

CITY OF BERLIN, NEW HAMPSHIRE
Financial Statements
With Schedule of Expenditures of Federal Awards
June 30, 2015
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, 2015**

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FINANCIAL STATEMENTS
June 30, 2015

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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, 2015, 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, 2015, 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, the schedule of funding progress for other post-employment benefits, the schedule of changes in the City's proportionate share of the net pension liability, and the schedule of City contributions on pages i-xiii and 36-41 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 March 8, 2016 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 Clutkey & Company PC

Manchester, New Hampshire
March 8, 2016

**City of Berlin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015**

This section of the City of Berlin, New Hampshire's (the City) financial statements is prepared to comply with the requirements of GASB Statement 34 which requires management of 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, 2015. 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

New Standards Implemented:

- During the year ended June 30, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions*. Under GASB Statement 68, the City is required to report its proportional share of the New Hampshire Retirement Systems unfunded pension liability as 'Net Pension Liability' on the government-wide and proprietary fund financial statements. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013. See the notes to the basic financial statements for further information.

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, 2015 by \$33.7 million, an increase of \$5.2 million 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 decreased from the prior year with an ending deficit balance of (\$13.2) million. Restricted net position of \$400 thousand was restricted for permanent funds principal and income, food service operations, police forfeitures and various unexpended grants and donations. The net investment in capital assets increased from the prior year with an ending balance of \$46.5 million.
- Changes in Net Position: The City's total net position increased from last fiscal year's \$28.5 million to \$33.7 million in fiscal year 2015. Net position of governmental activities increased by \$2.8 million or 187%, and net position of the business-type activities increased by \$2.4 million or 9%. 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 2015, the City's governmental funds reported a decrease of (\$1.9) million in the combined ending fund balance of \$4.9 million, compared to last fiscal year. Included in the combined governmental fund balance is the activity of the City's General Fund and the Nonmajor Governmental Funds. The General Fund ended the fiscal year with an unassigned fund balance of \$1,439,334, which is a decrease of (\$803) thousand from the previous fiscal year.

- Proprietary Funds – Net Position: As of the close of fiscal year 2015, the City’s proprietary funds reported an increase of \$2.4 million in the combined ending net position of \$29.4 million, compared to last fiscal year. Included in the combined proprietary funds net position is the activity of the City’s Sewer Fund and the Nonmajor Proprietary Funds. The Sewer Fund ended the fiscal year with an unrestricted net position of \$7.3 million, which is an increase of \$100 thousand from the prior 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 the following three components:

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

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

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the City’s finances. These statements (Statement of Net 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, and 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

- **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 53-56. The nonmajor governmental funds are:

- Federal Projects Fund
- Food Service Fund
- Airport Authority Fund
- Health Department Fund
- Recreation and Parks Programs Fund
- Grants Fund

- Neighborhood Stabilization Grants Fund
 - CDBG Fund
 - Bond Issue Capital Projects Fund
 - Hutchins Street 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, the Sewer Fund, and two nonmajor proprietary funds -
 - Cates Hill Landfill Fund
 - Berlin Industrial Park and Development Authority (BIDPA) 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 propriety fund 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 57-59.

- 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
 - Elaine Hardy Scholarship 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 10-35.

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for each of the City's major governmental funds and includes a reconciliation between the reported activity of the revenues, expenditures and other financing sources and uses for budgetary purposes (Schedule 1, page 36) and the activity as presented in the governmental fund financial statements (Exhibit D, page 4). The City's only major governmental fund is the General Fund. Also, included in the required supplementary information is the schedule of funding progress for other post-employment benefits, the schedule of changes in the City's proportionate share of the net pension liability, and the schedule of City contributions (Schedules 2-4, pages 37-39). The notes to the required supplementary information can be found on pages 40-41.

Other Supplementary Information

Other supplementary information includes the schedule of expenditures of federal awards and combining financial statements for nonmajor governmental and proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

The City's Primary Government combined net position (governmental and business-type activities) totaled \$33.7 million at the end of fiscal year 2015, an increase of \$5.2 million compared to the end of the previous fiscal year.

Net position of the City as of June 30, 2015 and 2014 is as follows:

	Governmental Activities (Restated)		Business-type Activities (Restated)		Total Primary Government (Restated)	
	2015	2014	2015	2014	2015	2014
Capital assets, net	\$ 28.3	\$ 24.4	\$ 38.0	\$ 38.2	\$ 66.3	\$ 62.6
Other assets	10.1	13.5	9.5	10.2	19.6	23.7
Total Assets	<u>38.4</u>	<u>37.9</u>	<u>47.5</u>	<u>48.4</u>	<u>85.9</u>	<u>86.3</u>
Total Deferred Outflows of Resources	<u>2.5</u>	<u>1.9</u>	<u>0.1</u>	<u>0.1</u>	<u>2.6</u>	<u>2.0</u>
Long-term liabilities	29.1	32.0	17.5	20.1	46.6	52.1
Other liabilities	1.0	1.0	0.6	1.4	1.6	2.4
Total Liabilities	<u>30.1</u>	<u>33.0</u>	<u>18.1</u>	<u>21.5</u>	<u>48.2</u>	<u>54.5</u>
Total Deferred Inflows of Resources	<u>6.5</u>	<u>5.3</u>	<u>0.1</u>	<u>-</u>	<u>6.6</u>	<u>5.3</u>
Net position:						
Net investment in capital assets	25.3	21.9	21.2	19.2	46.5	41.1
Restricted	0.4	0.4	-	-	0.4	0.4
Unrestricted (Deficit)	(21.4)	(20.8)	8.2	7.8	(13.2)	(13.0)
Total Net Position	<u>\$ 4.3</u>	<u>\$ 1.5</u>	<u>\$ 29.4</u>	<u>\$ 27.0</u>	<u>\$ 33.7</u>	<u>\$ 28.5</u>

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 a decrease in unrestricted net position of (\$200) thousand from the prior fiscal year. The significant deficit unrestricted net position balance of the governmental activities at year end is due to the implementation of GASB Statement 68 during the current year. A deficit unrestricted net position balance is expected to continue into subsequent years.

Statement of Activities

The City's total net position increased \$5.2 million during this fiscal year. Property and other taxes brought in \$15.6 million in revenue. 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 years ending June 30, 2015 and 2014 are as follows:

	Governmental Activities		Business-type Activities		Total Primary Government	
	(Restated)		(Restated)		(Restated)	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 2.5	\$ 2.8	\$ 2.2	\$ 1.8	\$ 4.7	\$ 4.6
Operating grants and contributions	13.7	14.8	-	-	13.7	14.8
Capital grants and contributions	3.2	1.8	3.4	1.9	6.6	3.7
General revenues:						
Property and other taxes	15.6	15.1	-	-	15.6	15.1
Licenses and permits	1.3	1.3	-	-	1.3	1.3
Intergovernmental	0.5	0.4	-	-	0.5	0.4
Interest and investment earnings	-	-	-	-	-	-
Miscellaneous	0.4	1.1	0.1	0.1	0.5	1.2
Total revenues	<u>37.2</u>	<u>37.3</u>	<u>5.7</u>	<u>3.8</u>	<u>42.9</u>	<u>41.1</u>
Expenses						
General government	2.0	2.8	-	-	2.0	2.8
Public safety	5.5	5.6	-	-	5.5	5.6
Airport/Aviation center	0.4	0.4	-	-	0.4	0.4
Highways and streets	2.3	2.5	-	-	2.3	2.5
Health and welfare	0.7	0.7	-	-	0.7	0.7
Sanitation	0.8	0.8	-	-	0.8	0.8
Culture and recreation	0.7	0.7	-	-	0.7	0.7
Economic development	0.2	0.3	-	-	0.2	0.3
Education	18.9	18.5	-	-	18.9	18.5
Food service	0.6	0.6	-	-	0.6	0.6
Debt service	0.6	0.8	-	-	0.6	0.8
Intergovernmental	1.7	1.6	-	-	1.7	1.6
Sewer	-	-	3.2	2.5	3.2	2.5
Nonmajor enterprise funds	-	-	-	0.1	-	0.1
Total expenses	<u>34.4</u>	<u>35.3</u>	<u>3.2</u>	<u>2.6</u>	<u>37.6</u>	<u>37.9</u>
Excess (Deficiency) before contributions to permanent fund principal and net loss on disposal of capital assets						
	2.8	2.0	2.5	1.2	5.3	3.2
Contributions to permanent fund principal						
	-	-	-	-	-	-
Net loss on disposal of capital assets						
	-	-	(0.1)	-	(0.1)	-
Change in net position						
	2.8	2.0	2.4	1.2	5.2	3.2
Net position, beginning of year						
	1.5	21.8	27.0	26.4	28.5	48.2
Restatement due to implementation of GASB Statement #68						
	-	(22.3)	-	(0.6)	-	(22.9)
Net position, end of year	<u>\$ 4.3</u>	<u>\$ 1.5</u>	<u>\$ 29.4</u>	<u>\$ 27.0</u>	<u>\$ 33.7</u>	<u>\$ 28.5</u>

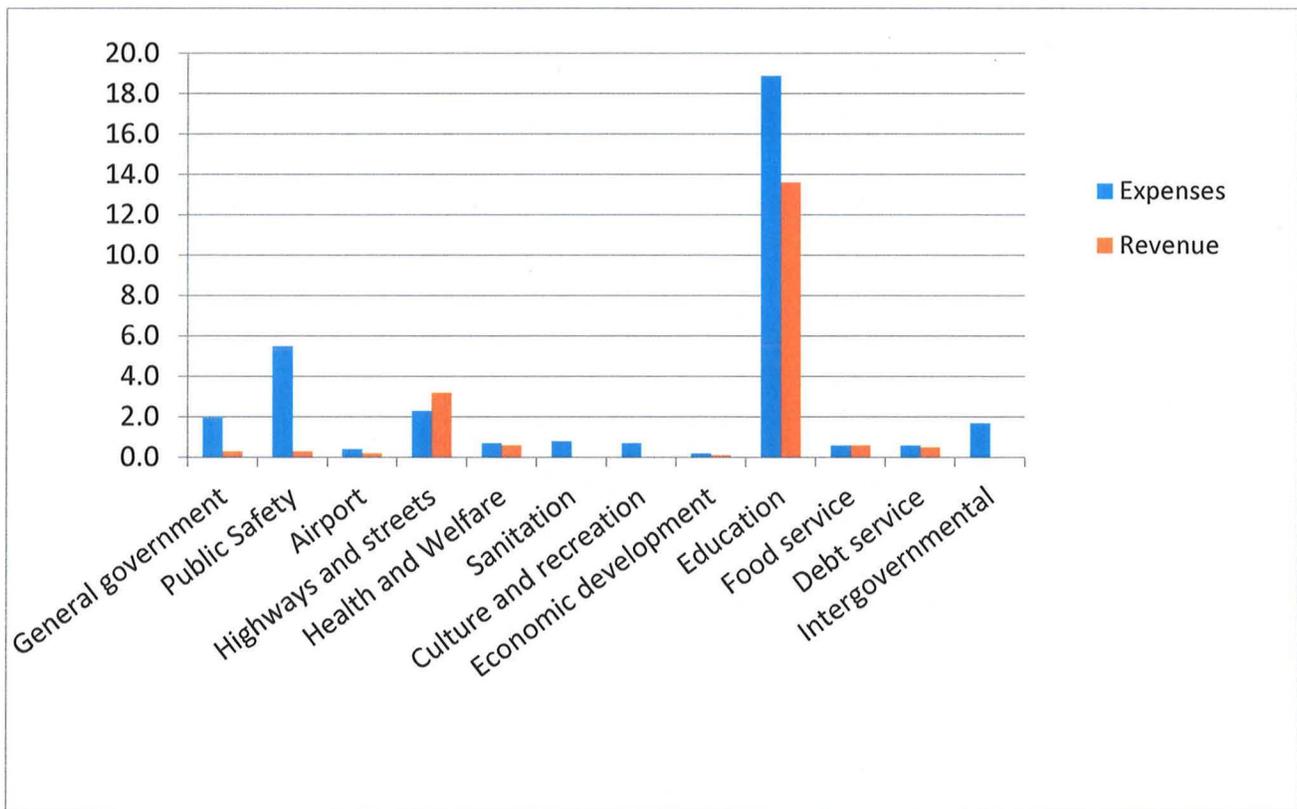
The City's expenses cover a range of services. The largest governmental expenses were for education (55%), public safety (16%), highways and streets (7%) and general government (6%), which accounted for roughly 84% of total governmental expenditures.

