

**CITY OF BERLIN, NEW HAMPSHIRE**  
**Financial Statements**  
**With Schedule of Expenditures of Federal Awards**  
**June 30, 2016**  
**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  
Required by the Uniform Guidance**

**Schedule of Findings and Questioned Costs**

**CITY OF BERLIN, NEW HAMPSHIRE**  
**FINANCIAL STATEMENTS**  
**June 30, 2016**

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**FINANCIAL STATEMENTS**  
**June 30, 2016**

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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, 2016, 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, 2016, 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 39-44 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 *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 24, 2017 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 Clukey & Company PC*

Manchester, New Hampshire  
March 24, 2017

**City of Berlin, New Hampshire  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2016**

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, 2016. 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, 2016, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 72 -*Fair Value Measurement and Application*. Under GASB Statement No. 72, the City is required to disclose additional information related to all assets and liabilities subject to fair value measurement. The adoption of GASB Statement No. 72 has no impact on ending net position (fund balance) or the changes thereto for the year ended June 30, 2016.

**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, 2016 by \$35 million, an increase of \$1.7 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 (\$14.2) million. Restricted net position of \$875 thousand was restricted for permanent funds principal and income, food service operations, police forfeitures, various unexpended grants and donations, and short-lived sewer asset replacement reserves. The net investment in capital assets increased from the prior year with an ending balance of \$48.3 million.
- **Changes in Net Position:** The City's total net position increased from last fiscal year's \$33.3 million to \$35 million in fiscal year 2016. Net position of governmental activities increased by \$2 million or 6%, and net position of the business-type activities decreased by (\$346) thousand or 1%. 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 2016, the City's governmental funds reported an increase of \$5.4 million compared to last fiscal year, with a combined ending fund balance of \$10.2 million, compared to last fiscal year. Included in the combined governmental fund balance is the activity of the City's General Fund, Bond Issue Capital Projects Fund, and the Nonmajor Governmental Funds. The General Fund ended the fiscal year with an unassigned fund balance of \$1.2 million, which is a decrease of (\$194) thousand from the previous fiscal year. The Bond Issue Capital Projects Fund ended the fiscal year with a restricted fund balance of \$7.1 million, which is an increase of \$5.6 million from the previous fiscal year. This increase includes \$5.5 million of unspent bond proceeds received during the current fiscal year.

- **Proprietary Funds – Net position:** As of the close of fiscal year 2016, the City’s proprietary funds reported a decrease of (\$346) thousand when compared to last fiscal year, with a combined ending net position of \$29.1 million. Included in the combined proprietary funds net position is the activity of the City’s Sewer Fund and the Nonmajor Enterprise Funds. The Sewer Fund ended the fiscal year with an unrestricted net position of \$6.3 million, which is a decrease of (\$1) million 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, and 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 3-6.

The City has two major governmental funds; the General Fund and the Bond Issue Capital Projects 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 56-59. The nonmajor governmental funds are:

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

- Grants Fund
  - CDBG 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 proprietary fund financial statements can be found on pages 7-9, with individual fund data for each of the City's nonmajor proprietary funds provided as supplementary information in the combining statements found on pages 60-62.

- 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 10-11 include the:
  - Berlin Trust Fund
  - Home Nursing Trust Fund
  - Miles Scholarship Trust Fund
  - Elaine Hardy Scholarship Fund
  - Library Trust Fund
  - Student Activities Agency Fund
  - Jericho Wind-power 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 12-38.

#### 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 with a legally adopted budget and includes a reconciliation between the reported activity of the revenues, expenditures and other financing sources and uses for budgetary purposes (Schedule 1, page 39) and the activity as presented in the governmental fund financial statements (Exhibit D, page 5). The City's only major governmental fund with a legally adopted budget 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 40-42). The notes to the required supplementary information can be found on pages 43-44.

## 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 \$35 million at the end of fiscal year 2016, an increase of \$1.7 million compared to the end of the previous fiscal year.

