statement No. 14 (as amended by GASB No. 39 and No. 61) requires that all component units for which the City maintains financial oversight and a financial benefit or burden relationship be included in the financial statements. Oversight responsibility is derived from a number of criteria including financial interdependency, selection of governing authority, designation of management, ability to influence operations and accountability for fiscal matters. The relative importance of each criterion must be evaluated in light of specific circumstances.

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

Discretely Presented Component Unit

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

The Berlin Water Works, which was incorporated as a body politic in 1925, is included because the Mayor, with confirmation of the City Council, appoints the Water Commissioners, and debt is issued by the City on behalf of the Berlin Water Works. Debt issued by the Berlin Water Works 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 position 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, 2013

During the year ended June 30, 2013, the City implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". Under Statement 63, the City has segregated previously reported assets and liabilities as deferred outflows of resources and deferred inflows of resources, respectively. This statement also identifies net position as the residual of all other elements presented in the statement of financial position. Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources.

1. Government-Wide Financial Statements:

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

The statement of net position 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 deferred outflows of resources less liabilities and

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

deferred inflows of resources is reported as fund balance. The following is the City's sole 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.

2. Proprietary Funds:

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

Measurement Focus

1. Government-Wide Financial Statements:

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

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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

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

Basis of Accounting

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

1. Revenues – Exchange and Non-exchange Transactions:

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

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

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

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

2. Unearned Revenue:

Unearned 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 unearned revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned revenue.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

3. Expenses/Expenditures:

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

Budgetary Data

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

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the fiscal year ended June 30, 2013, the City applied \$1,680,000 of its unappropriated fund balance to reduce taxes.

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:

	<i>Due from other funds</i>
Proprietary Funds:	
Sewer Fund	\$ 5,202,918
Nonmajor Enterprise Funds	<u>789,100</u>
	<u>\$ 5,992,018</u>

Investments

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

Taxes Receivable

Taxes levied during the current fiscal year and prior and uncollected at June 30, 2013 are recorded as receivables net of reserves for estimated uncollectible taxes of \$458,740.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2013 are recorded as prepaid items. Prepaid expenses reported on the modified accrual basis of accounting in the General Fund at June 30, 2013 in the amount of \$210,513, represent a prepayment on capital lease obligations.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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. 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 position, but are not reported in the governmental fund financial statements.

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

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

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

Compensated Absences

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

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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 Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets 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 position is 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. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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

Fund Balance Policy

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

- *Nonspendable Fund Balance*: Amounts that are not in a spendable form or are required to be maintained intact.
- *Restricted Fund Balance*: Amounts that can only be spent for specific purposes stipulated by external resource providers or by enabling legislation. Restrictions may be changed or lifted only with the consent of the external resource providers or the enabling legislation.
- *Committed Fund Balance*: Amounts that can only be used for the specific purposes determined by a formal action of the City's highest level of decision-making authority (City Council Resolutions). Commitments may be changed or lifted only upon the governing body taking the same formal action that imposed the constraint originally. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.
- *Assigned Fund Balance*: Amounts the City intends to use for a specific purpose. For all governmental funds other than the General Fund, any remaining positive balances are to be classified as 'Assigned'.
- *Unassigned Fund Balance*: Amounts that are not obligated or specifically designated and is available for any purpose. The residual classification of any General Fund balance is to be reported here. Any deficit fund balance of another governmental fund is also classified as 'Unassigned'.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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.

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 amounts and unassigned amounts.

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

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). The City Council has the authority to apply the City's beginning unassigned fund balance in order to balance the budget and to reduce the subsequent fiscal year property tax rate.

Interfund Activity

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

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Sewer Fund, these revenues represent 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.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Significant estimates include depreciation expense, the liability for other post-employment benefits, the allowance for uncollectible taxes and the liabilities for landfill postclosure care costs.

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$432,170,216 as of April 1, 2012) and are due in two installments on July 3, 2012 and December 26, 2012. Taxes paid after the due dates accrue interest at 12% per annum. On the modified accrual basis of accounting, property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

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

In accordance with State law, the City collects taxes for Coos County, an independent governmental unit, which are remitted to the County as required by law. Total taxes appropriated to Coos County for the year ended June 30, 2013 were \$1,665,902. The City bears responsibility for uncollected taxes.

NOTE 3—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At June 30, 2013, the Airport Authority Fund, a Nonmajor Governmental Fund, had a deficit unassigned fund balance of (\$163,303).

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, 2013, the City participated in public entity risk pools (Trusts) for property and liability insurance and worker's compensation coverage. Coverage has not been significantly reduced from the prior year and settled claims have not exceeded coverage in any of the past three years.

The Trust agreements permit the Trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trusts foresee no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2013.

Property and Liability Insurance

The Trust provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the Trust, 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, up to an aggregate of \$5,000,000.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

Worker's Compensation

The Trust 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, 2013 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	\$ 15,006,570
Investments	369,182
Statement of fiduciary net position:	
Cash and cash equivalents	227,494
Investments	<u>116,370</u>
Total deposits and investments	<u><u>\$ 15,719,616</u></u>

Deposits and investments as of June 30, 2013 consist of the following:

Cash on hand	\$ 2,999
Deposits with financial institutions	15,713,915
Investments	<u>2,702</u>
Total deposits and investments	<u><u>\$ 15,719,616</u></u>

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, 2013, City investments totaling \$2,702 in the NHPDIP, a state investment pool, are unrated.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy for assurance against custodial credit risk requires collateralization for all deposits not covered by Federal Depository Insurance.

Of the City's deposits with financial institutions at year end, \$16,717,481 was collateralized by securities held by the bank in the bank's name and \$2,957 was uninsured and uncollateralized.

Investment in NHPDIP

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

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

NOTE 6—CAPITAL ASSETS

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

	(As Restated) Balance 07/01/12	Additions	Reductions	Balance 06/30/13
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 711,156			\$ 711,156
Construction in progress	5,993,156	\$ 1,235,621	\$ (355,682)	6,873,095
Total capital assets not being depreciated	6,704,312	1,235,621	(355,682)	7,584,251
Other capital assets:				
Infrastructure	8,785,651			8,785,651
Land improvements	5,172,964	97,735		5,270,699
Buildings and improvements	10,681,226	695,107		11,376,333
Vehicles and equipment	8,308,310	535,189	(97,613)	8,745,886
Total other capital assets at historical cost	32,948,151	1,328,031	(97,613)	34,178,569
Less accumulated depreciation for:				
Infrastructure	(4,662,501)	(270,935)		(4,933,436)
Land improvements	(2,765,777)	(184,295)		(2,950,072)
Buildings and improvements	(4,915,228)	(212,688)		(5,127,916)
Vehicles and equipment	(5,393,996)	(457,591)	87,221	(5,764,366)
Total accumulated depreciation	(17,737,502)	(1,125,509)	87,221	(18,775,790)
Total other capital assets, net	15,210,649	202,522	(10,392)	15,402,779
Total capital assets, net	\$ 21,914,961	\$ 1,438,143	\$ (366,074)	\$ 22,987,030

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

The balance of the assets acquired through capital leases as of June 30, 2013 is as follows:

Buildings and improvements	\$ 1,652,511
Less: Accumulated depreciation	<u>(198,301)</u>
	<u>\$ 1,454,210</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 21,442
Public safety	133,830
Airport/Aviation center	208,624
Highways and streets	390,946
Health and welfare	1,850
Sanitation	17,904
Culture and recreation	64,320
Education	282,475
Food service	<u>4,118</u>
Total governmental activities depreciation expense	<u>\$ 1,125,509</u>

During the year ended June 30, 2013, 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 Position and the Statement of Activities, \$968,173 has been included as an addition to capital assets and a capital contribution, respectively.