Governmental Activities

Governmental activities total revenue and contributions to permanent fund principal totaling \$37.2 million exceeded expenses of \$34.4 million in fiscal year 2015, thereby increasing the City's governmental activities net position by \$2.0 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 some of the largest expenses for the City (Education, Public Safety and General Government) also represent the activities that have the largest gap between expenses and program revenues. Since program revenues do not offset these expenses, the difference is made up from property taxes.

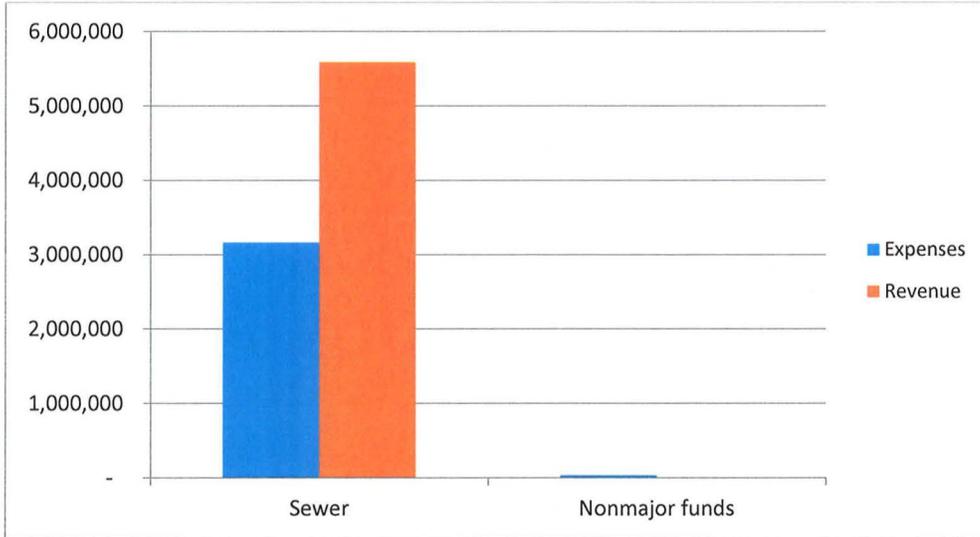
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ending June 30, 2015



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, which includes depreciation expense. However, this does not include the inflows of capital from State-Aid Grants provided to offset Sewer Debt, Federal Grant Programs and State Revolving Loan Fund Program proceeds used toward the significant sewer improvements currently being undertaken.

Expenses and Program Revenues – Business Type Activities
Fiscal Year Ending June 30, 2015

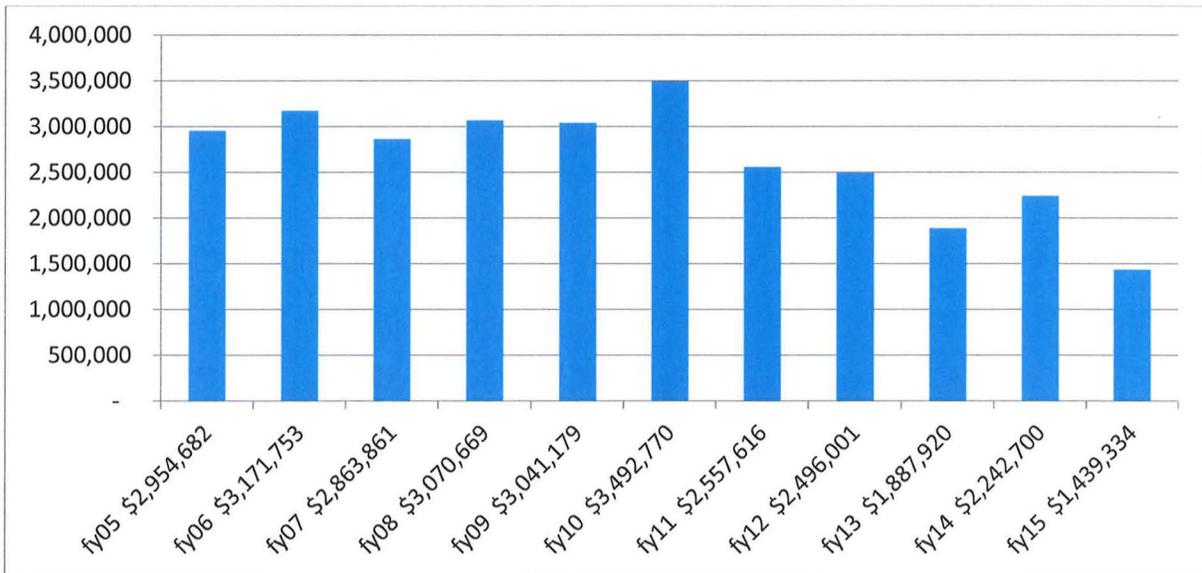


FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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 fiscal years 2005 through 2015 are as follows:

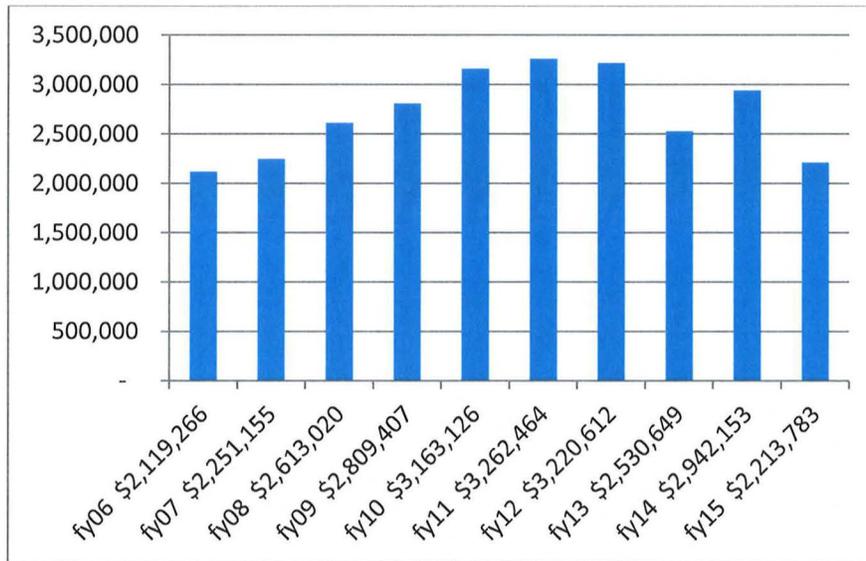


General Fund

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 \$1,439,334, while total fund balance was \$3,175,268. The total fund balance 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 (\$803,366) from the previous year.

Budgetary Basis

The above analysis done in this review has been based on modified accrual accounting basis 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 ten 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 in past years to increase its Unassigned Fund Balance was generally successful. However, the difficulty in maintaining that balance becomes greater every year, as the City has applied a significant amount of the balance to reduce the tax rate in each of the past two years. For the fiscal year 2015, the General Fund Unassigned Fund Balance has decreased to \$2,213,783, with \$1,450,000 being applied to reduce the 2014 tax rate.

Other Governmental Funds

The combined fund balances of the nonmajor governmental funds decreased during the year by (\$972,740) to a fiscal year end balance of \$1,697,726. The decrease was primarily a result of the current year expenditure of remaining unspent bond proceeds in the Bond Issue Capital Projects Fund.

Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements (accrual basis). 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 increased by \$2,448,790 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 determining sewer rates. The Sewer Fund itself had an increase of net position of \$2,182,477. The increase in net position is due to capital contributions of \$3.4 million during fiscal year 2015. The Nonmajor Proprietary Funds had a combined net position increase of \$266,313 in fiscal year 2015. This increase was due to the sale of land in the BIDPA Fund which resulted in a gain on sale of \$285 thousand.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Actual budgetary revenues were more than the budgeted estimated revenues by \$420,458. There was a favorable variance of \$274,560 in actual property taxes received from the amount budgeted. Intergovernmental revenues were significantly more than budgeted due to increased Medicaid reimbursements during the year. Actual budgetary expenditures at fiscal year-end were \$305,744 less than the final budgeted appropriations. Several City Departments were over budget, while several were under budgeted amounts. The City made a concerted effort to control costs resulting in savings on certain budgeted items. The Schools spent \$225,356 less than budgeted. General government was \$135,050 less than budgeted and Public safety spent \$83,210 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, 2015, amounted to \$111.9 million. Accumulated depreciation was \$45.6 million leaving a net book value of \$66.3 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 21-22 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 \$20.6 million. This amount does not include bonded debt outstanding by the Berlin Water Works, its component unit. The City may 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 direct payments made on its behalf for annual principal and interest on such debt. Borrowings on the State of New Hampshire Revolving Loan totaled \$192 thousand at year end and are solely attributable to the Sewer Fund. There was a significant reduction in the State of New Hampshire Revolving Loan balance during the current year as the City issued general obligation bonds totaling \$12.5 million to current refund the outstanding balance with an additional \$2 million of the principal balance forgiven under a federal grant program. In addition, the City had outstanding capital leases payable totaling \$500 thousand at year end. Capital lease obligations are entered into for the financing of equipment acquisitions and these contracts are cancelable if funds are not appropriated to meet payment obligations. Additional information regarding the City's long-term debt obligations can be found in Note 9 on pages 28-32 of the Notes to the Basic Financial Statements.

Net Pension Liability and Other Post-Employment Benefits

As noted previously in this narrative, during the year the City implemented GASB Statement 68 which requires the City to recognize a liability for its proportionate share of the New Hampshire Retirement System's net pension liability. Under GASB Statement 68, the City recognizes pension expense and reports deferred outflows and inflows of resources related to pension for its proportionate share of collective pension expense and collective deferred outflows and inflows of resources related to pension. At year end, the City had a net pension liability of \$22.4 million, with deferred outflows and inflows of resources related to pension in the amounts of \$2.6 million and \$2.9 million, respectively. Additional information regarding the City's net pension liability can be found in Note 7 on pages 22-26 of the Notes to the Basic Financial Statements.

GASB Statement 45, requires the City 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, as well as life insurance, to its retirees, their spouses and dependents. Although, the City is not required to fund this contribution, it is required to be recognized as a liability in these financial statements. The net OPEB obligation as of June 30, 2015 is \$780 thousand. Additional information regarding the City's OPEB can be found in Note 8 on pages 26-28 of the Notes to the Basic Financial Statements.

ECONOMIC CONDITIONS

The Burgess BioPower biomass plant, completed in late 2013 is now in operation. The owners continue to work on maximizing output from the facility. The demand for whole tree chips created by the biomass plant consumption has caused an increase in chip prices. The need to keep the facility supplied with fuel has led to discussions of potential rail expansion to bring chips in by rail car. To date, this has not taken place.

Jericho Wind Power completed construction of its 5 tower wind farm in 2015. The 2.85 mega-watt towers are now on line and are producing power to the grid. This project has added approximately 3 to 4 permanent jobs and had increased the City's utility tax base.

The City has Payment in Lieu of Taxes Agreements with both Jericho Power and Burgess Biomass as renewable energy projects. Both agreements assure the City increasing revenues over the 20 year terms of the agreements. This has allowed the City to plan for capital bonding for a much needed reconstruction project of a significant portion of Route 16 through the City.

The Gorham Paper Mill continues to operate and produce paper. The reduction in fossil fuel prices and electricity has had a positive impact on operating costs and profitability.

The Federal Corrections Institution has been coming on line over the past year. It is now near capacity with the inmate population. Staffing has come up to approximately 300 employees over this past year with approximately another 45 that remain to be hired. These added jobs to the local economy have added a significant amount of economic value to the area.

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. Over the past year BIDPA has worked Capone Steel, a Massachusetts based company, to expand its operation at the Berlin Industrial Park. Current employment is 307 staff.

As evidenced by the City 5-year statistical update of its property valuations the City continues to face a challenging housing market. Overall housing values decreased based on actual property sale prices. The City has made significant strides with its housing program by removing surplus housing stock. Continued depressed prices are likely the result of low demand and a continued oversupply of housing.