Net position of the City as of June 30, 2016 and 2015 is as follows (amounts reported in millions):

	Governmental Activities restated		Business-type Activities		Total Primary Government restated	
	2016	2015	2016	2015	2016	2015
Capital assets, net	\$ 28.9	\$ 27.9	\$ 37.3	\$ 38.0	\$ 66.2	\$ 65.9
Other assets	15.4	10.1	9.0	9.5	24.4	19.6
Total Assets	44.3	38.0	46.3	47.5	90.6	85.5
 Total Deferred Outflows of Resources	 2.5	 2.5	 0.1	 0.1	 2.6	 2.6
 Long-term liabilities	 34.2	 29.1	 16.4	 17.5	 50.6	 46.6
Other liabilities	1.6	1.0	0.8	0.6	2.4	1.6
Total Liabilities	35.8	30.1	17.2	18.1	53.0	48.2
 Total Deferred Inflows of Resources	 5.1	 6.5	 0.1	 0.1	 5.2	 6.6
 Net position:						
Net investment in capital assets	26.9	24.9	21.4	21.2	48.3	46.1
Restricted	0.4	0.4	0.5	-	0.9	0.4
Unrestricted (Deficit)	(21.4)	(21.4)	7.2	8.2	(14.2)	(13.2)
Total Net Position	\$ 5.9	\$ 3.9	\$ 29.1	\$ 29.4	\$ 35.0	\$ 33.3

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 (\$1) million from the prior fiscal year. The most significant component affecting the deficit unrestricted net position of the governmental activities at year end is due to the recognition of the City's proportionate share of the New Hampshire Retirement System's net pension liability and related deferred outflows and inflows of resources in accordance with GASB Statement No. 68. A deficit unrestricted net position balance is expected to continue into subsequent years as a result of Statement 68.

## Statement of Activities

The City's total net position increased \$1.7 million during this fiscal year. Property and other taxes brought in \$15.9 million in revenue. Other major revenues consisted of charges for services, operating grants and contributions, capital grants and contributions, and miscellaneous revenues. Changes in net position for the years ending June 30, 2016 and 2015 are as follows:

	Governmental Activities		Business-type Activities		Total Primary Government	
	restated				restated	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 2.4	\$ 2.5	\$ 2.6	\$ 2.2	\$ 5.0	\$ 4.7
Operating grants and contributions	15.2	13.7	-	-	15.2	13.7
Capital grants and contributions	1.6	3.2	-	3.4	1.6	6.6
General revenues:						
Property and other taxes	15.9	15.6	-	-	15.9	15.6
Licenses and permits	1.4	1.3	-	-	1.4	1.3
Intergovernmental	0.5	0.5	-	-	0.5	0.5
Miscellaneous	0.4	0.4	0.1	0.1	0.5	0.5
Total revenues	<u>37.4</u>	<u>37.2</u>	<u>2.7</u>	<u>5.7</u>	<u>40.1</u>	<u>42.9</u>
<b>Expenses</b>						
General government	2.2	2.0	-	-	2.2	2.0
Public safety	5.6	5.5	-	-	5.6	5.5
Airport/Aviation center	0.4	0.4	-	-	0.4	0.4
Highways and streets	2.2	2.3	-	-	2.2	2.3
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	1.0	0.2	-	-	1.0	0.2
Education	19.2	18.9	-	-	19.2	18.9
Food service	0.6	0.6	-	-	0.6	0.6
Debt service	0.4	0.6	-	-	0.4	0.6
Intergovernmental	1.6	1.7	-	-	1.6	1.7
Sewer	-	-	3.0	3.2	3.0	3.2
Total expenses	<u>35.4</u>	<u>34.4</u>	<u>3.0</u>	<u>3.2</u>	<u>38.4</u>	<u>37.6</u>
Excess (Deficiency) before net loss on disposal of capital assets	2.0	2.8	(0.3)	2.5	1.7	5.3
Net loss on disposal of capital assets	-	-	-	(0.1)	-	(0.1)
Change in net position	2.0	2.8	(0.3)	2.4	1.7	5.2
Net position, beginning of year	<u>3.9</u>	<u>1.1</u>	<u>29.4</u>	<u>27.0</u>	<u>33.3</u>	<u>28.1</u>
Net position, end of year	<u>\$ 5.9</u>	<u>\$ 3.9</u>	<u>\$ 29.1</u>	<u>\$ 29.4</u>	<u>\$ 35.0</u>	<u>\$ 33.3</u>