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

	Balance 07/01/12	Additions	Reductions	Balance 06/30/13
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 107,787		\$ (12,600)	\$ 95,187
Construction in progress	2,975,438	\$ 8,130,871		11,106,309
Total capital assets not being depreciated	<u>3,083,225</u>	<u>8,130,871</u>	<u>(12,600)</u>	<u>11,201,496</u>
Other capital assets:				
Infrastructure	21,105,618	51,404		21,157,022
Buildings and improvements	24,986,139		(1,175,971)	23,810,168
Vehicles and equipment	877,243	17,776	(35,086)	859,933
Total other capital assets at historical cost	<u>46,969,000</u>	<u>69,180</u>	<u>(1,211,057)</u>	<u>45,827,123</u>
Less accumulated depreciation for:				
Infrastructure	(6,653,604)	(529,381)		(7,182,985)
Buildings and improvements	(16,118,882)	(499,036)	131,968	(16,485,950)
Vehicles and equipment	(821,514)	(11,954)	35,086	(798,382)
Total accumulated depreciation	<u>(23,594,000)</u>	<u>(1,040,371)</u>	<u>167,054</u>	<u>(24,467,317)</u>
Total other capital assets, net	<u>23,375,000</u>	<u>(971,191)</u>	<u>(1,044,003)</u>	<u>21,359,806</u>
Total capital assets, net	<u>\$ 26,458,225</u>	<u>\$ 7,159,680</u>	<u>\$ (1,056,603)</u>	<u>\$ 32,561,302</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Depreciation expense was charged to proprietary funds as follows:

Sewer Fund	\$ 1,003,791
Nonmajor Enterprise Funds:	
Industrial Development and Park Authority Fund	36,580
Total business-type activities depreciation expense	<u>\$ 1,040,371</u>

NOTE 7—DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

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

Under State law (RSA-100:16), plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The City's contributions to the NHRS for the years ending June 30, 2013, 2012, and 2011 were \$1,738,558, \$1,736,938, and \$1,378,805, respectively, equal to the required contributions for each year.

NOTE 8—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 and their spouses are allowed to continue medical coverage under the City plan for the lifetime by paying the required medical premium rates. The following groups of retirees qualify for these benefits. School employees hired before July 1, 2011 are eligible for benefits after (1) attaining age 60 or (2) attaining age 50 with 10 or more years of service or (3) age plus service is at least 70 with 20 or more years of service. School employees hired on or after July 1, 2011 are eligible for benefits after (1) attaining age 65 or (2) attaining age 60 with 30 or more years of service. Employees who are members of OPEIU/Local 345 or the Teamsters and Non-Union Supervisory Employees/Local 633 are eligible at age 62 with 10 years of service. Employees who are members of Local 1444 are eligible at age 62. Police and Fire employees are eligible for benefits after 20 years of service.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Retired employees contribute 100% of the total premium cost, except for the following groups. For members of OPEIU/Local 345 and the Teamsters and Non-Union Supervisory Employees/Local 633 the City pays the full cost of single coverage from age 62 to 65. For members of Local 1444 the City pays 80% of coverage from age 62 to 65.

The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of July 1, 2012, the most recent actuarial valuation date, approximately 42 retirees, 16 spouses and 279 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

Annual OPEB Costs

The City's fiscal year 2013 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 equals the Normal Cost plus a provision for amortizing the unfunded actuarial accrued liability. The City assumed increasing dollar amortization over the maximum acceptable amortization period of thirty years. The City's annual OPEB cost for the year ending June 30, 2013, 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, 2012, is as follows:

Annual Required Contribution (ARC)	\$ 482,725
Interest on net OPEB obligation	8,548
Amortization of net OPEB obligation	(6,816)
Annual OPEB cost	484,457
Contributions made	(292,977)
Increase in net OPEB obligation	191,480
Net OPEB obligation - beginning of year	196,864
Net OPEB obligation - end of year	<u>\$ 388,344</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ending June 30, 2013, 2012 and 2011 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>
6/30/2013	\$ 484,457	59.0%	\$ 388,344
6/30/2012	\$ 417,206	97.3%	\$ 196,864
6/30/2011	\$ 397,165	91.1%	\$ 185,501

The City's total net OPEB obligation as of June 30, 2013 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, 2012, the date of the most recent actuarial valuation, is as follows:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Actuarial Accrued Liability (AAL)	\$ 5,702,638
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 5,702,638</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 13,739,039
UAAL as a percentage of covered payroll	42%

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

Actuarial Methods and Assumptions for OPEB

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

For the July 1, 2012 actuarial valuation the Projected Unit Credit cost method was applied. The actuarial value of assets was not determined as the City has not advance funded its obligation. The City employs the Pay-as-you-go basis to fund the plan. The actuarial assumptions included a 4.0% investment rate of return (discount rate) and an initial annual healthcare cost trend rate of 9.0% which decreases to a 5.0% long-term rate for all medical benefits after four years. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is an increasing dollar amortization for a period of thirty years on an open amortization period for pay-as-you-go. This has been calculated assuming the amortization payment increases at a rate of 4.0% per year.

NOTE 9—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the City's long-term obligations for the year ended June 30, 2013 are as follows:

	Balance 07/01/12	Additions	Reductions	Balance 06/30/13	Due Within One Year
Governmental activities:					
Bonds payable	\$ 683,516		\$ (456,704)	\$ 226,812	\$ 56,703
Notes payable	4,058,707		(573,914)	3,484,793	591,444
Capital leases payable	1,043,275	\$ 218,808	(463,278)	798,805	41,139
Compensated absences payable	1,625,735	74,198	(11,640)	1,688,293	30,000
Total governmental activities	<u>\$ 7,411,233</u>	<u>\$ 293,006</u>	<u>\$ (1,505,536)</u>	<u>\$ 6,198,703</u>	<u>\$ 719,286</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Payments on the general obligation bonds, notes payable, and capital leases payable 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.

	Balance 07/01/12	Additions	Reductions	Balance 06/30/13	Due Within One Year
Business-type activities:					
Bonds payable	\$ 4,439,443		\$ (139,380)	\$ 4,300,063	\$ 145,369
Note payable	198,076		(72,920)	125,156	86,178
Other long-term obligations	1,804,581	\$ 7,659,948		9,464,529	-
Compensated absences payable	88,641	28,489	(466)	116,664	-
Total business-type activities	<u>\$ 6,530,741</u>	<u>\$ 7,688,437</u>	<u>\$ (212,766)</u>	<u>\$ 14,006,412</u>	<u>\$ 231,547</u>

Payments on the general obligation bonds and note payable of the business-type activities are paid out of the Sewer Fund and Industrial Development and Park Authority Fund, respectively. The compensated absences will be paid from the Sewer Fund.

	Balance 07/01/12	Additions	Reductions	Balance 06/30/13	Due Within One Year
Component unit:					
Bonds payable	\$ 9,952,924		\$(1,179,398)	\$ 8,773,526	\$ 1,242,196
Total component unit	<u>\$ 9,952,924</u>	<u>\$ -</u>	<u>\$(1,179,398)</u>	<u>\$ 8,773,526</u>	<u>\$ 1,242,196</u>

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

General Obligation Bonds

Governmental Activities:

Bonds payable at June 30, 2013 is comprised of the following individual issue:

\$1,134,062 Landfill Closure Bonds due in annual principal installments of \$56,703 through November 2016; interest at 4.48%	<u>\$ 226,812</u>
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Debt service requirements to retire general obligation bonds for governmental activities at June 30, 2013 are as follows:

Year Ending June 30,	Principal	Interest	Totals
2014	\$ 56,703	\$ 10,161	\$ 66,864
2015	56,703	7,621	64,324
2016	56,703	5,081	61,784
2017	56,703	2,540	59,243
	<u>\$ 226,812</u>	<u>\$ 25,403</u>	<u>\$ 252,215</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, 2013, the landfill closure reimbursement was recorded in the General Fund in the amount of \$10,454.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

As included on the Statement of Activities (Exhibit B) as 'Debt service' expense, interest expense for the year ended June 30, 2013 was \$21,680 on general obligation debt for governmental activities.