Phase II of the Rte. 110 improvement project, is now largely constructed. The last segment will be constructed during the summer of 2015. The construction to date has had a dramatic effect on this transportation corridor. While improving general traffic and truck traffic flow through the City it also improves the adjacent quality of the neighborhoods by removing traffic. It also improves 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. Included in this development is 300 acres Jericho Lake that the City donated to the State. The park is a New England-wide, and beyond, attraction. The park has a campground with 20 primitive campsites, including 5 cabins, 6 tent sites and 9 RV sites, and offers only water and portable toilets this season. The campground connects to the 75 miles of OHRV trails at the park, as well as connecting with the 1,000 miles of trails in Coos County. The park also has a day-use area with a beach for swimming, pavilion and boat launch. This development is having a very significant impact on the City's image and economic base. The first of its kind in the State OHRV connection between this Park and the many trails in Success on the east side of the City has gone very smoothly and this connection now exists to support continued growth of the industry. The City ordinance which allows OHRV traffic on all City streets continues to be successful and the City has decided to continue this into the future. It is known that the OHRV friendly atmosphere has also led to the sale of some residential properties in the City as second homes. The City participates in the annual ATV/OHRV Festival. This past year, again, the festival was the most attended yet.

Like the granite that surrounds it, Berlin has weathered everything that has been thrown at it. In spite of this, Berlin is in the process of redefining itself in a way that is leading to economic growth and opportunity. While growth and momentum may not be as rapid as some would like, the annual incremental steps in a positive direction are very clear. In addition to the long established hydroelectric industry and more recent biomass industry, we now make electricity from wind power as well. The ATV Park and the new Coos Coalition ATV trail continue to attract expanding recreation activity. There has been additional significant interest from the private sector in developing another campground on Route 110 to service the ATV/OHRV population. There has also been the purchase and initial redevelopment of two significant properties on Route 110. One

involves the demolition of a very large abandoned warehouse and factory property which will be marketed for new construction. The other is the purchase and re-development of the old Knights of Columbus building into a commercial space. While the City's economy has been stabilized by several larger employers including the Federal Prison, it is as encouraging to consider the City's successful foray into the tourism industry by way ATV/OHRV recreation.

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, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 14,172,226		\$ 14,172,226	\$ 681,447
Investments	377,320		377,320	345,415
Taxes receivable, net	839,554		839,554	
Accounts receivable, net	37,478	\$ 643,961	681,439	179,265
Due from other governments	1,366,663	345,609	1,712,272	254,708
Internal balances	(7,280,204)	7,280,204	-	
Prepaid expenses	56,711	6,289	63,000	
Inventory	12,563	70,140	82,703	374,867
Tax dedeed property	492,750		492,750	
Total Current Assets	<u>10,075,061</u>	<u>8,346,203</u>	<u>18,421,264</u>	<u>1,835,702</u>
Noncurrent Assets:				
Due from other governments		1,145,599	1,145,599	
Capital assets:				
Non-depreciable capital assets	14,333,728	16,301,002	30,634,730	3,927,556
Depreciable capital assets, net	<u>13,989,134</u>	<u>21,748,732</u>	<u>35,737,866</u>	<u>37,234,624</u>
Total Noncurrent Assets	<u>28,322,862</u>	<u>39,195,333</u>	<u>67,518,195</u>	<u>41,162,180</u>
Total Assets	<u>38,397,923</u>	<u>47,541,536</u>	<u>85,939,459</u>	<u>42,997,882</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pension	<u>2,498,027</u>	<u>72,805</u>	<u>2,570,832</u>	<u>100,960</u>
Total Deferred Outflows of Resources	<u>2,498,027</u>	<u>72,805</u>	<u>2,570,832</u>	<u>100,960</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	283,949	51,348	335,297	75,941
Accrued expenses	591,241	177,703	768,944	55,086
Retainage payable		322,386	322,386	
Notes payable			-	5,320,842
Advances from grantors	73,199		73,199	
Unearned revenue	6,683	236	6,919	
Current portion of bonds payable	380,373	577,638	958,011	1,098,909
Current portion of capital leases payable	144,932		144,932	21,451
Current portion of compensated absences payable	91,346		91,346	30,049
Current portion of estimated liability for landfill postclosure care costs	<u>11,300</u>	<u>12,450</u>	<u>23,750</u>	
Total Current Liabilities	<u>1,583,023</u>	<u>1,141,761</u>	<u>2,724,784</u>	<u>6,602,278</u>
Noncurrent Liabilities:				
Bonds payable	3,874,579	15,727,371	19,601,950	5,127,202
State of New Hampshire revolving loan		192,292	192,292	
Capital leases payable	381,324		381,324	
Compensated absences payable	1,595,022	126,922	1,721,944	150,436
Net pension liability	21,728,378	638,993	22,367,371	975,555
Other post-employment benefits obligation	744,363	36,839	781,202	41,954
Estimated liability for landfill postclosure care costs	<u>124,300</u>	<u>236,550</u>	<u>360,850</u>	
Total Noncurrent Liabilities	<u>28,447,966</u>	<u>16,958,967</u>	<u>45,406,933</u>	<u>6,295,147</u>
Total Liabilities	<u>30,030,989</u>	<u>18,100,728</u>	<u>48,131,717</u>	<u>12,897,425</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes collected in advance	3,762,236		3,762,236	
Advance from grantor			-	83,812
Deferred inflows related to pension	<u>2,780,163</u>	<u>81,760</u>	<u>2,861,923</u>	<u>124,823</u>
Total Deferred Inflows of Resources	<u>6,542,399</u>	<u>81,760</u>	<u>6,624,159</u>	<u>208,635</u>
NET POSITION				
Net investment in capital assets	25,274,461	21,230,047	46,504,508	29,593,776
Restricted	383,550		383,550	
Unrestricted (Deficit)	<u>(21,335,449)</u>	<u>8,201,806</u>	<u>(13,133,643)</u>	<u>399,006</u>
Total Net Position	<u>\$ 4,322,562</u>	<u>\$ 29,431,853</u>	<u>\$ 33,754,415</u>	<u>\$ 29,992,782</u>

See accompanying notes to the basic financial statements

EXHIBIT B
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Activities
For the Year Ended June 30, 2015

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			
					Governmental Activities	Business-type Activities	Total	
Governmental Activities:								
General government	\$ 1,983,554	\$ 286,528	\$ 10,068		\$ (1,686,958)		\$ (1,686,958)	
Public safety	5,476,723	208,193	61,372	\$ 40,827	(5,166,331)		(5,166,331)	
Airport/Aviation center	396,051	119,622		35,729	(240,700)		(240,700)	
Highways and streets	2,328,737	17,353	197,988	2,973,138	859,742		859,742	
Health and welfare	703,109	131,942	468,687		(102,480)		(102,480)	
Sanitation	811,721	30,777			(780,944)		(780,944)	
Culture and recreation	714,460	40,218	2,400		(671,842)		(671,842)	
Economic development	167,147		70,907		(96,240)		(96,240)	
Education	18,865,463	1,435,316	12,019,463	171,990	(5,238,694)		(5,238,694)	
Food service	643,283	213,428	410,723		(19,132)		(19,132)	
Debt service	609,412		495,162		(114,250)		(114,250)	
Intergovernmental	1,689,241				(1,689,241)		(1,689,241)	
Total governmental activities	<u>34,388,901</u>	<u>2,483,377</u>	<u>13,736,770</u>	<u>3,221,684</u>	<u>(14,947,070)</u>	<u>\$ -</u>	<u>(14,947,070)</u>	
Business-type activities:								
Sewer	3,166,476	2,213,947		3,373,022		2,420,493	2,420,493	
Nonmajor enterprise funds	34,097					(34,097)	(34,097)	
Total business-type activities	<u>3,200,573</u>	<u>2,213,947</u>	<u>-</u>	<u>3,373,022</u>	<u>-</u>	<u>2,386,396</u>	<u>2,386,396</u>	
Total primary government	<u>\$ 37,589,474</u>	<u>\$ 4,697,324</u>	<u>\$ 13,736,770</u>	<u>\$ 6,594,706</u>	<u>(14,947,070)</u>	<u>2,386,396</u>	<u>(12,560,674)</u>	
Component unit:								
Water	\$ 3,086,886	\$ 2,638,424		\$ 1,167,131				\$ 718,669
Total component unit	<u>\$ 3,086,886</u>	<u>\$ 2,638,424</u>	<u>\$ -</u>	<u>\$ 1,167,131</u>				<u>718,669</u>
General revenues:								
Property and other taxes					15,621,662		15,621,662	
Licenses and permits					1,294,533		1,294,533	
Grants and contributions:								
Rooms and meals tax distribution					464,704		464,704	
Interest and investment earnings					14,922	3,279	18,201	609
Miscellaneous					350,643	120,348	470,991	81,023
Contributions to permanent fund principal					700		700	
Net loss on disposal of capital assets					(9,120)	(61,233)	(70,353)	
Total general revenues, contributions to permanent fund principal and net loss on disposal of capital assets					<u>17,738,044</u>	<u>62,394</u>	<u>17,800,438</u>	<u>81,632</u>
Change in net position					2,790,974	2,448,790	5,239,764	800,301
Net Position at beginning of year, as restated					1,531,588	26,983,063	28,514,651	29,192,481
Net Position at end of year					<u>\$ 4,322,562</u>	<u>\$ 29,431,853</u>	<u>\$ 33,754,415</u>	<u>\$ 29,992,782</u>

See accompanying notes to the basic financial statements

EXHIBIT C
CITY OF BERLIN, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 14,166,707	\$ 5,519	\$ 14,172,226
Investments	2,274	375,046	377,320
Taxes receivable, net	839,554		839,554
Accounts receivable	28,694	8,257	36,951
Due from other governments	656,365	710,298	1,366,663
Due from other funds	884,247	1,568,004	2,452,251
Prepaid expenses	223,995	43,229	267,224
Inventory		12,563	12,563
Tax deeded property	492,750		492,750
Total Assets	<u>17,294,586</u>	<u>2,722,916</u>	<u>20,017,502</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 17,294,586</u>	<u>\$ 2,722,916</u>	<u>\$ 20,017,502</u>
LIABILITIES			
Accounts payable	\$ 230,246	\$ 53,703	\$ 283,949
Accrued expenses	502,557	9,507	512,064
Advances from grantors		73,199	73,199
Unearned revenue	1,622	5,061	6,683
Due to other funds	8,848,208	883,720	9,731,928
Total Liabilities	<u>9,582,633</u>	<u>1,025,190</u>	<u>10,607,823</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes collected in advance	3,762,236		3,762,236
Unearned property tax revenue	774,449		774,449
Total Deferred Inflows of Resources	<u>4,536,685</u>	-	<u>4,536,685</u>
FUND BALANCES			
Nonspendable	716,745	206,845	923,590
Restricted		1,716,640	1,716,640
Committed		21,088	21,088
Assigned	1,019,189		1,019,189
Unassigned (Deficit)	1,439,334	(246,847)	1,192,487
Total Fund Balances	<u>3,175,268</u>	<u>1,697,726</u>	<u>4,872,994</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 17,294,586</u>	<u>\$ 2,722,916</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			28,322,862
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis			774,449
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)
Deferred outflows of resources and deferred inflows of resources that do not require or provide the use of current financial resources are not reported within the funds:			
Deferred outflows of resources attributable to net pension liability			2,498,027
Deferred inflows of resources attributable to net pension liability			(2,780,163)
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			(4,254,952)
Capital leases payable			(526,256)
Accrued interest on long-term obligations			(79,177)
Compensated absences payable			(1,686,368)
Net pension liability			(21,728,378)
Other post-employment benefits obligation			(744,363)
Estimated liability for landfill postclosure care costs			(135,600)
Net Position of Governmental Activities			<u>\$ 4,322,562</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, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 15,546,666		\$ 15,546,666
Licenses and permits	1,294,533		1,294,533
Intergovernmental	12,423,151	\$ 2,084,207	14,507,358
Charges for services	2,107,531	361,764	2,469,295
Interest income	9,959	4,963	14,922
Miscellaneous	257,548	116,477	374,025
Total Revenues	<u>31,639,388</u>	<u>2,567,411</u>	<u>34,206,799</u>
Expenditures:			
Current operations:			
General government	1,908,607	21,019	1,929,626
Public safety	5,335,435	101,702	5,437,137
Airport/Aviation center		183,235	183,235
Highways and streets	2,049,179		2,049,179
Health and welfare	708,138	3,548	711,686
Sanitation	799,969		799,969
Culture and recreation	603,219	53,096	656,315
Economic development		76,507	76,507
Education	17,461,756	1,455,381	18,917,137
Food service		639,165	639,165
Capital outlay	1,192,739	1,014,312	2,207,051
Debt service:			
Principal retirement	753,203		753,203
Interest and fiscal charges	233,862		233,862
Intergovernmental	1,689,241		1,689,241
Total Expenditures	<u>32,735,348</u>	<u>3,547,965</u>	<u>36,283,313</u>
Excess of revenues over (under) expenditures	<u>(1,095,960)</u>	<u>(980,554)</u>	<u>(2,076,514)</u>
Other Financing Sources (Uses):			
Proceeds from capital lease obligations	182,260		182,260
Transfers in	6,264	14,078	20,342
Transfers out	(14,078)	(6,264)	(20,342)
Total Other Financing Sources (Uses)	<u>174,446</u>	<u>7,814</u>	<u>182,260</u>
Net change in fund balances	(921,514)	(972,740)	(1,894,254)
Fund balances at beginning of year	<u>4,096,782</u>	<u>2,670,466</u>	<u>6,767,248</u>
Fund balances at end of year	<u>\$ 3,175,268</u>	<u>\$ 1,697,726</u>	<u>\$ 4,872,994</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, 2015