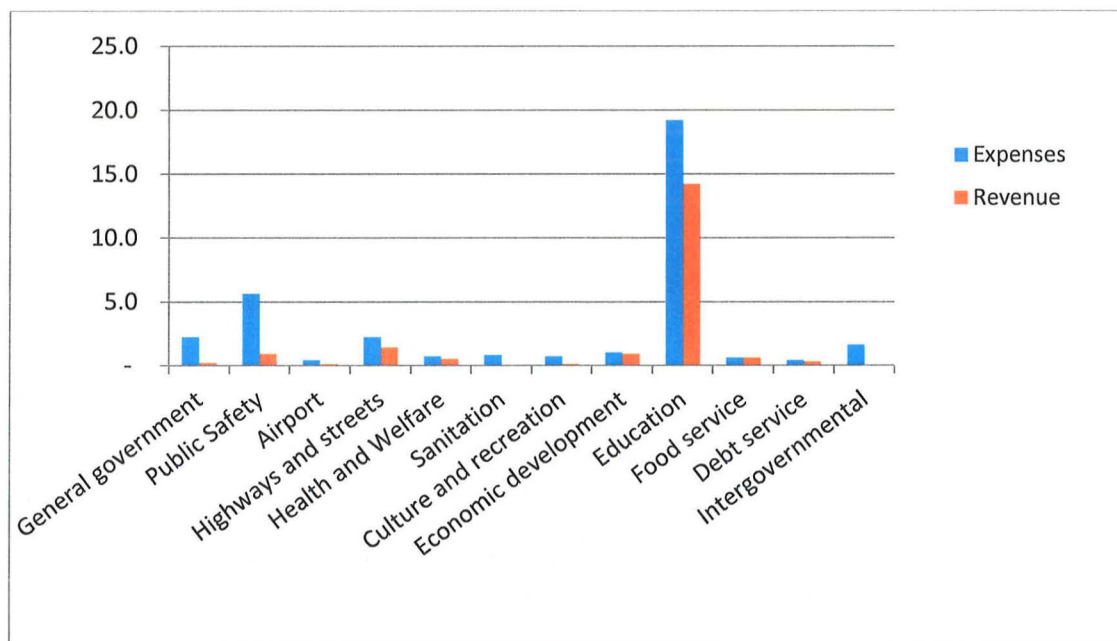
The City's expenses cover a range of services. The largest governmental expenses were for education (54%), public safety (16%), highways and streets (6%) and general government (6%), which accounted for roughly 84% of total governmental expenditures.

### Governmental Activities

Governmental activities revenues of \$37.4 million exceeded expenses of \$35.4 million in fiscal year 2016, 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.

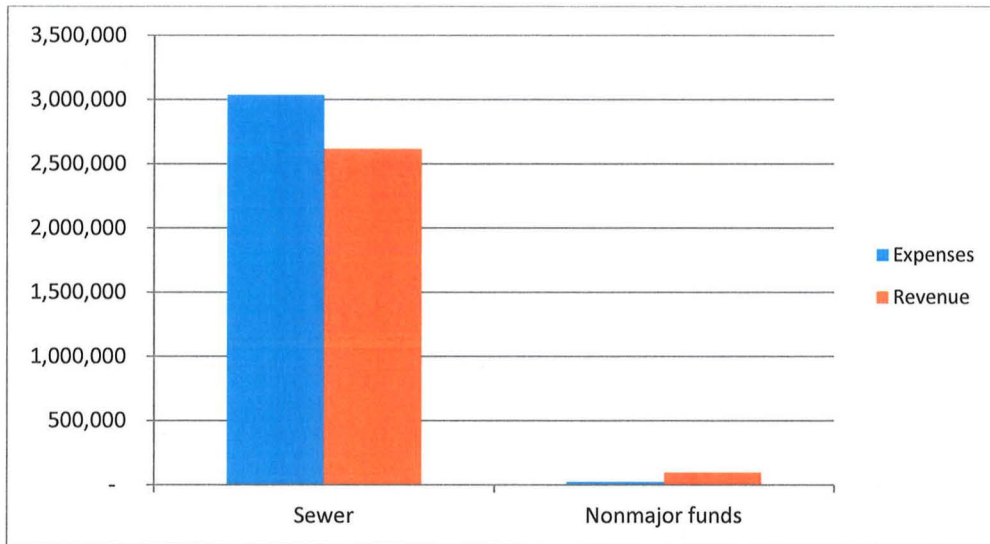
Expenses and Program Revenues – Governmental Activities  
Fiscal Year Ending June 30, 2016