Business-type Activities:

Bonds payable at June 30, 2013 is comprised of the following individual issue:

\$5,000,000 Sewer Fund Wastewater Treatment Facility Bond due in semi-annual installments of \$163,350 including interest, through September 2032; interest at 4.25%	<u>\$ 4,300,063</u>
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Debt service requirements to retire general obligation bonds for business-type activities at June 30, 2013 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 145,369	\$ 181,331	\$ 326,700
2015	151,615	175,085	326,700
2016	158,129	168,571	326,700
2017	164,923	161,777	326,700
2018	172,009	154,691	326,700
2019-2023	977,465	656,035	1,633,500
2024-2028	1,206,291	427,209	1,633,500
2029-2033	1,324,262	144,813	1,469,075
	<u>\$ 4,300,063</u>	<u>\$ 2,069,512</u>	<u>\$ 6,369,575</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, 2013, the sewer related reimbursement was \$50,546.

As included on the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (Exhibit F), interest expense for the year ended June 30, 2013 was \$185,592 on general obligation debt for business-type activities.

Component Unit:

Bonds payable at June 30, 2013 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%	\$ 150,000
Bond payable due in annual installments of \$150,000 through August 2014; interest at 6.125% - 7.0%	300,000
Bond payable due in annual installments of \$305,000 through August 2015; interest at 5.25% - 5.625%	915,000
State revolving loan payable due in variable annual installments of \$142,470 to \$18,479 through November 2020; interest at 3.8%	721,699

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

State revolving loan payable due in variable annual installments of \$110,477 to \$14,462 through December 2020; interest at 3.8%	559,745
State revolving loan payable due in variable annual installments of \$56,016 to \$6,934 through December 2021; interest at 3.704%	328,384
State revolving loan payable due in variable annual installments of \$137,384 to \$17,007 through December 2021; interest at 3.704%	805,390
State revolving loan payable due in variable annual installments of \$103,859 to \$53,742 through May 2023; interest at 3.728%	1,135,745
State revolving loan payable due in variable annual installments of \$132,242 to \$100,537 through September 2024; interest at 3.688%	1,134,093
Bond payable due in variable annual installments through December 2040; interest at 2.25%	222,783
State revolving loan payable due in variable annual installments through October 2031; interest at 1.10%	1,499,980
Bond payable due in variable annual installments through October 2041; interest at 2.25%	<u>1,000,707</u>
	<u>\$ 8,773,526</u>

Debt service requirements to retire general obligation bonds for the component unit at June 30, 2013 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 1,242,196	\$ 311,518	\$ 1,553,714
2015	1,096,054	257,965	1,354,019
2016	947,685	211,636	1,159,321
2017	641,154	181,265	822,419
2018	634,901	158,090	792,991
2019-2023	2,381,668	475,516	2,857,184
2024-2028	754,008	198,264	952,272
2029-2033	615,595	97,979	713,574
2034-2038	250,053	40,777	290,830
2039-2042	<u>210,212</u>	<u>11,597</u>	<u>221,809</u>
	<u>\$ 8,773,526</u>	<u>\$ 1,944,607</u>	<u>\$ 10,718,133</u>

Under state law, the City is required to issue general obligation debt for the Berlin Water Works (a component unit of the City). Accordingly, this general obligation debt is recognized as a liability of the Berlin Water Works and is not recorded as a long-term obligation of the City. The Commissioners of the Berlin Water Works have agreed to reimburse the City for the annual principal and interest payments on this debt. For the year ended June 30, 2013, the reimbursement was \$700,644, which consists of \$605,000 in principal and \$95,644 in interest.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Interest expense for the year ended June 30, 2013 was \$429,447 for the Berlin Water Works.

Notes Payable

Governmental Activities:

Notes payable for governmental activities at June 30, 2013 is comprised of the following individual issue:

\$5,000,000 Notes payable for various capital projects due in
semi-annual installments of \$346,335 including interest, through
December 2018; interest at 2.99% \$ 3,484,793

Debt service requirements to retire notes payable for governmental activities at June 30, 2013 are as follows:

Year Ending June 30,	Principal	Interest	Totals
2014	\$ 591,444	\$ 101,226	\$ 692,670
2015	609,510	83,160	692,670
2016	627,964	64,706	692,670
2017	647,309	45,361	692,670
2018	667,081	25,589	692,670
2019	341,485	5,213	346,698
	<u>\$ 3,484,793</u>	<u>\$ 325,255</u>	<u>\$ 3,810,048</u>

As included on the Statement of Activities (Exhibit B) as 'Debt service' expense, interest expense for the year ended June 30, 2013 was \$118,756 on notes payable for governmental activities.

Business-type Activities:

Notes payable for business-type activities at June 30, 2013 is comprised of the following individual issue:

\$625,000 Note payable to Business Finance Authority, secured
by real estate, due in monthly installments of \$6,629 through
December 2014; interest at 0% \$ 125,156

Debt service requirements to retire notes payable for business-type activities at June 30, 2013 are as follows:

Year Ending June 30,	Principal
2014	\$ 86,178
2015	38,978
	<u>\$ 125,156</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

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, 2013:

Equipment, due in annual installments of \$210,513, including interest at 4.295%, through July 2016	\$ 579,997
Equipment, due in annual installments of \$47,901, including interest at 3.090%, through August 2017	218,808
	<u>\$ 798,805</u>

Debt service requirements to retire capital lease obligations outstanding for governmental activities at June 30, 2013 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 41,139	\$ 6,761	\$ 47,900
2015	227,516	30,897	258,413
2016	236,935	21,478	258,413
2017	246,750	11,663	258,413
2018	46,465	1,436	47,901
	<u>\$ 798,805</u>	<u>\$ 72,235</u>	<u>\$ 871,040</u>

Other Long-Term Obligations

The City has drawn \$9,464,529 of approximately \$17,200,000 in funds under the State of New Hampshire Water Pollution Control Revolving Loan Fund Program for an improvement project for the Wastewater Treatment Facility Upgrade, Phase 2. Payments are not scheduled to commence until the first anniversary of the scheduled completion date of the project or the date of substantial completion, whichever is earliest. Interest is accrued at 1% during the construction period of the project and is to be paid upon completion of the construction project within the following year. Total funding to date of \$9,464,529 has been reported as 'Other long-term obligations' in the business-type activities.