Change in Fund Balances - Total Governmental Funds	\$ (1,894,254)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	995,602
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.	(17,720)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,990,796
Repayment of principal on bonds and capital leases payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	606,746
Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are amortized in the statement of activities over the life of the related debt.	73,414
Proceeds from capital lease obligations are other financing sources in the funds, but capital lease obligations increase long-term liabilities in the statement of net position.	(182,260)
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.	6,036
Governmental funds report pension contributions as expenditures. However, in the statement of activities, pension expense reflects the change in net pension liability and related deferred outflows and inflows of resources, and does not require the use of current financial resources. This is the amount by which pension contributions exceeded pension expense in the current period.	308,154
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.	(95,540)
Change in Net Position of Governmental Activities	<u>\$ 2,790,974</u>

See accompanying notes to the basic financial statements

EXHIBIT E
CITY OF BERLIN, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
June 30, 2015

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
ASSETS			
Current Assets:			
Accounts receivable	\$ 635,997	\$ 7,964	\$ 643,961
Due from other governments	258,403	87,206	345,609
Due from other funds	6,217,565	1,062,639	7,280,204
Prepaid expenses	6,289		6,289
Inventory	70,140		70,140
Total Current Assets	<u>7,188,394</u>	<u>1,157,809</u>	<u>8,346,203</u>
Noncurrent Assets:			
Due from other governments	1,145,599		1,145,599
Capital assets:			
Non-depreciable capital assets	16,301,002		16,301,002
Depreciable capital assets, net	21,748,732		21,748,732
Total Noncurrent Assets	<u>39,195,333</u>	<u>-</u>	<u>39,195,333</u>
Total Assets	<u>46,383,727</u>	<u>1,157,809</u>	<u>47,541,536</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	72,805		72,805
Total Deferred Outflows of Resources	<u>72,805</u>	<u>-</u>	<u>72,805</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	51,228	120	51,348
Accrued expenses	177,703		177,703
Retainage payable	322,386		322,386
Unearned revenue		236	236
Current portion of bonds payable	577,638		577,638
Current portion of estimated liability for landfill postclosure care costs		12,450	12,450
Total Current Liabilities	<u>1,128,955</u>	<u>12,806</u>	<u>1,141,761</u>
Noncurrent Liabilities:			
Bonds payable	15,727,371		15,727,371
State of New Hampshire revolving loan	192,292		192,292
Compensated absences payable	126,922		126,922
Net pension liability	638,993		638,993
Other post-employment benefits obligation	36,839		36,839
Estimated liability for landfill postclosure care costs		236,550	236,550
Total Noncurrent Liabilities	<u>16,722,417</u>	<u>236,550</u>	<u>16,958,967</u>
Total Liabilities	<u>17,851,372</u>	<u>249,356</u>	<u>18,100,728</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	81,760		81,760
Total Deferred Inflows of Resources	<u>81,760</u>	<u>-</u>	<u>81,760</u>
NET POSITION			
Net investment in capital assets	21,230,047		21,230,047
Unrestricted	7,293,353	908,453	8,201,806
Total Net Position	<u>\$ 28,523,400</u>	<u>\$ 908,453</u>	<u>\$ 29,431,853</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, 2015

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Operating revenues:			
Charges for services	\$ 2,213,947		\$ 2,213,947
Miscellaneous	105,420	\$ 14,928	120,348
Total Operating Revenues	<u>2,319,367</u>	<u>14,928</u>	<u>2,334,295</u>
Operating expenses:			
Personnel services	889,878		889,878
Contractual services	5,650	160	5,810
Repairs and maintenance	51,559	20,846	72,405
Administrative	124,347	10,766	135,113
Materials and supplies	227,590	3	227,593
Utilities	231,066	478	231,544
Depreciation	1,043,518	1,844	1,045,362
Total Operating Expenses	<u>2,573,608</u>	<u>34,097</u>	<u>2,607,705</u>
Operating loss	<u>(254,241)</u>	<u>(19,169)</u>	<u>(273,410)</u>
Non-operating revenues (expenses):			
Gain (Loss) on disposal of capital assets	(346,450)	285,217	(61,233)
Interest income	3,014	265	3,279
Interest expense	(592,868)		(592,868)
Net non-operating revenues (expenses)	<u>(936,304)</u>	<u>285,482</u>	<u>(650,822)</u>
Income (Loss) before capital contributions	(1,190,545)	266,313	(924,232)
Capital contributions	<u>3,373,022</u>		<u>3,373,022</u>
Change in net position	2,182,477	266,313	2,448,790
Net Position at beginning of year, as restated	<u>26,340,923</u>	<u>642,140</u>	<u>26,983,063</u>
Net Position at end of year	<u>\$ 28,523,400</u>	<u>\$ 908,453</u>	<u>\$ 29,431,853</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, 2015

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 2,071,095	\$ 607	\$ 2,071,702
Cash paid to suppliers	(856,689)	(40,398)	(897,087)
Cash paid to employees	(638,266)		(638,266)
Other operating cash receipts		13,881	13,881
Net cash provided (used) by operating activities	<u>576,140</u>	<u>(25,910)</u>	<u>550,230</u>
Cash flows from capital and related financing activities:			
Proceeds from bond issuance	12,508,000		12,508,000
Proceeds from State of New Hampshire revolving loan	1,066,722		1,066,722
Principal paid on bonds payable	(357,685)		(357,685)
Principal paid on note payable		(38,978)	(38,978)
Principal paid on State of New Hampshire revolving loan	(12,852,859)		(12,852,859)
Interest paid on long-term debt	(509,532)		(509,532)
Capital contributions	1,629,958		1,629,958
Proceeds from sale of capital assets		336,062	336,062
Purchases of capital assets	(2,158,296)		(2,158,296)
Net cash provided (used) for capital and related financing activities	<u>(673,692)</u>	<u>297,084</u>	<u>(376,608)</u>
Cash flows from investing activities:			
Interest on investments	3,014	265	3,279
Net cash provided by investing activities	<u>3,014</u>	<u>265</u>	<u>3,279</u>
Net increase (decrease) in cash and cash equivalents	(94,538)	271,439	176,901
Cash and cash equivalents at beginning of year	6,312,103	791,200	7,103,303
Cash and cash equivalents at end of year	<u>\$ 6,217,565</u>	<u>\$ 1,062,639</u>	<u>\$ 7,280,204</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (254,241)	\$ (19,169)	\$ (273,410)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation expense	1,043,518	1,844	1,045,362
Change in deferred outflows related to pension	(17,577)		(17,577)
Change in deferred inflows related to pension	81,760		81,760
Changes in assets and liabilities:			
Accounts receivable	(248,272)	(7,357)	(255,629)
Due from other governments		13,772	13,772
Prepaid expenses	2,743		2,743
Inventory	11,991		11,991
Accounts payable	(10,031)	(2,550)	(12,581)
Accrued expenses	6,981		6,981
Compensated absences payable	15,305		15,305
Net pension liability	(75,779)		(75,779)
Other post-employment benefits obligation	19,742		19,742
Estimated liability for landfill postclosure care costs		(12,450)	(12,450)
Net cash provided (used) by operating activities	<u>\$ 576,140</u>	<u>\$ (25,910)</u>	<u>\$ 550,230</u>
Non-cash transactions affecting financial position:			
Capital asset additions included in year end liabilities	\$ 343,284		\$ 343,284
Net book value of disposed capital assets	346,450	\$ 87,844	434,294
Principal forgiveness on State of New Hampshire revolving loan	2,000,000		2,000,000
	<u>\$ 2,689,734</u>	<u>\$ 87,844</u>	<u>\$ 2,777,578</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, 2015

	Private- Purpose <u>Trusts</u>	Agency <u>Fund</u>
ASSETS		
Cash and cash equivalents	\$ 11,134	\$ 237,576
Investments	<u>113,545</u>	
Total Assets	<u>124,679</u>	<u>\$ 237,576</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources	<u>-</u>	
LIABILITIES		
Accounts payable	220	
Due to other funds	527	
Due to student groups		<u>\$ 237,576</u>
Total Liabilities	<u>747</u>	<u>\$ 237,576</u>
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources	<u>-</u>	
NET POSITION		
Held in trust	<u>123,932</u>	
Total Net Position	<u>\$ 123,932</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, 2015

	Private- Purpose <u>Trusts</u>
ADDITIONS:	
Contributions:	
Private donations	\$ 10,250
Total Contributions	<u>10,250</u>
Investment earnings:	
Investment income	<u>635</u>
Total Investment Earnings	<u>635</u>
Total Additions	<u>10,885</u>
DEDUCTIONS:	
Benefits	<u>747</u>
Total Deductions	<u>747</u>
Change in Net Position	10,138
Net Position at beginning of year	<u>113,794</u>
Net Position at end of year	<u>\$ 123,932</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, 2015**

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, 2015**

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, and liabilities and 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.

**CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015**

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 Fund 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.

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

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 property tax 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, charges for services and interest on investments.

Licenses and permits 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 received before the eligibility requirements are met are recorded as advances from grantors. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as unearned revenue.

3. Expenses/Expenditures:

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

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, 2015, the City applied \$1,450,000 of its unassigned 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	\$ 6,217,565
Nonmajor Enterprise Funds	<u>1,062,639</u>
Total cash and cash equivalents	<u>\$ 7,280,204</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, 2015 are recorded as receivables net of reserves for estimated uncollectible taxes of \$453,208.

Due from Other Governments

Receivables due from other governments at June 30, 2015 consist of various federal and state funding programs and reimbursements due from other local governmental units for services performed by the City. All receivables are considered collectible in full. Due from other governments in the Sewer Fund consist of state aid grant reimbursements which are to be received over the life of the related state debt, and as such, are classified as both current and noncurrent receivables in the amount of \$258,043 and \$1,145,959, respectively.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2015 are recorded as prepaid items. Prepaid expenses reported on the modified accrual basis of accounting in the General Fund at June 30, 2015 in the amount of \$210,513, represent a prepayment on a capital lease obligation.

Inventory

On government-wide and proprietary fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventory in governmental funds consists of food supplies held for consumption. The cost of inventory items is recorded as expenditures in the governmental fund types when purchased.

Note Receivable

During December 2013, the City was awarded a Community Development Block Grant, the purpose of which was to sub-grant the funds to a sub-recipient for renovation costs associated with converting a City property into affordable elderly housing. As part of the grant agreement, the City transferred the converted property to the sub-recipient in exchange for a note receivable in the amount of \$480,000. Annual interest will be at 0% for the entire term of the note. The principal balance of the note shall become due and payable in full the earlier of transfer of property to an entity not controlled by the sub-recipient or 20 years from the date on which the project is placed in service for federal tax purposes, but in no event later than December 31, 2034. Additionally, the note is secured by certain covenants that require 100% of persons or households residing in the property to be low and moderate income households. As of June 30, 2015, the City does not intend to collect on this balance and believes that payment in the event of default by the sub-recipient is unlikely. Accordingly, the City has recorded an allowance for uncollectible accounts in the governmental activities for the entire \$480,000 balance.

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. In the government-wide financial statements, capital assets are reported in the applicable governmental or business-type activities column.

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:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

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

Bond Premiums

Bond premiums are amortized as a component of interest expense over the life of the related bond using the effective interest rate method. Bonds payable are reported in the accompanying financial statements gross of any applicable unamortized bond premiums.

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 and proprietary fund financial statements.

Accrued Liabilities and Long-Term Obligations

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

Pensions

During the year ended June 30, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Hampshire Retirement System (NHRS) and additions to/deductions from NHRS's fiduciary net position have been determined on the same basis as they are reported by NHRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

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

**CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015**

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

Under GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. These 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; intent can be expressed by the City Council or City School Board or by an official or body to which the City Council or City School Board delegates the authority. For all governmental funds other than the General Fund, any remaining positive balances are to be classified as 'Assigned'.
- ***Unassigned Fund Balance***: Amounts that are not obligated or specifically designated and is available for any purpose. The residual classification of any General Fund balance is to be reported here. Any deficit fund balance of another governmental fund is also classified as 'Unassigned'.