### 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, 2016

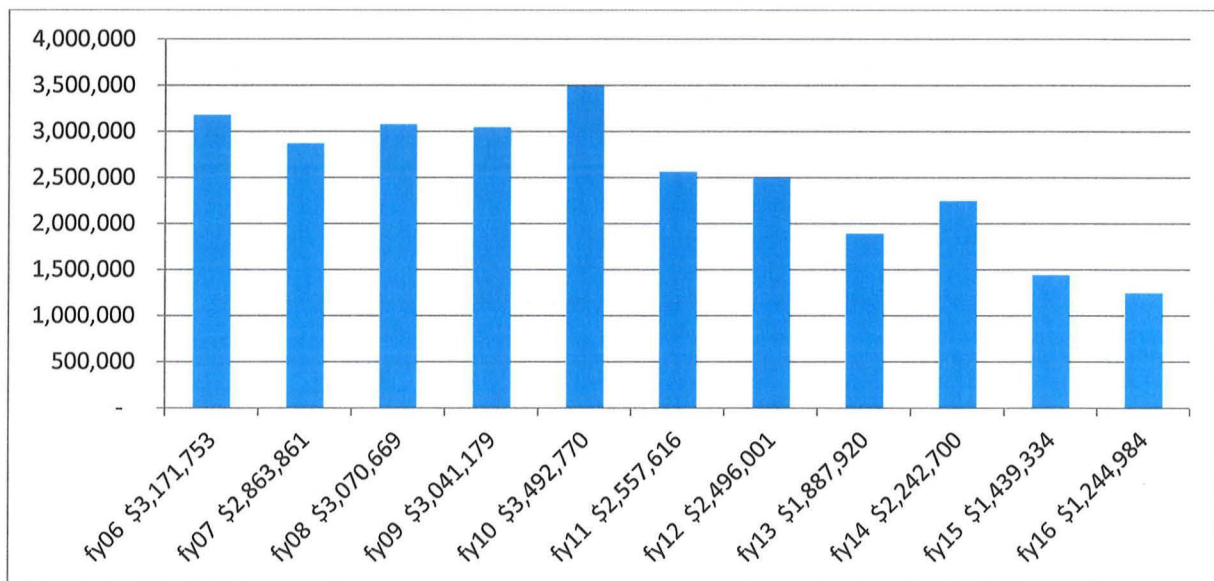


### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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 2006 through 2016 are as follows:



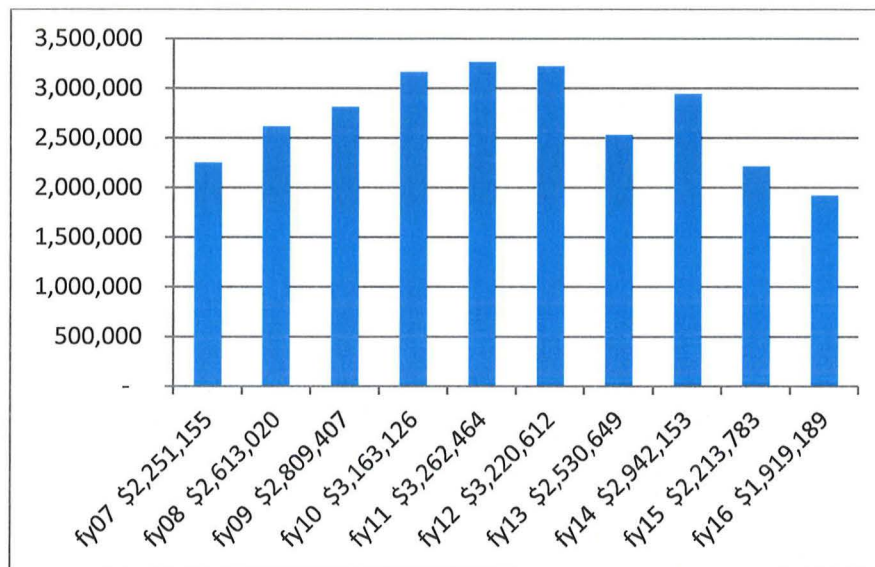


## General Fund

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 \$1,244,984, while total fund balance was \$2,812,353. 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 (\$194,350) 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 2016, the General Fund Unassigned Fund Balance has decreased to \$1,919,189, with \$1,150,000 being applied to reduce the 2015 tax rate.

## Other Governmental Funds

The combined fund balances of the nonmajor governmental funds increased during the year by \$131,987 to a fiscal year end balance of \$345,570. The increase was primarily a result of a transfer into the Hutchins Street Capital Project 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 decreased by (\$346,492) 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 a decrease of net position of (\$421,894). The Nonmajor Proprietary Funds had a combined net position increase of \$75,402 in fiscal year 2016.