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

Authorized and Unissued Debt

The following debt was authorized and unissued as of June 30, 2013:

Sewer Wastewater Treatment Facility Phase II	\$ 7,735,471
Industrial Development Revenue Bonds - Greenova Project	10,000,000
	<u>\$ 17,735,471</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

NOTE 10—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 \$432,100 as of June 30, 2013. The estimated liability for the post-closure care costs of the East Milan landfill (\$158,200) and the Cates Hill landfill (\$273,900) 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, 2013. 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 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, 2013:

	Governmental activities	Business-type activities	Totals
Balance - July 1, 2012	\$ 169,500	\$ 286,350	\$ 455,850
Current year expenditures	(5,215)	(5,604)	(10,819)
Net change in estimated liability for postclosure care costs	(6,085)	(6,846)	(12,931)
Balance - June 30, 2013	<u>\$ 158,200</u>	<u>\$ 273,900</u>	<u>\$ 432,100</u>

NOTE 11—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, 2013 are as follows:

	Due from			Totals
	General Fund	Nonmajor Governmental Funds	Fiduciary Funds	
Due to General Fund		\$ 889,607	\$ 250	\$ 889,857
Nonmajor Governmental Funds	\$ 1,799,163	16,380		1,815,543
Sewer Fund	5,202,918			5,202,918
Nonmajor Enterprise Funds	789,100			789,100
	<u>\$ 7,791,181</u>	<u>\$ 905,987</u>	<u>\$ 250</u>	<u>\$ 8,697,418</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

During the year, several interfund transactions occurred between funds. The various transfers were made in accordance with budgetary authorizations, except for the transfers noted in the paragraph following the table below. Interfund transfers for the year ended June 30, 2013 are as follows:

	Transfer out			Totals
	General	Nonmajor	Nonmajor	
	Fund	Governmental	Enterprise	
		Funds	Funds	
Transfer in Governmental Activities			\$ 587,011	\$ 587,011
General Fund		\$ 9,222		9,222
Nonmajor Governmental Funds	\$ 11,500			11,500
Nonmajor Enterprise Funds	121,346			121,346
	<u>\$ 132,846</u>	<u>\$ 9,222</u>	<u>\$ 587,011</u>	<u>\$ 729,079</u>

Included within the transfers in the above table, the General Fund transferred \$121,346 to the Courthouse Fund, a Nonmajor Proprietary Fund, to satisfy all obligations of the fund and close it out. As part of the Courthouse Fund's closure at July 1, 2012, the net book value of the Courthouse Fund's capital assets was transferred to the Governmental Activities in the amount of \$115,592. In addition, the Industrial Development and Park Authority Fund, a Nonmajor Proprietary Fund, transferred capital assets with a net book value of \$471,419 to the Governmental Activities, as it was determined during the year that the use of the assets being transferred had been modified and no longer served the purpose of the fund.

NOTE 12—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

Permanent Funds - Endowments	\$ 150,003
Permanent Funds - Income	223,236
Capital Projects - Unexpended Debt Proceeds	1,780,032
School Private Grants and Contributions	1,710
	<u>\$ 2,154,981</u>

NOTE 13—COMPONENTS OF FUND BALANCE

The components of the City's fund balance for its governmental funds at June 30, 2013 are as follows:

	General	Nonmajor	Total
Fund Balances	Fund	Governmental	Governmental
		Funds	Funds
Nonspendable:			
Prepaid expenses	\$ 227,644	\$ 35,445	\$ 263,089
Tax deeded property	443,870		443,870
Inventory		12,864	12,864
Permanent funds - Endowments		150,003	150,003
Restricted for:			
Permanent funds - Income		223,236	223,236
Capital projects		1,780,032	1,780,032
School private grants and contributions		1,710	1,710

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Committed for:			
Recreation and parks programs		18,820	18,820
Assigned for:			
Continuing appropriations	485,146		485,146
Encumbrances	50,294		50,294
Food service operations		20,149	20,149
Health department		2,060	2,060
Unassigned (deficit):			
Unassigned - General operations	1,887,920		1,887,920
Airport Authority Fund (deficit)		(163,303)	(163,303)
	<u>\$ 3,094,874</u>	<u>\$ 2,081,016</u>	<u>\$ 5,175,890</u>

NOTE 14—TOP TAXPAYERS

The following are the five major property owners as they relate to the City's total assessed property valuation of \$432,170,216 (as of April 1, 2012):

<u>Taxpayer</u>	<u>Property Valuation</u>	<u>Percentage of Total Valuation</u>
Public Service of New Hampshire	\$ 57,679,000	13.35%
Great Lakes Hydro America, LLC	36,800,000	8.52%
Portland Natural Gas	15,363,000	3.55%
Fisher, L GP	2,227,300	0.52%
Berlin Falls Real Estate LLC	1,628,800	0.38%

NOTE 15—COMMITMENTS

Ambulance Services 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. In June 2013, the City extended this contract for an additional three years through June 30, 2016. The terms of the extended contract include minimum monthly payments of \$25,917. These monthly payments may be adjusted based on future Medicare or Medicaid reimbursement rates. For the year ended June 30, 2013, the City expended \$246,000 under the terms of the emergency ambulance service agreement.

Federal Bureau of Prisons Contract

During June 2009, the City entered into an agreement with the Federal Bureau of Prisons to provide a connection to the City's sewer line for a fee of \$8,500,000. Terms of the contract include installment payments to the City at 25% upon the date of award, 25% at 25% connection completion, 25% at 50% connection completion, 15% at availability of service, and the final 10% at substantial completion. For the year ended June 30, 2013, the City recognized revenue in the amount of \$850,000 for the sewer line connections substantial completion. As of June 30, 2013, the City has recognized the total contract proceeds of \$8,500,000, with \$850,000 reported as an intergovernmental receivable from the Federal Bureau of Prisons at year end.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2013

Guaranteed Debt - Component Unit

Debt issued by Berlin Water Works (a component unit of the City) is backed by the full faith and credit of the City. Berlin Water Works has been experiencing decreasing operating revenues since the May 2006 shutdown of the Fraser Pulp Mill and will likely continue to experience cash flow pressures in the near-term. Management of Berlin Water Works plans to rectify liquidity issues through additional revenues from the Federal prison and the newly constructed Bio-mass Facility, as well as the refinancing of seven outstanding loans with total approximate debt service savings of \$600,000.

NOTE 16—CONTINGENT LIABILITIES

Litigation

There may be various claims and suits pending against the City, which arise in the normal course of the City's activities. In the opinion of legal counsel and City management, any potential claims against the City which are not covered by insurance are immaterial and would not affect the financial position of the City.

Federal Grants

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

NOTE 17—RESTATEMENT OF NET POSITION

Government-Wide Financial Statements

During the year ended June 30, 2013, it was determined that capital assets of the governmental activities were overstated. Net Position of the governmental activities as of July 1, 2012 has been restated as follows:

	<u>Governmental Activities</u>
Net Position - July 1, 2012 (as previously reported)	\$ 20,993,899
Amount of restatement due to:	
Overstatement of capital assets	<u>(238,784)</u>
Net Position - July 1, 2012, as restated	<u>\$ 20,755,115</u>

NOTE 18—SUBSEQUENT EVENTS

During July 2013, the City issued general obligation bonds in the amount of \$3,971,500 with a premium of \$528,500 (total proceeds of \$4,500,000) for the purpose of current refunding the outstanding principal of governmental activities debt for various capital improvement projects and to finance additional street improvements on a "new money" basis. The general obligation bonds have an interest rate ranging from 4.10% to 5.60% and mature on August 2025.