The City Council delegates to the City's Finance Director the authority to assign amounts to be used for specific purposes. The City's School Board delegates the authority to assign amounts to the Business Administrator.

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.

**CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015**

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.

NOTE 2—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$453,261,639 as of April 1, 2014) and are due in two installments on July 3, 2014 and December 9, 2014. 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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

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, 2015 were \$1,689,241. The City bears responsibility for uncollected taxes.

NOTE 3—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balance

At June 30, 2015, the Airport Authority Fund, a Nonmajor Governmental Fund, had a deficit 'Unassigned' fund balance of (\$246,847) and total deficit fund balance of (\$203,618).

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, 2015, the City was a member of and 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, 2015.

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 \$200,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000, up to an aggregate of \$1,000,000. 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.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

NOTE 5—DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	\$ 14,172,226
Investments	377,320
Statement of fiduciary net position:	
Cash and cash equivalents	248,710
Investments	<u>113,545</u>
Total deposits and investments	<u>\$ 14,911,801</u>

Deposits and investments as of June 30, 2015 consist of the following:

Cash on hand	\$ 3,239
Deposits with financial institutions	14,905,860
Investments	<u>2,702</u>
Total deposits and investments	<u>\$ 14,911,801</u>

The City's investment policy for governmental and proprietary funds requires that deposits be made in federally insured banks chartered under the laws of the State of New Hampshire or the federal government with a branch within the State of New Hampshire. The City limits its investments to the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool in accordance with New Hampshire State law, and federally insured banks chartered under the laws of New Hampshire or the federal government with a branch within the State to the following investment types: money market accounts, certificates of deposit, repurchase agreements, all other types of interest bearing accounts, or obligations fully guaranteed as to principal and interest by the United States government.

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.

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. The Trustees of Trust Funds do not have a specific policy regarding custodial credit risk.

Of the City's deposits with financial institutions at year end, \$14,464,853 was collateralized by securities held by the bank in the bank's name and \$8,545 was uninsured and uncollateralized.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

NOTE 6—CAPITAL ASSETS

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

	Balance 07/01/14	Additions	Reductions	Balance 06/30/15
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 1,182,575			\$ 1,182,575
Construction in progress	9,082,916	\$ 4,223,258	\$ (155,021)	13,151,153
Total capital assets not being depreciated	<u>10,265,491</u>	<u>4,223,258</u>	<u>(155,021)</u>	<u>14,333,728</u>
Other capital assets:				
Infrastructure	8,785,651	282,394		9,068,045
Land improvements	5,297,189			5,297,189
Buildings and improvements	10,935,965	235,386	(154,400)	11,016,951
Vehicles and equipment	8,994,156	346,734	(96,300)	9,244,590
Total other capital assets at historical cost	<u>34,012,961</u>	<u>864,514</u>	<u>(250,700)</u>	<u>34,626,775</u>
Less accumulated depreciation for:				
Infrastructure	(5,203,345)	(277,532)		(5,480,877)
Land improvements	(3,134,049)	(151,248)		(3,285,297)
Buildings and improvements	(5,337,558)	(209,592)	146,680	(5,400,470)
Vehicles and equipment	(6,174,320)	(382,977)	86,300	(6,470,997)
Total accumulated depreciation	<u>(19,849,272)</u>	<u>(1,021,349)</u>	<u>232,980</u>	<u>(20,637,641)</u>
Total other capital assets, net	<u>14,163,689</u>	<u>(156,835)</u>	<u>(17,720)</u>	<u>13,989,134</u>
Total capital assets, net	<u>\$ 24,429,180</u>	<u>\$ 4,066,423</u>	<u>\$ (172,741)</u>	<u>\$ 28,322,862</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 13,238
Public safety	159,469
Airport/Aviation center	206,297
Highways and streets	323,823
Health and welfare	2,940
Sanitation	15,961
Culture and recreation	29,081
Education	266,422
Food service	4,118
Total governmental activities depreciation expense	<u>\$ 1,021,349</u>

The balance of capital assets acquired through capital leases as of June 30, 2015 is as follows:

Buildings and improvements	\$ 1,652,511
Vehicles and equipment	306,106
Less: Accumulated depreciation	<u>(288,913)</u>
	<u>\$ 1,669,704</u>

During the year ended June 30, 2015, the State of New Hampshire's Department of Transportation administered a major road reconstruction project on a City highway. The City is 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, \$2,915,800 has been included as an addition to capital assets and a capital contribution, respectively.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

The following is a summary of changes in capital assets of the business-type activities:

	Balance <u>07/01/14</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/15</u>
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 95,187		\$ (37,238)	\$ 57,949
Construction in progress	<u>17,780,162</u>	<u>\$ 736,218</u>	<u>(2,273,327)</u>	<u>16,243,053</u>
Total capital assets not being depreciated	<u>17,875,349</u>	<u>736,218</u>	<u>(2,310,565)</u>	<u>16,301,002</u>
Other capital assets:				
Infrastructure	21,168,330	2,429,695	(964,393)	22,633,632
Buildings and improvements	23,810,168		(674,600)	23,135,568
Vehicles and equipment	<u>730,116</u>	<u>306,994</u>	<u>(142,480)</u>	<u>894,630</u>
Total other capital assets at historical cost	<u>45,708,614</u>	<u>2,736,689</u>	<u>(1,781,473)</u>	<u>46,663,830</u>
Less accumulated depreciation for:				
Infrastructure	(7,714,080)	(565,836)	732,859	(7,547,057)
Buildings and improvements	(16,972,525)	(464,743)	626,285	(16,810,983)
Vehicles and equipment	<u>(682,463)</u>	<u>(14,783)</u>	<u>140,188</u>	<u>(557,058)</u>
Total accumulated depreciation	<u>(25,369,068)</u>	<u>(1,045,362)</u>	<u>1,499,332</u>	<u>(24,915,098)</u>
Total other capital assets, net	<u>20,339,546</u>	<u>1,691,327</u>	<u>(282,141)</u>	<u>21,748,732</u>
Total capital assets, net	<u>\$ 38,214,895</u>	<u>\$ 2,427,545</u>	<u>\$(2,592,706)</u>	<u>\$ 38,049,734</u>

Depreciation expense was charged to proprietary funds as follows:

Sewer Fund	\$ 1,043,518
Nonmajor Enterprise Funds:	
Industrial Development and Park Authority Fund	<u>1,844</u>
Total business-type activities depreciation expense	<u>\$ 1,045,362</u>

NOTE 7—DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the New Hampshire Retirement System (NHRS), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The New Hampshire Retirement System is a public employee retirement system that administers a single cost-sharing multiple-employer defined benefit pension plan. 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.

Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State are eligible and required to participate in the Pension Plan.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and are available to pay retirement benefits to all members.

Benefits Provided

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC), multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service.

Group II Members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have a non-vested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the benefit commencement date precedes the month after which the member attains 52.5 years of age by 1/4 of 1% or age 60.

Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

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 21.35%, 23.79%, 11.96%, and 10.44%, respectively. The City contributes 100% of the employer cost for police officers, fire employees, teachers, and general employees of the City.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The City's contributions to the NHRS for the year ending June 30, 2015 was \$1,967,282.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported a liability of \$22,367,371 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013. The City's proportion of the net pension liability was based on actual contributions by the City during the relevant

**CITY OF BERLIN, NEW HAMPSHIRE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 For the Year Ended June 30, 2015**

fiscal year relative to the actual contributions of all participating plan members, excluding contributions to separately finance specific liabilities of individual employers or NHRS. At June 30, 2014, the City's proportion was approximately 0.5959 percent, which was an increase of 0.0171 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$1,647,532. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments		\$ 2,861,923
Changes in proportion and differences between City contributions and proportionate share of contributions	\$ 603,550	
City contributions subsequent to the measurement date	<u>1,967,282</u>	<u> </u>
Totals	<u>\$ 2,570,832</u>	<u>\$ 2,861,923</u>

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions is reflected as a decrease to unrestricted net position in the amount of \$291,091. The City reported \$1,967,282 as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended <u>June 30,</u>	
2015	\$ (584,491)
2016	(584,491)
2017	(584,491)
2018	(584,491)
2019	<u>79,591</u>
	<u><u>\$(2,258,373)</u></u>

Actuarial Assumptions

The total pension liability in the July 1, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Wage inflation	3.75 percent

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

Salary increases	5.8 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 mortality table projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

Retirement rates were based on a table of rates that are specific to the type of eligibility condition, last updated in 2011 pursuant to an experience study of the period 2005-2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of weighted average long-term expected real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Net of inflation assumption of 3.0%)</u>
Fixed income	25%	(1.75)-2.0%
Domestic equity	30%	3.3%
International equity	20%	4.25-6.5%
Real estate	10%	3.3%
Private equity	5%	5.8%
Private debt	5%	5.0%
Opportunistic	5%	2.5%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the collective pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the collective pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the single discount rate:

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

	1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
City's proportionate share of the net pension liability	\$ 29,461,465	\$ 22,367,371	\$ 16,382,439

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the City provides medical and life insurance benefits to its eligible retirees and their covered spouses. 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. 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, 2014, the most recent actuarial valuation date, approximately 30 retirees, 13 covered spouses and 261 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

Annual OPEB Costs

For the year ended June 30, 2015, the City's 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, 2015, 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, 2014, is as follows:

Annual Required Contribution (ARC)	\$ 468,462
Interest on net OPEB obligation	24,177
Amortization of net OPEB obligation	<u>(20,149)</u>
Annual OPEB cost	472,490
Contributions made	<u>(295,714)</u>
Increase in net OPEB obligation	176,776
Net OPEB obligation - beginning of year	<u>604,426</u>
Net OPEB obligation - end of year	<u>\$ 781,202</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

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, 2015, 2014 and 2013 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>
6/30/2015	\$ 472,490	62.6%	\$ 781,202
6/30/2014	\$ 504,392	57.2%	\$ 604,426
6/30/2013	\$ 484,457	59.0%	\$ 388,344

The City's total net OPEB obligation as of June 30, 2015 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, 2014, the date of the most recent actuarial valuation, is as follows:

Actuarial Accrued Liability (AAL)	\$ 5,755,837
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 5,755,837</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 14,763,591
UAAL as a percentage of covered payroll	39%

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, 2014 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). The initial annual healthcare cost trend rate is 8.0%, which decreases in 1% decrements to an ultimate long-term rate of 5.0% for all medical benefits after three years. The

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

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, 2015 are as follows:

	Balance 07/01/14	Additions	Reductions	Balance 06/30/15	Due Within One Year
Governmental activities:					
Bonds payable	\$ 4,141,609		\$ (298,203)	\$ 3,843,406	\$ 311,703
Unamortized bond premium	484,960		(73,414)	411,546	68,670
Total Bonds payable	4,626,569	\$ -	(371,617)	4,254,952	380,373
Capital leases payable	652,539	182,260	(308,543)	526,256	144,932
Compensated absences payable	1,736,562	117,374	(167,568)	1,686,368	91,346
Total governmental activities	<u>\$ 7,015,670</u>	<u>\$ 299,634</u>	<u>\$ (847,728)</u>	<u>\$ 6,467,576</u>	<u>\$ 616,651</u>

Payments on the general obligation bonds and capital leases payable of the governmental activities are paid out of the General Fund. Amortization of the governmental activities bond premium is recognized as a component of interest expense on the Statement of Activities (Exhibit B). The compensated absences will be paid from the governmental fund where the employee's salary is paid.

	Balance 07/01/14	Additions	Reductions	Balance 06/30/15	Due Within One Year
Business-type activities:					
Bonds payable	\$ 4,154,694	\$ 12,508,000	\$ (357,685)	\$ 16,305,009	\$ 577,638
Note payable	38,978		(38,978)	-	
State of New Hampshire revolving loan	14,852,859	192,292	(14,852,859)	192,292	
Compensated absences payable	111,617	21,129	(5,824)	126,922	
Total business-type activities	<u>\$ 19,158,148</u>	<u>\$ 12,721,421</u>	<u>\$ (15,255,346)</u>	<u>\$ 16,624,223</u>	<u>\$ 577,638</u>

Payments on the general obligation bonds and State of New Hampshire revolving loan of the business-type activities are paid out of the Sewer Fund. The compensated absences are solely attributable to, and will be paid from, the Sewer Fund.