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, 2013

	<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	\$ 14,293,919	\$ 14,293,919	\$ 14,232,827	\$ (61,092)
Licenses and permits	1,132,950	1,132,950	1,199,175	66,225
Intergovernmental	12,918,486	12,918,486	13,014,828	96,342
Charges for services	2,097,709	2,040,098	2,256,009	215,911
Interest income	5,000	5,000	8,965	3,965
Miscellaneous	305,046	305,046	767,915	462,869
Total Revenues	<u>30,753,110</u>	<u>30,695,499</u>	<u>31,479,719</u>	<u>784,220</u>
Expenditures:				
Current operations:				
General government	2,066,463	2,008,852	2,003,890	4,962
Public safety	5,165,792	5,165,792	4,924,930	240,862
Highways and streets	1,849,432	1,849,432	1,942,129	(92,697)
Health and welfare	606,206	606,206	594,520	11,686
Sanitation	853,376	853,376	793,087	60,289
Culture and recreation	555,279	555,279	560,794	(5,515)
Education	16,731,124	16,731,124	16,333,323	397,801
Capital outlay	1,208,287	820,391	811,888	8,503
Debt service:				
Principal retirement	1,608,861	1,608,861	1,635,618	(26,757)
Interest and fiscal charges	253,520	253,520	246,751	6,769
Lease payments	329,700	329,700	329,700	-
Intergovernmental	1,665,902	1,665,902	1,665,902	-
Total Expenditures	<u>32,893,942</u>	<u>32,448,435</u>	<u>31,842,532</u>	<u>605,903</u>
Excess of revenues over (under) expenditures	<u>(2,140,832)</u>	<u>(1,752,936)</u>	<u>(362,813)</u>	<u>1,390,123</u>
Other financing sources (uses):				
Transfers in	7,645	7,645	9,222	1,577
Transfers out	<u>(11,500)</u>	<u>(11,500)</u>	<u>(132,846)</u>	<u>(121,346)</u>
Total Other Financing Sources (Uses)	<u>(3,855)</u>	<u>(3,855)</u>	<u>(123,624)</u>	<u>(119,769)</u>
Net change in fund balance	(2,144,687)	(1,756,791)	(486,437)	1,270,354
Fund balance at beginning of year				
- Budgetary Basis	<u>4,173,746</u>	<u>4,173,746</u>	<u>4,173,746</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 2,029,059</u>	<u>\$ 2,416,955</u>	<u>\$ 3,687,309</u>	<u>\$ 1,270,354</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, 2013

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2007	\$ -	\$ 5,686,000	\$ 5,686,000	0.0%	\$ 13,652,000	42%
7/1/2010	\$ -	\$ 5,335,764	\$ 5,335,764	0.0%	\$ 16,757,081	32%
7/1/2012	\$ -	\$ 5,702,638	\$ 5,702,638	0.0%	\$ 13,739,039	42%

See accompanying notes to the required supplementary information

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2013

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

General Fund

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

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 31,789,631	\$ 32,229,429
Difference in property taxes meeting susceptible to accrual criteria	(81,882)	
Encumbrances, June 30, 2013		50,294
Encumbrances, June 30, 2012		(85,537)
Capital lease proceeds	(218,808)	(218,808)
Per Schedule 1	<u>\$ 31,488,941</u>	<u>\$ 31,975,378</u>

NOTE 2—BUDGETARY FUND BALANCE

The components of the budgetary fund balance for the General Fund at June 30, 2013 are as follows:

<i>Nonspendable:</i>	
Prepaid expenses	\$ 227,644
Tax deeded property	443,870
<i>Assigned for:</i>	
Continuing appropriations	485,146
<i>Unassigned:</i>	
Unassigned - General operations	<u>2,530,649</u>
	<u>\$ 3,687,309</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
June 30, 2013

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 been presented for the three most recent actuarial valuation reports.

SCHEDULE I
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Granting Agency/Recipient State Agency/Grant Program/State <u>Grant Number</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
DEPARTMENT OF AGRICULTURE		
Pass Through Payments from the New Hampshire Department of Education School Breakfast Program	10.553	\$ 70,388
National School Lunch Program	10.555	322,461
Special Milk Program for Children	10.556	2,265
Fresh Fruit and Vegetable Program	10.582	31,609
Total Department of Agriculture		<u>426,723</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Pass Through Payments from the New Hampshire Community Development Finance Authority Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	
#09-053-CDHS		179,549
#09-053-NSPH		103,711
#11-053-NSP3		221,012
#013-053-CDHS		1,302
#B-09-SP-NH-0089		23,075
		<u>528,649</u>
Total Department of Housing and Urban Development		<u>528,649</u>
DEPARTMENT OF JUSTICE		
Received directly from U.S. Treasury Department Public Safety Partnership and Community Policing Grants #2010-UM-WX-0212	16.710	75,608
Enforcing Underage Drinking Laws Program #2011-AH-FX-0008	16.727	13,768
Pass Through Payments from the New Hampshire Department of Justice Edward Byrne Memorial Justice Assistance Grant Program #2010-DJ-BX-0128	16.738	79,542
Total Department of Justice		<u>168,918</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, 2013

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF TRANSPORTATION		
Pass Through Payments from the New Hampshire Department of Transportation Airport Improvement Program #SBG-01-04-2012	20.106	<u>12,062</u>
Pass Through Payments from the New Hampshire Highway Safety Agency State and Community Highway Safety #314-12B-004 #314-13B-007 #315-12B-032 #315-12B-126 #315-12B-127 #315-12B-128 #315-13B-056 #315-13B-147 #315-13B-148	20.600	5,068 438 596 3,860 3,829 5,967 2,775 1,720 <u>1,010</u> 25,263
Alcohol Impaired Driving Countermeasures Incentive Grants I #308-12B-055 #308-12B-056 #308-13B-058 #308-13B-059	20.601	8,951 3,336 2,225 895 <u>15,407</u>
Safety Belt Performance Grants #304-13B-025	20.609	<u>2,630</u>
Total Department of Transportation		<u>55,362</u>
ENVIRONMENTAL PROTECTION AGENCY		
Pass Through Payments from the New Hampshire Department of Environmental Services Capitalization Grants for Clean Water State Revolving Funds #CS-330111-06	66.458	<u>1,567,007</u>
Total Environmental Protection Agency		<u>1,567,007</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, 2013

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF ENERGY		
Pass Through Payments from the New Hampshire Office of Energy and Planning Energy Efficiency and Conservation Block Grant Program (EECBG), Recovery Program #DE-EE0003576	81.128	<u>90,472</u>
Total Department of Energy		<u>90,472</u>
DEPARTMENT OF EDUCATION		
Pass Through Payments from the New Hampshire Department of Education Title I Grants to Local Educational Agencies	84.010	
#20012		36,203
#20174		14,083
#20175		11,893
#20900		4,000
#20901		4,000
#30012		746,062
#30174		8,921
#30175		6,865
#31512		3,192
#31513		<u>3,192</u>
		<u>838,411</u>
Special Education - Grants to States #32545	84.027	<u>359,609</u>
Career and Technical Education - Basic Grants to States #25011	84.048	<u>1,994</u>
Special Education - Preschool Grants #32545	84.173	<u>10,003</u>
Twenty-First Century Community Learning Centers #36282	84.287	<u>189,034</u>
Rural Education	84.358	
#16242		8,707
#26242		8,474
#36470		<u>174</u>
		<u>17,355</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, 2013

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF EDUCATION (CONTINUED)		
Improving Teacher Quality State Grants	84.367	
#24798		5,607
#25393		4,000
#25394		5,500
#25395		5,500
#25434		15,000
#34798		137,859
		<u>173,466</u>
Total Department of Education		<u>1,589,872</u>
DEPARTMENT OF HOMELAND SECURITY		
Pass Through Payments from the New Hampshire Department of Safety		
Emergency Management Performance Grants	97.042	
#EMPG-10-2012-05		<u>5,000</u>
Pass Through Payments from the New Hampshire Department of Homeland Security and Emergency Management		
Homeland Security Grant Program	97.067	<u>22,097</u>
Total Department of Homeland Security		<u>27,097</u>
Total Expenditures of Federal Awards		<u>\$ 4,454,100</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, 2013

NOTE 1—GENERAL

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

NOTE 2—BASIS OF ACCOUNTING

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

NOTE 3—NON-CASH TRANSACTIONS

The City participates in the USDA Food Distribution Program which is a non-cash program. On the Schedule of Expenditures of Federal Awards, \$42,231 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:

Nonmajor Governmental Funds:	
Federal Projects Fund	\$ 1,589,872
Food Service Fund	384,492
Airport Authority Fund	12,062
Grants Fund	331,089
CDBG Fund	179,549
Neighborhood Stabilization Grant Fund	347,798
	<u>\$ 2,844,862</u>

Additionally, the recognition of expenditures of federal awards in the amount of \$1,567,007 represents thirty percent of the drawdowns from the Clean Water State Revolving Loan Fund Program. Federal financial assistance in the form of principal forgiveness not to exceed \$2,000,000 or 30% of aggregate disbursements, whichever is less, will be forgiven at the time of the initial loan repayment.

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

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements 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 and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Berlin, New Hampshire's basic financial statements, and have issued our report thereon dated April 14, 2014. Our report includes a reference to other auditors who audited the financial statements of Berlin Water Works, the discretely presented component unit, 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 auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Berlin, New Hampshire's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Berlin, New Hampshire's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

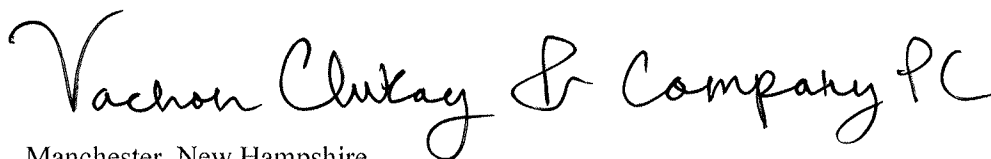
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Berlin, New Hampshire's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vachon Clutay & Company PC". The signature is written in a cursive, flowing style.

Manchester, New Hampshire
April 14, 2014

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

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, 2013. 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.

The City of Berlin, New Hampshire's basic financial statements include the operations of the Berlin Water Works, a component unit of the City, which received federal awards which are not included in the schedule during the year ended June 30, 2013. Our audit, described below, did not include the operations of the Berlin Water Works because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Berlin, New Hampshire's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Berlin, New Hampshire's compliance.

Basis for Qualified Opinion on the Community Development Block Grants/State's Program

As described in the accompanying schedule of findings and questioned costs, the City of Berlin, New Hampshire did not comply with requirements regarding CFDA 14.228 Community Development Block Grants/State's Program as described in finding numbers 2013-1 for Cash Management and 2013-2 for Period of Availability. Compliance with such requirements is necessary, in our opinion, for the City of Berlin, New Hampshire to comply with the requirements applicable to that program.

Qualified Opinion on the Community Development Block Grants/State's Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Berlin, New Hampshire complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grants/State's Program for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Berlin, New Hampshire complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Report on 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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Berlin, New Hampshire's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material

weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-1 and 2013-2, that we consider to be significant deficiencies.

The City of Berlin, New Hampshire's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Berlin, New Hampshire's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vachon Clutay & Company PC

Manchester, New Hampshire
April 14, 2014

**City of Berlin, New Hampshire
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified – all reporting units

Internal control over financial reporting:

Material weakness(es) identified? yes X no

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

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes X no

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

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

Qualified - CFDA #14.228 Community Development Block Grants/State's Program

Unmodified - Other Major Federal Programs

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555 & 10.556	Child Nutrition Cluster
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
66.458	Capitalization Grants for Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee? yes X no

Section II—Financial Statement Findings

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

Section III—Federal Award Findings and Questioned Costs

The following findings and questioned costs as defined under OMB Circular A-133 .510(a) are required to be reported.

Finding #2013-01 Cash Management:

Department of Housing and Urban Development

CFDA #14.228 Community Development Block Grants/State's Program

Federal Award Number: 09-053-NSPH

Passed Through Payments from the New Hampshire Community Development Finance Authority

Criteria or specific requirement: Federal cash management regulations require that only immediate cash needs be draw down by the grantee. Grant recipients must follow procedures to minimize the time elapsing between the transfer of federal funds and disbursement.

Condition: During our testing of the federal program we noted two costs requested under the federal award with an inappropriate amount of time lapse between receipt of funds and disbursement.

Questioned costs: Known questioned costs of \$65,347.

Context: In reviewing the final claim report for the federal award paid in March 2013, it was noted that two of the costs requested in this claim were not disbursed by the City as of the fiscal year ended June 30, 2013. Additionally, the funds were still not fully disbursed as of the commencement of audit fieldwork in September 2013. No other significant time lapses between receipt and disbursement of funds were noted in our review of the claims for the federal program.

Effect: The City did not fulfill its cash requirement of timely disbursement of funds, as amounts were drawn down in excess of immediate cash needs. Actual expenditures may differ from the anticipated/claimed costs resulting in excess funding received by the City.

Cause: The City's Housing Coordinator, who is new to the position, included anticipated costs in the federal awards final funding claim for work which was delayed and funds were not disbursed within a reasonable time frame of receipt.

Recommendation: We recommend that future grant funding request claims only include costs which have already been incurred or are scheduled in the immediate future. Grant funding requests should be based upon actual immediate cash needs in accordance with Federal regulations.

Views of Responsible Officials and Planned Corrective Actions: The City Manager has met directly with both the Housing Coordinator and the Public Works Director to make certain they understand why the time lapse was inappropriate and that this activity should not occur in the future. The City Manager is absolutely convinced that the actions that were taken, while inappropriate from a Federal Grant perspective, were mistakenly undertaken with the best interest of the City in mind to preserve access to much needed project funds. The City Manager is currently working with Department Heads on the development of a curriculum of relevant training topics which includes Financial and Asset Management. The specific topic highlighted in this finding will be incorporated in this training and all department heads will participate in this training to occur in 2014. The above recommendation will be implemented.

Finding #2013-02 Period of Availability:

Department of Housing and Urban Development

CFDA #14.228 Community Development Block Grants/State's Program

Federal Award Number: 09-053-NSPH

Passed Through Payments from the New Hampshire Community Development Finance Authority

Criteria or specific requirement: Federal period of availability requirements specify that grant recipients may only charge costs resulting from obligations incurred during the funding period authorized by the Federal awarding agency. The Community Development Block Grants/State's Program federal award grant agreement states the period of availability to end on March 9, 2013.

Condition: During our testing of the federal program we noted two costs requested under the federal award where the liabilities/obligations were not incurred during the specified period of availability. The claimed funds remained unobligated and unspent as of the fiscal year ended June 30, 2013.

Questioned costs: Known questioned costs of \$65,347.

Context: In reviewing the final claim report for the federal award paid in March 2013, it was noted that two of the costs requested were for anticipated expenditures that were not incurred prior to the expiration of the period of availability. The questioned claimed costs were still not fully incurred as of the commencement of audit fieldwork in September 2013. A sample of 40 expenditures encompassing all the federal awards of the major federal program was selected for testing requirements of allowable costs and period of availability and no other deviations were noted.

Effect: Costs that were not incurred within the allowed period of availability were inappropriately charged to the grant.

Cause: The City's Housing Coordinator, who is new to the position, included anticipated costs in the federal awards final funding claim which had not been incurred within the grants allowable period. Additionally, no action was taken to report the matter to the granting agency regarding permission to spend the funds outside the original period of availability.

Recommendation: We recommend that future grant funding request claims be carefully reviewed to only include costs which have been incurred within the stated period of availability. Grant funds not spent within the allowed period of availability should be communicated directly to the granting agency in order to determine the appropriate treatment.