	Balance 07/01/14	Additions	Reductions	Balance 06/30/15	Due Within One Year
Component unit:					
Bonds payable	\$ 7,458,986		\$ (1,232,875)	\$ 6,226,111	\$ 1,098,909
Total component unit	<u>\$ 7,458,986</u>	<u>\$ -</u>	<u>\$ (1,232,875)</u>	<u>\$ 6,226,111</u>	<u>\$ 1,098,909</u>

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

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

General Obligation Bonds

Governmental Activities:

Bonds payable at June 30, 2015 are comprised of the following individual issues:

<u>Description</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at June 30, 2015</u>
1997 Landfill Closure Bonds	\$ 1,134,062	4.48%	November 2016	\$ 113,406
2013 Series C Bonds	<u>3,971,500</u>	4.1-5.6%	August 2025	<u>3,730,000</u>
	<u>\$ 5,105,562</u>			3,843,406
			Add: <i>Unamortized bond premium</i>	<u>411,546</u>
			Total Bonds Payable	<u>\$ 4,254,952</u>

Debt service requirements to retire outstanding general obligation bonds for governmental activities at June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 311,703	\$ 188,333	\$ 500,036
2017	326,703	171,730	498,433
2018	285,000	153,650	438,650
2019	300,000	137,270	437,270
2020	320,000	120,710	440,710
2021-2025	1,870,000	325,365	2,195,365
2026	<u>430,000</u>	<u>8,815</u>	<u>438,815</u>
Sub-total Bonds Payable	3,843,406	1,105,873	4,949,279
Add: <i>Unamortized Bond Premium</i>	<u>411,546</u>	<u>-</u>	<u>411,546</u>
Total Bonds Payable	<u>\$ 4,254,952</u>	<u>\$ 1,105,873</u>	<u>\$ 5,360,825</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, 2015, the landfill closure debt reimbursement was recorded in the General Fund in the amount of \$9,834.

As included on the Statement of Activities (Exhibit B) as 'Debt service' expense, interest expense for the year ended June 30, 2015 was \$123,871 on general obligation debt of the governmental activities.

Business-type Activities:

Bonds payable at June 30, 2015 is comprised of the following individual issues:

<u>Description</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at June 30, 2015</u>
2007 Rural Utilities Bond	\$ 5,000,000	4.25%	September 2032	\$ 4,003,079
2014 Rural Utilities Bond #R-1	6,508,000	2.375%	September 2037	6,400,780
2014 Rural Utilities Bond #R-2	<u>6,000,000</u>	2.375%	September 2037	<u>5,901,150</u>
	<u>\$ 17,508,000</u>			<u>\$ 16,305,009</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

Debt service requirements to retire outstanding general obligation bonds for business-type activities at June 30, 2015 are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 577,638	\$ 458,266	\$ 1,035,904
2017	594,455	441,449	1,035,904
2018	611,803	424,101	1,035,904
2019	629,700	406,203	1,035,903
2020	648,168	387,737	1,035,905
2021-2025	3,539,146	1,640,374	5,179,520
2026-2030	4,098,289	1,081,231	5,179,520
2031-2035	3,901,280	460,414	4,361,694
2036-2038	1,704,530	61,027	1,765,557
	<u>\$ 16,305,009</u>	<u>\$ 5,360,802</u>	<u>\$ 21,665,811</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, 2015, the sewer related debt reimbursement was \$287,958.

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, 2015 was \$592,868 on general obligation debt of the business-type activities.

Component Unit:

Under state law, the City is required to issue certain 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 all direct payments made on its behalf for annual principal and interest on such debt. For the year ended June 30, 2015, the total reimbursement from Berlin Water Works was \$485,328, which consists of \$455,000 in principal and \$30,328 in interest.

Bonds payable for the Berlin Water Works at June 30, 2015 are comprised of the following individual issues:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at June 30, 2015</u>
Water Bond	5.50%	August 2015	\$ 305,000
State Revolving Loan	0.00%	November 2017	448,387
State Revolving Loan	0.00%	December 2017	346,941
State Revolving Loan	0.00%	December 2017	203,381
State Revolving Loan	0.00%	December 2018	554,365
State Revolving Loan	0.00%	May 2021	875,563
State Revolving Loan	0.00%	September 2024	950,102
Rural Utilities Service - Godfrey Dam	2.25%	December 2040	211,056
State Revolving Loan	1.10%	October 2031	1,380,846
Rural Utilities Service - Water Facility	2.25%	October 2041	950,470
			<u>\$ 6,226,111</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

Debt service requirements to retire outstanding general obligation bonds for the component unit at June 30, 2015 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 1,098,909	\$ 42,756	\$ 1,141,665
2017	803,425	34,439	837,864
2018	813,082	33,244	846,326
2019	484,305	32,019	516,324
2020	349,234	30,764	379,998
2021-2025	1,225,785	133,914	1,359,699
2026-2030	657,360	97,678	755,038
2031-2035	430,443	58,955	489,398
2036-2040	261,431	29,398	290,829
2041-2042	102,137	3,340	105,477
	<u>\$ 6,226,111</u>	<u>\$ 496,507</u>	<u>\$ 6,722,618</u>

Interest expense for the year ended June 30, 2015 was \$142,194 for the Berlin Water Works.

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, 2015:

School Equipment, due in annual installments of \$210,513, including interest at 4.295%, through July 2016	\$ 201,678
School Equipment, due in annual installments of \$47,901, including interest at 3.090%, through August 2017	135,258
Police Equipment, due in annual installments of \$43,868, including interest at 6.40%, through December 2015	41,229
IT Equipment, due in monthly installments of \$5,300, including interest at 3.0%, through November 2017	<u>148,091</u>
	<u>\$ 526,256</u>

Debt service requirements to retire outstanding capital lease obligations for governmental activities at June 30, 2015 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 144,932	\$ 10,441	\$ 155,373
2017	308,556	13,461	322,017
2018	72,768	1,634	74,402
	<u>\$ 526,256</u>	<u>\$ 25,536</u>	<u>\$ 551,792</u>

**CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015**

State of New Hampshire Revolving Loan

The City has drawn \$15,045,151 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. During September 2014, the City issued general obligations bonds through the United States Rural Utilities Service in order to repay \$12,852,859 of the outstanding State of New Hampshire revolving loan balance. Additionally, as authorized by the Water Pollution Control Revolving Fund Program, the City was provided federal financial assistance, whereby a portion of the principal sum in the amount of \$2,000,000 was forgiven at the time of the repayment.

Payments on the remaining State of New Hampshire revolving loan balance 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. As of June 30, 2015, the total outstanding balance on the State of New Hampshire revolving loan has been reported as a long-term liability of the Sewer Fund in the amount of \$192,292.

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. The East Milan landfill was capped during fiscal year 1997, and the Cates Hill landfill was capped during fiscal year 2005. Estimated liabilities have been recorded based on the future post-closure care costs that will be incurred for the two landfills. The total estimated liability for landfill post-closure care costs for the two landfills has a combined balance of \$384,600 as of June 30, 2015. The estimated liability for the post-closure care costs of the East Milan landfill (\$135,600) and the Cates Hill landfill (\$249,000) have been reported as a liability of the Governmental Activities and the Cates Hill Landfill Proprietary Fund, respectively. 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, 2015. 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. For the Cates Hill landfill, the City entered into an inter-municipal agreement with surrounding communities for the reimbursement of their share of the 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, 2015:

	Governmental activities	Business-type activities	Totals
Balance - July 1, 2014	\$ 146,900	\$ 261,450	\$ 408,350
Reductions (actual current year payments)	(4,337)	(5,595)	(9,932)
Change in estimated liability	<u>(6,963)</u>	<u>(6,855)</u>	<u>(13,818)</u>
Balance - June 30, 2015	<u>\$ 135,600</u>	<u>\$ 249,000</u>	<u>\$ 384,600</u>

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

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, 2015 are as follows:

		Due from			
		General	Nonmajor	Fiduciary	
		<u>Fund</u>	<u>Funds</u>	<u>Funds</u>	<u>Totals</u>
Due to	General Fund		\$ 883,720	\$ 527	\$ 884,247
	Nonmajor Governmental Funds	\$ 1,568,004			1,568,004
	Sewer Fund	6,217,565			6,217,565
	Nonmajor Enterprise Funds	1,062,639			1,062,639
		<u>\$ 8,848,208</u>	<u>\$ 883,720</u>	<u>\$ 527</u>	<u>\$ 9,732,455</u>

During the year, several interfund transactions occurred between funds. The various transfers were made in accordance with budgetary authorizations.

Interfund transfers for the year ended June 30, 2015 are as follows:

		Transfers out		
		General	Nonmajor	
		<u>Fund</u>	<u>Funds</u>	<u>Totals</u>
Transfers in	General Fund		\$ 6,264	\$ 6,264
	Nonmajor Governmental Funds	\$ 14,078		14,078
		<u>\$ 14,078</u>	<u>\$ 6,264</u>	<u>\$ 20,342</u>

NOTE 12—RESTRICTED NET POSITION

Net position of the governmental activities is restricted for specific purposes as follows:

Permanent Funds - Principal	\$ 151,053
Permanent Funds - Income	220,403
School Private Grants and Contributions	1,710
Food Service Operations	3,045
Health Department Donations	1,636
Police Forfeiture Funds	5,703
	<u>\$ 383,550</u>

NOTE 13—COMPONENTS OF FUND BALANCE

The components of the City's fund balance for its governmental funds at June 30, 2015 are as follows:

**CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015**

<u>Fund Balances</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Prepaid expenses	\$ 223,995	\$ 43,229	\$ 267,224
Tax deeded property	492,750		492,750
Inventory		12,563	12,563
Permanent funds - Principal		151,053	151,053
Restricted for:			
Permanent funds - Income		220,403	220,403
Capital projects		1,484,143	1,484,143
School private grants and contributions		1,710	1,710
Food service operations		3,045	3,045
Health department donations		1,636	1,636
Police forfeiture funds		5,703	5,703
Committed for:			
Recreation and parks programs		21,088	21,088
Assigned for:			
Continuing appropriations	953,323		953,323
Encumbrances	65,866		65,866
Unassigned (Deficit):			
Unassigned - General operations	1,439,334		1,439,334
Airport Authority Fund (Deficit)		(246,847)	(246,847)
	<u>\$ 3,175,268</u>	<u>\$ 1,697,726</u>	<u>\$ 4,872,994</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 \$453,261,639 (as of April 1, 2014):

<u>Taxpayer</u>	<u>Property Valuation</u>	<u>Percentage of Total Valuation</u>
Public Service of New Hampshire	\$ 82,099,100	18.11%
Great Lakes Hydro America, LLC	33,600,000	7.41%
Portland Natural Gas	16,500,200	3.64%
Fisher, L GP	2,227,300	0.49%
TKB Properties, LLC	2,007,900	0.44%

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 original agreement was in effect from July 1, 2007 through June 30, 2010, with an automatic three year renewal expiring June 30, 2013. In June 2013, the City extended this contract for an additional three year period through June 30, 2016. The terms of the extended contract include minimum monthly payments of \$25,917 at the beginning of the agreement. These monthly payments may be adjusted based on future Medicare or Medicaid reimbursement rates. For the year ended June 30, 2015, the City expended \$290,583 under the terms of the emergency ambulance service agreement.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

Guaranteed Debt - Component Unit

Certain debt issued by Berlin Water Works (a component unit of the City) is backed by the full faith and credit of the City. In the event of a default on payments of such debt by the Berlin Water Works, the City would be responsible for making the payments.

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

During the year ended June 30, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions*, as described in Note 1 of these financial statements. The impact on net position of the Governmental and Business-type Activities as of July 1, 2014 is as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>
Net Position, July 1, 2014 (as previously reported)	\$ 23,850,256	\$ 27,642,607
Amount of restatement due to:		
Net Pension Liability	(24,196,657)	(714,772)
Contributions subsequent to measurement date	<u>1,877,989</u>	<u>55,228</u>
Net Position, July 1, 2014 - as restated	<u>\$ 1,531,588</u>	<u>\$ 26,983,063</u>

Proprietary Funds

The impact of the above restatement on net position of the Sewer Fund as of July 1, 2014 is as follows:

	<u>Sewer Fund</u>
Net Position, July 1, 2014 (as previously reported)	\$ 27,000,467
Amount of restatement due to:	
Net Pension Liability	(714,772)
Contributions subsequent to measurement date	<u>55,228</u>
Net Position, July 1, 2014 - as restated	<u>\$ 26,340,923</u>

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, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 15,347,102	\$ 15,347,102	\$ 15,621,662	\$ 274,560
Licenses and permits	1,253,055	1,253,055	1,294,533	41,478
Intergovernmental	12,312,669	12,312,669	12,423,151	110,482
Charges for services	2,234,616	2,130,400	2,107,531	(22,869)
Interest income	13,000	13,000	9,959	(3,041)
Miscellaneous	233,700	237,700	257,548	19,848
Total Revenues	<u>31,394,142</u>	<u>31,293,926</u>	<u>31,714,384</u>	<u>420,458</u>
Expenditures:				
Current operations:				
General government	2,135,693	2,031,477	1,896,427	135,050
Public safety	5,408,645	5,418,645	5,335,435	83,210
Highways and streets	1,966,581	1,966,581	2,049,179	(82,598)
Health and welfare	612,348	612,348	708,138	(95,790)
Sanitation	835,270	835,270	799,969	35,301
Culture and recreation	592,520	592,520	603,219	(10,699)
Education	17,656,006	17,656,006	17,430,650	225,356
Capital outlay	1,865,717	1,026,393	1,010,479	15,914
Debt service:				
Principal retirement	753,203	753,203	753,203	-
Interest and fiscal charges	233,862	233,862	233,862	-
Intergovernmental	1,689,241	1,689,241	1,689,241	-
Total Expenditures	<u>33,749,086</u>	<u>32,815,546</u>	<u>32,509,802</u>	<u>305,744</u>
Excess of revenues over (under) expenditures	<u>(2,354,944)</u>	<u>(1,521,620)</u>	<u>(795,418)</u>	<u>726,202</u>
Other Financing Sources (Uses):				
Transfers in	4,500	4,500	6,264	1,764
Transfers out	(64,624)	(64,624)	(14,078)	50,546
Total Other Financing Sources (Uses)	<u>(60,124)</u>	<u>(60,124)</u>	<u>(7,814)</u>	<u>52,310</u>
Net change in fund balance	(2,415,068)	(1,581,744)	(803,232)	778,512
Fund balance at beginning of year				
- Budgetary Basis	<u>4,687,083</u>	<u>4,687,083</u>	<u>4,687,083</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 2,272,015</u>	<u>\$ 3,105,339</u>	<u>\$ 3,883,851</u>	<u>\$ 778,512</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, 2015

Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued <u>Liability (AAL)</u>	Unfunded AAL <u>(UAAL)</u>	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u>
7/1/2010	\$ -	\$ 5,335,764	\$ 5,335,764	0.0%	\$ 13,820,644	39%
7/1/2012	\$ -	\$ 5,702,638	\$ 5,702,638	0.0%	\$ 13,739,039	42%
7/1/2014	\$ -	\$ 5,755,837	\$ 5,755,837	0.0%	\$ 14,763,591	39%

See accompanying notes to the required supplementary information

SCHEDULE 3
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of Changes in the City's Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2015

	<u>2014</u>	<u>2013</u>
City's proportion of the net pension liability (asset)	0.5959%	0.5788%
City's proportionate share of the net pension liability (asset)	\$ 22,367,371	\$ 24,911,429
City's covered-employee payroll	\$ 14,461,687	\$ 13,904,404
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	154.67%	179.16%
Plan fiduciary net position as a percentage of the total pension liability	66.32%	59.81%

See accompanying notes to the required supplementary information

SCHEDULE 4
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of City Contributions
For the Year Ended June 30, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,967,282	\$ 1,933,217	\$ 1,439,273
Contributions in relation to the contractually required contribution	<u>(1,967,282)</u>	<u>(1,933,217)</u>	<u>(1,439,273)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 14,750,588	\$ 14,461,687	\$ 13,904,404
Contributions as a percentage of covered-employee payroll	13.34%	13.37%	10.35%

See accompanying notes to the required supplementary information

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2015

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

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 obligation proceeds as follows:

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 31,827,912	\$ 32,749,426
Difference in property taxes meeting susceptible to accrual criteria	74,996	
Encumbrances, June 30, 2015		65,866
Encumbrances, June 30, 2014		(109,152)
Capital lease obligation proceeds	(182,260)	(182,260)
Per Schedule 1	<u>\$ 31,720,648</u>	<u>\$ 32,523,880</u>

NOTE 2—BUDGETARY FUND BALANCE

The components of the budgetary fund balance for the General Fund at June 30, 2015 are as follows:

<i>Nonspendable:</i>	
Prepaid expenses	\$ 223,995
Tax deeded property	492,750
<i>Assigned for:</i>	
Continuing appropriations	953,323
<i>Unassigned:</i>	
Unassigned - General operations	<u>2,213,783</u>
	<u>\$ 3,883,851</u>

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.

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
For the Year Ended June 30, 2015

**NOTE 4—SCHEDULE OF CHANGES IN THE CITY’S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY AND SCHEDULE OF CITY CONTRIBUTIONS**

In accordance with GASB Statement #68, *Accounting and Financial Reporting for Pensions*, the City is required to disclose historical information for each of the prior ten years within a schedule of changes in the City’s proportionate share of the net pension liability, and schedule of City contributions. The City implemented the provisions of GASB Statement #68 during the year ended June 30, 2015. Accordingly, the historic information has only been presented for those years which information was readily available. Additional disclosures will be made in future years as the information becomes available.

SCHEDULE I
CITY OF BERLIN, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF AGRICULTURE		
Pass Through Payments from the New Hampshire Department of Education <i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	\$ 81,856
National School Lunch Program	10.555	330,966
Special Milk Program for Children	10.556	1,537
<i>Total Child Nutrition Cluster</i>		<u>414,359</u>
Fresh Fruit and Vegetable Program	10.582	25,298
Received directly from U.S. Treasury Department Water and Waste Disposal Systems for Rural Communities	10.760	1,342,000
Pass Through Payments from the New Hampshire Office of Energy and Planning Community Facilities Loans and Grants #NH140818.209	10.766	2,400
Total Department of Agriculture		<u>1,784,057</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		
#013-053-CDHS	14.228	6,512
#013-053-FSED		3,415
#014-053-CDHS		48,693
#015-053-CDHS		141
#B-09-SP-NH-0089		27,814
		<u>86,575</u>
Total Department of Housing and Urban Development		<u>86,575</u>
DEPARTMENT OF JUSTICE		
Received directly from U.S. Treasury Department Public Safety Partnership and Community Policing Grants #2010-UM-WX-0212	16.710	2,429

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, 2015

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	<u>Expenditures</u>
Pass Through Payments from the New Hampshire Department of Justice Enforcing Underage Drinking Laws Program #2014-CD-25	16.727	<u>7,500</u>
Total Department of Justice		<u>9,929</u>
 DEPARTMENT OF TRANSPORTATION		
Pass Through Payments from the New Hampshire Department of Transportation Airport Improvement Program #SBG-01-03-2010 #SBG-01-04-2013	20.106	<u>4,750</u> <u>30,664</u> <u>35,414</u>
Highway Planning and Construction #X-A001(088), 16019	20.205	<u>57,338</u>
Pass Through Payments from the New Hampshire Highway Safety Agency <i>Highway Safety Cluster:</i> State and Community Highway Safety #304-15B-023 #315-14B-063 #315-15B-050 #315-15B-109 #315-15B-115	20.600	<u>1,792</u> <u>1,018</u> <u>2,701</u> <u>4,292</u> <u>1,243</u> <u>11,046</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I #308-14B-067 #308-14B-068	20.601	<u>5,831</u> <u>7,466</u> <u>13,297</u>
<i>Total Highway Safety Cluster</i>		<u>24,343</u>
Total Department of Transportation		<u>117,095</u>
 ENVIRONMENTAL PROTECTION AGENCY		
Pass Through Payments from the New Hampshire Department of Environmental Services Capitalization Grants for Clean Water State Revolving Funds #CS-330111-11	66.458	<u>160,243</u>
Total Environmental Protection Agency		<u>160,243</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, 2015

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Expenditures
DEPARTMENT OF EDUCATION		
Pass Through Payments from the New Hampshire Department of Education		
Title I Grants to Local Educational Agencies	84.010	
#40012		33,729
#40174		930
#40175		2,312
#40217		11,940
#50012		542,019
#50174		15,474
#50175		15,789
#50217		56,123
		<u>678,316</u>
 <i>Special Education Cluster (IDEA):</i>		
Special Education - Grants to States	84.027	
#52569		320,378
#52625		1,518
		<u>321,896</u>
 Special Education - Preschool Grants	 84.173	
#52569		10,735
		<u>332,631</u>
 <i>Total Special Education Cluster (IDEA)</i>		
 Career and Technical Education - Basic Grants to States	 84.048	
#45011		15,457
#55011		44,080
		<u>59,537</u>
 Twenty-First Century Community Learning Centers	 84.287	
#56282		<u>169,760</u>
 Rural Education	 84.358	
#46470		1,416
#56470		13,191
		<u>14,607</u>
 Improving Teacher Quality State Grants	 84.367	
#44798		47,480
#45371		10,000
#54798		24,036
		<u>81,516</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, 2015

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	<u>Expenditures</u>
Statewide Data Systems #58114	84.372	<u>5,400</u>
Total Department of Education		<u>1,341,767</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Pass Through Payments from the New Hampshire Department of Education Substance Abuse and Mental Health Services - Projects of Regional and National Significance #52625	93.243	<u>33,210</u>
Total Department of Health and Human Services		<u>33,210</u>
DEPARTMENT OF HOMELAND SECURITY		
Received directly from U.S. Treasury Department Assistance to Firefighters Grant #EMW-2013-FO-03020	97.044	<u>40,827</u>
Pass Through Payments from the New Hampshire Department of Safety Pre-Disaster Mitigation #072-500574	97.047	<u>3,650</u>
Homeland Security Grant Program	97.067	<u>18,879</u>
Total Department of Homeland Security		<u>63,356</u>
Total Expenditures of Federal Awards		<u>\$ 3,596,232</u>

See notes to schedule of expenditures of federal awards

CITY OF BERLIN, NEW HAMPSHIRE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

NOTE 1—BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of Berlin, New Hampshire (the City) under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

NOTE 2—BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting for federal programs accounted for in the governmental funds and on the accrual basis of accounting for federal programs accounted for in the proprietary funds, which are 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, \$38,255 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 and capital contributions in the proprietary funds as follows:

Nonmajor Governmental Funds	\$ 2,055,734
Major Proprietary Fund:	
Sewer Fund	<u>1,342,000</u>
	<u>\$ 3,397,734</u>

Additionally, the recognition of expenditures of federal awards in the amount of \$160,243 represents 83.33% of the drawdowns from the Clean Water State Revolving Loan Fund Program. Federal financial assistance with the principal sum not to exceed \$7,738,433 or 83.33% of aggregate disbursements, whichever is less, is provided in the form of a federal loan through the program.

**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, 2015, 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 March 8, 2016. 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.



Manchester, New Hampshire
March 8, 2016

**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, 2015. 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, 2015. 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.

Opinion on Each Major Federal Program

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 major federal programs for the year ended June 30, 2015.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.


Manchester, New Hampshire
March 8, 2016

**City of Berlin, New Hampshire
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2015**

Section I—Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	<u>Unmodified – all reporting units</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____yes	___X___ no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____yes	___X___ none reported
Noncompliance material to financial statements noted?	_____yes	___X___ no

Federal Awards

Internal Control over major programs:		
Material weakness(es) identified?	_____yes	___X___ no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____yes	___X___ none reported

Type of auditor’s report issued on compliance for major programs:	<u>Unmodified</u>
--	-------------------

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____yes	___X___ no
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Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities
84.010	Title I Grants to Local Educational Agencies
84.027 & 84.173	Special Education Cluster (IDEA)

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

Auditee qualified as low-risk auditee?	_____yes	___X___ no
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Section II—Financial Statement Findings

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

Section III—Federal Award Findings and Questioned Costs

There were no findings and questioned costs required to be reported under OMB Circular A-133 .510(a).