Views of Responsible Officials and Planned Corrective Actions: The City Manager has met directly with both the Housing Coordinator and the Public Works Director to make certain they understand why the time lapse was inappropriate and that this activity should not occur in the future. The City Manager is absolutely convinced that the actions that were taken, while inappropriate from a Federal Grant perspective, were mistakenly undertaken with the best interest of the City in mind to preserve access to much needed project funds. The City Manager is currently working with Department Heads on the development of a curriculum of relevant training topics which includes Financial and Asset Management. The specific topic highlighted in this finding will be incorporated in this training and all department heads will participate in this training to occur in 2014. The above recommendation will be implemented.

SCHEDULE A
CITY OF BERLIN, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Funds
June 30, 2013

	Special Revenue Funds	Permanent Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 83,999	\$ 6,509		\$ 90,508
Investments		366,908		366,908
Due from other governments	831,062			831,062
Due from other funds	35,511		\$ 1,780,032	1,815,543
Prepaid expenses	35,445			35,445
Inventory	12,864			12,864
Total Assets	<u>998,881</u>	<u>373,417</u>	<u>1,780,032</u>	<u>3,152,330</u>
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 998,881</u>	<u>\$ 373,417</u>	<u>\$ 1,780,032</u>	<u>\$ 3,152,330</u>
LIABILITIES				
Accounts payable	\$ 55,001			\$ 55,001
Accrued expenses	6,141			6,141
Due to other funds	905,809	\$ 178		905,987
Total Liabilities	<u>966,951</u>	<u>178</u>	<u>\$ -</u>	<u>967,129</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned grant revenue	<u>104,185</u>	<u>-</u>	<u>-</u>	<u>104,185</u>
Total Deferred Inflows of Resources	<u>104,185</u>	<u>-</u>	<u>-</u>	<u>104,185</u>
FUND BALANCES				
Nonspendable	48,309	150,003		198,312
Restricted	1,710	223,236	1,780,032	2,004,978
Committed	18,820			18,820
Assigned	22,209			22,209
Unassigned (Deficit)	<u>(163,303)</u>	<u>-</u>	<u>-</u>	<u>(163,303)</u>
Total Fund Balances (Deficit)	<u>(72,255)</u>	<u>373,239</u>	<u>1,780,032</u>	<u>2,081,016</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 998,881</u>	<u>\$ 373,417</u>	<u>\$ 1,780,032</u>	<u>\$ 3,152,330</u>

SCHEDULE A-1
CITY OF BERLIN, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Special Revenue Funds
June 30, 2013

	Federal Projects Fund	Food Service Fund	Airport Authority Fund	Health Department Fund	Grants Fund	CDBG Fund	Neighborhood Stabilization Grant Fund	Recreation and Parks Programs Fund	Combining Totals
ASSETS									
Cash and cash equivalents				\$ 2,060		\$ 81,939			\$ 83,999
Due from other governments	\$ 422,038	\$ 69,506	\$ 54,297		\$ 93,190		\$ 192,031		831,062
Due from other funds					16,381			\$ 19,130	35,511
Prepaid expenses			35,445						35,445
Inventory		12,864							12,864
Total Assets	<u>422,038</u>	<u>82,370</u>	<u>89,742</u>	<u>2,060</u>	<u>109,571</u>	<u>81,939</u>	<u>192,031</u>	<u>19,130</u>	<u>998,881</u>
DEFERRED OUTFLOWS OF RESOURCES									
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 422,038</u>	<u>\$ 82,370</u>	<u>\$ 89,742</u>	<u>\$ 2,060</u>	<u>\$ 109,571</u>	<u>\$ 81,939</u>	<u>\$ 192,031</u>	<u>\$ 19,130</u>	<u>\$ 998,881</u>
LIABILITIES									
Accounts payable		\$ 150	\$ 1,304		\$ 34,024		\$ 19,253	\$ 270	\$ 55,001
Accrued expenses			3,640		1,993		468	40	6,141
Due to other funds	\$ 398,808	49,207	212,656		47,377	\$ 81,939	115,822		905,809
Total Liabilities	<u>398,808</u>	<u>49,357</u>	<u>217,600</u>	<u>\$ -</u>	<u>83,394</u>	<u>81,939</u>	<u>135,543</u>	<u>310</u>	<u>966,951</u>
DEFERRED INFLOWS OF RESOURCES									
Unearned grant revenue	21,520				26,177		56,488		104,185
Total Deferred Inflows of Resources	<u>21,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,177</u>	<u>-</u>	<u>56,488</u>	<u>-</u>	<u>104,185</u>
FUND BALANCES									
Nonspendable		12,864	35,445						48,309
Restricted	1,710								1,710
Committed								18,820	18,820
Assigned		20,149		2,060					22,209
Unassigned (Deficit)			(163,303)						(163,303)
Total Fund Balances (Deficit)	<u>1,710</u>	<u>33,013</u>	<u>(127,858)</u>	<u>2,060</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,820</u>	<u>(72,255)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 422,038</u>	<u>\$ 82,370</u>	<u>\$ 89,742</u>	<u>\$ 2,060</u>	<u>\$ 109,571</u>	<u>\$ 81,939</u>	<u>\$ 192,031</u>	<u>\$ 19,130</u>	<u>\$ 998,881</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, 2013

	Special Revenue Funds	Permanent Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
Revenues:				
Intergovernmental	\$ 2,889,362			\$ 2,889,362
Charges for services	381,317			381,317
Interest income	1	\$ 4,891		4,892
Miscellaneous	101,565	1,525		103,090
Total Revenues	<u>3,372,245</u>	<u>6,416</u>	<u>\$ -</u>	<u>3,378,661</u>
Expenditures:				
Current operations:				
General government	111,177	675		111,852
Public safety	247,252			247,252
Airport/Aviation center	184,621			184,621
Health and welfare	1,952			1,952
Sanitation	5,000			5,000
Culture and recreation	50,458			50,458
Economic development	527,347			527,347
Education	1,670,336			1,670,336
Food service	638,982			638,982
Capital outlay	14,216		263,105	277,321
Total Expenditures	<u>3,451,341</u>	<u>675</u>	<u>263,105</u>	<u>3,715,121</u>
Excess of revenues over (under) expenditures	<u>(79,096)</u>	<u>5,741</u>	<u>(263,105)</u>	<u>(336,460)</u>
Other financing sources (uses):				
Transfers in	11,500			11,500
Transfers out	(5,883)	(3,339)		(9,222)
Total Other Financing Sources (Uses)	<u>5,617</u>	<u>(3,339)</u>	<u>-</u>	<u>2,278</u>
Net change in fund balances	(73,479)	2,402	(263,105)	(334,182)
Fund balances at beginning of year	<u>1,224</u>	<u>370,837</u>	<u>2,043,137</u>	<u>2,415,198</u>
Fund balances (deficit) at end of year	<u>\$ (72,255)</u>	<u>\$ 373,239</u>	<u>\$ 1,780,032</u>	<u>\$ 2,081,016</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, 2013

	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	\$ 1,619,456	\$ 393,190	\$ 12,397			\$ 336,972	\$ 179,549	\$ 347,798		\$ 2,889,362
Charges for services		215,260	132,049						\$ 34,008	381,317
Interest income				\$ 1						1
Miscellaneous	50,880		7,920	1,184		41,581				101,565
Total Revenues	<u>1,670,336</u>	<u>608,450</u>	<u>152,366</u>	<u>1,185</u>	<u>\$ -</u>	<u>378,553</u>	<u>179,549</u>	<u>347,798</u>	<u>34,008</u>	<u>3,372,245</u>
Expenditures:										
Current operations:										
General government						111,177				111,177
Public safety						247,252				247,252
Airport/Aviation center			184,621							184,621
Health and welfare				1,161		791				1,952
Sanitation						5,000				5,000
Culture and recreation						14,333			36,125	50,458
Economic development							179,549	347,798		527,347
Education	1,670,336									1,670,336
Food service		638,982								638,982
Capital outlay			14,216							14,216
Total Expenditures	<u>1,670,336</u>	<u>638,982</u>	<u>198,837</u>	<u>1,161</u>	<u>-</u>	<u>378,553</u>	<u>179,549</u>	<u>347,798</u>	<u>36,125</u>	<u>3,451,341</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>(30,532)</u>	<u>(46,471)</u>	<u>24</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,117)</u>	<u>(79,096)</u>
Other financing sources (uses):										
Transfers in			11,500							11,500
Transfers out					(5,883)					(5,883)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>11,500</u>	<u>-</u>	<u>(5,883)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,617</u>
Net change in fund balances	-	(30,532)	(34,971)	24	(5,883)	-	-	-	(2,117)	(73,479)
Fund balances (deficit) at beginning of year	<u>1,710</u>	<u>63,545</u>	<u>(92,887)</u>	<u>2,036</u>	<u>5,883</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,937</u>	<u>1,224</u>
Fund balances (deficit) at end of year	<u>\$ 1,710</u>	<u>\$ 33,013</u>	<u>\$ (127,858)</u>	<u>\$ 2,060</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,820</u>	<u>\$ (72,255)</u>

SCHEDULE C
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Net Position
All Nonmajor Proprietary Funds
June 30, 2013

	Industrial Development and Park Authority Fund	Cates Hill Landfill Fund	Combining Totals
ASSETS			
Current Assets:			
Accounts receivable	\$ 2,818		\$ 2,818
Due from other governments		\$ 116,610	116,610
Due from other funds	491,784	297,316	789,100
Total Current Assets	<u>494,602</u>	<u>413,926</u>	<u>908,528</u>
Noncurrent Assets:			
Capital assets:			
Non-depreciable capital assets	37,238		37,238
Depreciable capital assets, net	<u>76,568</u>		<u>76,568</u>
Total Noncurrent Assets	<u>113,806</u>	<u>-</u>	<u>113,806</u>
Total Assets	<u>608,408</u>	<u>413,926</u>	<u>1,022,334</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	3,839		3,839
Current portion of note payable	86,178		86,178
Current portion of estimated liability for landfill postclosure care costs		12,450	12,450
Total Current Liabilities	<u>90,017</u>	<u>12,450</u>	<u>102,467</u>
Noncurrent Liabilities:			
Note payable	38,978		38,978
Estimated liability for landfill postclosure care costs		261,450	261,450
Total Noncurrent Liabilities	<u>38,978</u>	<u>261,450</u>	<u>300,428</u>
Total Liabilities	<u>128,995</u>	<u>273,900</u>	<u>402,895</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	236		236
Total Deferred Inflows of Resources	<u>236</u>	<u>-</u>	<u>236</u>
NET POSITION			
Net investment in capital assets	113,806		113,806
Unrestricted	365,371	140,026	505,397
Total Net Position	<u>\$ 479,177</u>	<u>\$ 140,026</u>	<u>\$ 619,203</u>

SCHEDULE D
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Revenues, Expenses and Changes in Net Position
All Nonmajor Proprietary Funds
For the Year Ended June 30, 2013

	Industrial Development and Park Authority Fund	Courthouse Fund	Cates Hill Landfill Fund	Combining Totals
Operating revenues:				
Miscellaneous	\$ 111,477		\$ 4,382	\$ 115,859
Total Operating Revenues	<u>111,477</u>	<u>\$ -</u>	<u>4,382</u>	<u>115,859</u>
Operating expenses:				
Contractual services	3,800			3,800
Repairs and maintenance	38,737			38,737
Administrative	15,177			15,177
Materials and supplies	18			18
Utilities	2,230			2,230
Depreciation	36,580			36,580
Total Operating Expenses	<u>96,542</u>	<u>-</u>	<u>-</u>	<u>96,542</u>
Operating income	<u>14,935</u>	<u>-</u>	<u>4,382</u>	<u>19,317</u>
Non-operating revenues (expenses):				
Loss on disposal of assets	(179,792)			(179,792)
Interest revenue	194			194
Net non-operating revenues (expenses)	<u>(179,598)</u>	<u>-</u>	<u>-</u>	<u>(179,598)</u>
Income (Loss) before transfers	(164,663)	-	4,382	(160,281)
Transfers in		121,346		121,346
Transfers out	<u>(471,419)</u>	<u>(115,592)</u>		<u>(587,011)</u>
Change in net position	(636,082)	5,754	4,382	(625,946)
Total net position (deficit) at beginning of year	<u>1,115,259</u>	<u>(5,754)</u>	<u>135,644</u>	<u>1,245,149</u>
Total net position at end of year	<u>\$ 479,177</u>	<u>\$ -</u>	<u>\$ 140,026</u>	<u>\$ 619,203</u>

SCHEDULE E
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Cash Flows
All Nonmajor Proprietary Funds
For the Year Ended June 30, 2013

	Industrial Development and Park Authority Fund	Courthouse Fund	Cates Hill Landfill Fund	Combining Totals
Cash flows from operating activities:				
Cash received from customers	\$ 105,470			\$ 105,470
Cash paid to suppliers	(56,403)	\$ (115)	\$ (5,604)	(62,122)
Other cash receipts			5,814	5,814
Net cash provided (used) by operating activities	<u>49,067</u>	<u>(115)</u>	<u>210</u>	<u>49,162</u>
Cash flows from noncapital financing activities:				
Transfer in from other fund		121,346		121,346
Net cash provided for noncapital financing activities	<u>-</u>	<u>121,346</u>	<u>-</u>	<u>121,346</u>
Cash flows from capital and related financing activities:				
Principal paid on note payable	(72,920)			(72,920)
Proceeds from sale of capital assets	<u>289,800</u>			<u>289,800</u>
Net cash provided for capital and related financing activities	<u>216,880</u>	<u>-</u>	<u>-</u>	<u>216,880</u>
Cash flows from investing activities:				
Interest on investments	<u>194</u>			<u>194</u>
Net cash provided by investing activities	<u>194</u>	<u>-</u>	<u>-</u>	<u>194</u>
Net increase in cash and cash equivalents	266,141	121,231	210	387,582
Cash and cash equivalents (deficiency) at beginning of year	<u>225,643</u>	<u>(121,231)</u>	<u>297,106</u>	<u>401,518</u>
Cash and cash equivalents at end of year	<u>\$ 491,784</u>	<u>\$ -</u>	<u>\$ 297,316</u>	<u>\$ 789,100</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ 14,935	\$ -	\$ 4,382	\$ 19,317
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	36,580			36,580
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Accounts receivable	(2,818)			(2,818)
Due from other governments			8,278	8,278
Accounts payable	3,559	(115)		3,444
Unearned revenue	(3,189)			(3,189)
Estimated liability for landfill postclosure care costs			(12,450)	(12,450)
Net cash provided (used) by operating activities	<u>\$ 49,067</u>	<u>\$ (115)</u>	<u>\$ 210</u>	<u>\$ 49,162</u>
Non-cash transactions affecting financial position:				
Net book value of disposed capital assets	\$ 469,592			\$ 469,592
Net book value of transferred capital assets	<u>471,419</u>	<u>\$ 115,592</u>		<u>587,011</u>
	<u>\$ 941,011</u>	<u>\$ 115,592</u>	<u>\$ -</u>	<u>\$ 1,056,603</u>