SCHEDULE A
CITY OF BERLIN, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Funds
June 30, 2015

	Special Revenue Funds	Permanent Funds	Bond Issue Capital Projects Fund	Hutchins Street Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,845	\$ 2,674			\$ 5,519
Investments		375,046			375,046
Accounts receivable	8,257				8,257
Due from other governments	682,656			\$ 27,642	710,298
Due from other funds	60,047		\$ 1,507,957		1,568,004
Prepaid expenses	43,229				43,229
Inventory	12,563				12,563
Total Assets	<u>809,597</u>	<u>377,720</u>	<u>1,507,957</u>	<u>27,642</u>	<u>2,722,916</u>
DEFERRED OUTFLOWS OF RESOURCES					
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 809,597</u>	<u>\$ 377,720</u>	<u>\$ 1,507,957</u>	<u>\$ 27,642</u>	<u>\$ 2,722,916</u>
LIABILITIES					
Accounts payable	\$ 26,735		\$ 23,814	\$ 3,154	\$ 53,703
Accrued expenses	9,507				9,507
Advances from grantors	73,199				73,199
Unearned revenue	5,061				5,061
Due to other funds	852,968	\$ 6,264		24,488	883,720
Total Liabilities	<u>967,470</u>	<u>6,264</u>	<u>23,814</u>	<u>27,642</u>	<u>1,025,190</u>
DEFERRED INFLOWS OF RESOURCES					
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Nonspendable	55,792	151,053			206,845
Restricted	12,094	220,403	1,484,143		1,716,640
Committed	21,088				21,088
Unassigned (Deficit)	(246,847)				(246,847)
Total Fund Balances (Deficit)	<u>(157,873)</u>	<u>371,456</u>	<u>1,484,143</u>	<u>-</u>	<u>1,697,726</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 809,597</u>	<u>\$ 377,720</u>	<u>\$ 1,507,957</u>	<u>\$ 27,642</u>	<u>\$ 2,722,916</u>

SCHEDULE A-1
CITY OF BERLIN, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Special Revenue Funds
June 30, 2015

	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				\$ 2,845					\$ 2,845
Accounts receivable		\$ 7,387	\$ 870						8,257
Due from other governments	\$ 519,849	19,848	16,692		\$ 25,624	\$ 44,714	\$ 55,929		682,656
Due from other funds					38,748			\$ 21,299	60,047
Prepaid expenses			43,229						43,229
Inventory		12,563							12,563
Total Assets	<u>519,849</u>	<u>39,798</u>	<u>60,791</u>	<u>2,845</u>	<u>64,372</u>	<u>44,714</u>	<u>55,929</u>	<u>21,299</u>	<u>809,597</u>
DEFERRED OUTFLOWS OF RESOURCES									
Total Deferred Outflows of Resources	-	-	-	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 519,849</u>	<u>\$ 39,798</u>	<u>\$ 60,791</u>	<u>\$ 2,845</u>	<u>\$ 64,372</u>	<u>\$ 44,714</u>	<u>\$ 55,929</u>	<u>\$ 21,299</u>	<u>\$ 809,597</u>
LIABILITIES									
Accounts payable	\$ 21,714	\$ 174	\$ 2,856	\$ 127	\$ 1,541	\$ 112		\$ 211	\$ 26,735
Accrued expenses		29	5,960		3,086	432			9,507
Advances from grantors	19,157				54,042				73,199
Unearned revenue		5,061							5,061
Due to other funds	477,268	18,926	255,593	1,082		44,170	\$ 55,929		852,968
Total Liabilities	<u>518,139</u>	<u>24,190</u>	<u>264,409</u>	<u>1,209</u>	<u>58,669</u>	<u>44,714</u>	<u>55,929</u>	<u>211</u>	<u>967,470</u>
DEFERRED INFLOWS OF RESOURCES									
Total Deferred Inflows of Resources	-	-	-	-	-	-	-	-	-
FUND BALANCES									
Nonspendable		12,563	43,229						55,792
Restricted	1,710	3,045		1,636	5,703				12,094
Committed								21,088	21,088
Unassigned (Deficit)			(246,847)						(246,847)
Total Fund Balances (Deficit)	<u>1,710</u>	<u>15,608</u>	<u>(203,618)</u>	<u>1,636</u>	<u>5,703</u>	<u>-</u>	<u>-</u>	<u>21,088</u>	<u>(157,873)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 519,849</u>	<u>\$ 39,798</u>	<u>\$ 60,791</u>	<u>\$ 2,845</u>	<u>\$ 64,372</u>	<u>\$ 44,714</u>	<u>\$ 55,929</u>	<u>\$ 21,299</u>	<u>\$ 809,597</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, 2015

	Special Revenue Funds	Permanent Funds	Bond Issue Capital Projects Fund	Hutchins Street Capital Projects Fund	Total Nonmajor Governmental Funds
Revenues:					
Intergovernmental	\$ 2,026,869			\$ 57,338	\$ 2,084,207
Charges for services	361,764				361,764
Interest income		\$ 4,963			4,963
Miscellaneous	115,777	700			116,477
Total Revenues	<u>2,504,410</u>	<u>5,663</u>	<u>\$ -</u>	<u>57,338</u>	<u>2,567,411</u>
Expenditures:					
Current operations:					
General government	21,019				21,019
Public safety	101,702				101,702
Airport/Aviation center	183,235				183,235
Health and welfare	3,548				3,548
Culture and recreation	53,096				53,096
Economic development	76,507				76,507
Education	1,455,381				1,455,381
Food service	639,165				639,165
Capital outlay	38,891		918,083	57,338	1,014,312
Total Expenditures	<u>2,572,544</u>	<u>-</u>	<u>918,083</u>	<u>57,338</u>	<u>3,547,965</u>
Excess of revenues over (under) expenditures	(68,134)	5,663	(918,083)	-	(980,554)
Other Financing Sources (Uses):					
Transfers in	14,078				14,078
Transfers out		(6,264)			(6,264)
Total Other Financing Sources (Uses)	<u>14,078</u>	<u>(6,264)</u>	<u>-</u>	<u>-</u>	<u>7,814</u>
Net change in fund balances	(54,056)	(601)	(918,083)	-	(972,740)
Fund balances (deficit) at beginning of year	<u>(103,817)</u>	<u>372,057</u>	<u>2,402,226</u>	<u>-</u>	<u>2,670,466</u>
Fund balances (deficit) at end of year	<u>\$ (157,873)</u>	<u>\$ 371,456</u>	<u>\$ 1,484,143</u>	<u>\$ -</u>	<u>\$ 1,697,726</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, 2015**

	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
Revenues:									
Intergovernmental	\$ 1,394,843	\$ 410,723	\$ 35,729		\$ 114,667	\$ 43,093	\$ 27,814		\$ 2,026,869
Charges for services		213,428	119,622					\$ 28,714	361,764
Miscellaneous	60,538		16,400	\$ 130	33,109	5,600			115,777
Total Revenues	<u>1,455,381</u>	<u>624,151</u>	<u>171,751</u>	<u>130</u>	<u>147,776</u>	<u>48,693</u>	<u>27,814</u>	<u>28,714</u>	<u>2,504,410</u>
Expenditures:									
Current operations:									
General government					21,019				21,019
Public safety					101,702				101,702
Airport/Aviation center			183,235						183,235
Health and welfare				1,208	2,340				3,548
Culture and recreation					22,219			30,877	53,096
Economic development						48,693	27,814		76,507
Education	1,455,381								1,455,381
Food service		639,165							639,165
Capital outlay			38,891						38,891
Total Expenditures	<u>1,455,381</u>	<u>639,165</u>	<u>222,126</u>	<u>1,208</u>	<u>147,280</u>	<u>48,693</u>	<u>27,814</u>	<u>30,877</u>	<u>2,572,544</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>(15,014)</u>	<u>(50,375)</u>	<u>(1,078)</u>	<u>496</u>	<u>-</u>	<u>-</u>	<u>(2,163)</u>	<u>(68,134)</u>
Other Financing Sources:									
Transfers in			14,078						14,078
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>14,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,078</u>
Net change in fund balances	-	(15,014)	(36,297)	(1,078)	496	-	-	(2,163)	(54,056)
Fund balances (deficit) at beginning of year	<u>1,710</u>	<u>30,622</u>	<u>(167,321)</u>	<u>2,714</u>	<u>5,207</u>	<u>-</u>	<u>-</u>	<u>23,251</u>	<u>(103,817)</u>
Fund balances (deficit) at end of year	<u>\$ 1,710</u>	<u>\$ 15,608</u>	<u>\$ (203,618)</u>	<u>\$ 1,636</u>	<u>\$ 5,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,088</u>	<u>\$ (157,873)</u>

SCHEDULE C
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Net Position
All Nonmajor Proprietary Funds
June 30, 2015

	Industrial Development and Park Authority Fund	Cates Hill Landfill Fund	Combining Totals
ASSETS			
Current Assets:			
Accounts receivable	\$ 7,964		\$ 7,964
Due from other governments		\$ 87,206	87,206
Due from other funds	<u>752,710</u>	<u>309,929</u>	<u>1,062,639</u>
Total Current Assets	<u>760,674</u>	<u>397,135</u>	<u>1,157,809</u>
Noncurrent Assets:			
Total Noncurrent Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>760,674</u>	<u>397,135</u>	<u>1,157,809</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	120		120
Unearned revenue	236		236
Current portion of estimated liability for landfill postclosure care costs		12,450	12,450
Total Current Liabilities	<u>356</u>	<u>12,450</u>	<u>12,806</u>
Noncurrent Liabilities:			
Estimated liability for landfill postclosure care costs		236,550	236,550
Total Noncurrent Liabilities	<u>-</u>	<u>236,550</u>	<u>236,550</u>
Total Liabilities	<u>356</u>	<u>249,000</u>	<u>249,356</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Unrestricted	<u>760,318</u>	<u>148,135</u>	<u>908,453</u>
Total Net Position	<u>\$ 760,318</u>	<u>\$ 148,135</u>	<u>\$ 908,453</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, 2015

	Industrial Development and Park Authority Fund	Cates Hill Landfill Fund	Combining Totals
Operating revenues:			
Miscellaneous	\$ 10,525	\$ 4,403	\$ 14,928
Total Operating Revenues	<u>10,525</u>	<u>4,403</u>	<u>14,928</u>
Operating expenses:			
Contractual services	160		160
Repairs and maintenance	20,846		20,846
Administrative	10,766		10,766
Materials and supplies	3		3
Utilities	478		478
Depreciation	1,844		1,844
Total Operating Expenses	<u>34,097</u>	<u>-</u>	<u>34,097</u>
Operating income (loss)	<u>(23,572)</u>	<u>4,403</u>	<u>(19,169)</u>
Non-operating revenues:			
Gain on disposal of capital assets	285,217		285,217
Interest income	265		265
Non-operating revenues	<u>285,482</u>	<u>-</u>	<u>285,482</u>
Change in net position	261,910	4,403	266,313
Net Position at beginning of year	<u>498,408</u>	<u>143,732</u>	<u>642,140</u>
Net Position at end of year	<u>\$ 760,318</u>	<u>\$ 148,135</u>	<u>\$ 908,453</u>

SCHEDULE E
CITY OF BERLIN, NEW HAMPSHIRE
Combining Statement of Cash Flows
All Nonmajor Proprietary Funds
For the Year Ended June 30, 2015

	Industrial Development and Park Authority Fund	Cates Hill Landfill Fund	Combining Totals
Cash flows from operating activities:			
Cash received from customers	\$ 607		\$ 607
Cash paid to suppliers	(34,803)	\$ (5,595)	(40,398)
Other operating cash receipts	2,561	11,320	13,881
Net cash provided (used) by operating activities	<u>(31,635)</u>	<u>5,725</u>	<u>(25,910)</u>
Cash flows from capital and related financing activities:			
Principal paid on note payable	(38,978)		(38,978)
Proceeds from sale of capital assets	336,062		336,062
Net cash provided for capital and related financing activities	<u>297,084</u>	<u>-</u>	<u>297,084</u>
Cash flows from investing activities:			
Interest on investments	265		265
Net cash provided by investing activities	<u>265</u>	<u>-</u>	<u>265</u>
Net increase in cash and cash equivalents	265,714	5,725	271,439
Cash and cash equivalents at beginning of year	486,996	304,204	791,200
Cash and cash equivalents at end of year	<u>\$ 752,710</u>	<u>\$ 309,929</u>	<u>\$ 1,062,639</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (23,572)	\$ 4,403	\$ (19,169)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	1,844		1,844
Changes in assets and liabilities:			
Accounts receivable	(7,357)		(7,357)
Due from other governments		13,772	13,772
Accounts payable	(2,550)		(2,550)
Estimated liability for landfill postclosure care costs		(12,450)	(12,450)
Net cash provided (used) by operating activities	<u>\$ (31,635)</u>	<u>\$ 5,725</u>	<u>\$ (25,910)</u>
Non-cash transactions affecting financial position:			
Net book value of disposed capital assets	<u>\$ 87,844</u>	<u>\$ -</u>	<u>\$ 87,844</u>