### 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) required to report budgetary activity can be found in the Required Supplementary Information section on page 39.

Actual budgetary revenues were more than the budgeted estimated revenues by \$240,193. There was an unfavorable variance of (\$82,057) in actual property taxes revenue from the amount budgeted. There were favorable variances of \$137,105 and \$148,150 in actual licenses and permits and miscellaneous revenue from the amount budgeted, respectively. Actual budgetary expenditures at fiscal year-end were \$714,734 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 \$236,708 less than budgeted. General government was \$270,165 less than budgeted and Highways and streets spent \$155,310 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, 2016, amounted to \$114 million. Accumulated depreciation was \$47.8 million leaving a net book value of \$66.2 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 Statement 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 4 on pages 22-23 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 \$25.1 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 \$239 thousand at year end and are solely attributable to the Sewer Fund. The City issued general obligation bonds totaling \$5.5 million to fund the Bond Issue Capital Projects Fund. In addition, the City had outstanding capital leases payable totaling \$180 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 5 on pages 23-27 of the Notes to the Basic Financial Statements.

#### Net Pension Liability and Other Post-Employment Benefits

During fiscal year 2015, 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 \$23.2 million, with deferred outflows and inflows of resources related to pension in the amounts of \$2.6 million and \$1.5 million, respectively. Additional information regarding the City's net pension liability can be found in Note 6 on pages 27-31 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, 2016 is \$972 thousand. Additional information regarding the City's OPEB obligation can be found in Note 7 on pages 31-33 of the Notes to the Basic Financial Statements.

#### ECONOMIC CONDITIONS

The Burgess BioPower biomass plant, completed in late 2013, has been undergoing optimization work over the last several months of FY16. The operators of the plant indicate that the facility is operating more consistently than when first put on line. The facility is capable of producing maximum output when the electrical grid is capable of receiving it. Contrary to the last audit period, the price for whole tree chips has decreased significantly creating a purchasing and production advantage for the plant. The current fiscal year included Year 6 of the City's 20 year pilot agreement with Berlin Station.

Jericho Wind Power (recently acquired by LS Power) completed construction of its 5-tower wind farm in 2015. The 2.85 mega-watt towers are now online and are producing power to the grid. The first payment in lieu of taxes made by agreement to the City occurred in July of 2016. The agreement will provide increasing revenues to the City over the next 20-year period.

Capone Iron Corporation expanded their fabrication space and has added 13 jobs and will add approximately another 13 jobs over the next 12 months.

The Gorham Paper Mill continues to operate and improve product lines and actively seek employees. They continue to operate with approximately 123 employees.

Further significant developments, which are occurring on Route 110, include a proposed 170 RV site campground, the demolition of a large old manufacturing plant and the active solicitation for new development of this site as well as the purchase and renovation of another old vacant building in the same area into available rental retail space.

Berlin's redefinition continues. As evident from the statements above, the City is focused on further developing a new economy. The City is not inhibited by memories of past successes. It has clearly moved on to build a diverse economic fabric with the ultimate goal of a bountiful and sustainable future. The City has several large governmental and non-profit employers which are vitally important to the foundation of the economy. In addition, the City's and area's compliment of private electrical power production, steel fabrication, forest products, paper products, tourism and now a high potential for high-tech agriculture are bringing the foundation out of the ground and into sight for many to see and be part of.

### 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, 2016**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 18,472,739		\$ 18,472,739	\$ 1,152,058
Investments	377,196		377,196	
Taxes receivable, net	759,729		759,729	
Accounts receivable, net	452,566	\$ 489,856	942,422	237,856
Due from other governments	2,051,800	329,774	2,381,574	360,485
Internal balances	(7,178,762)	7,178,762	-	
Prepaid expenses	37,275	2,175	39,450	
Inventory	9,093	66,105	75,198	313,590
Tax deeded property	385,413		385,413	
Total Current Assets	<u>15,367,049</u>	<u>8,066,672</u>	<u>23,433,721</u>	<u>2,063,989</u>
Noncurrent Assets:				
Due from other governments		886,761	886,761	
Capital assets:				
Non-depreciable capital assets	14,435,406	154,152	14,589,558	3,529,458
Depreciable capital assets, net	14,429,611	37,204,701	51,634,312	37,358,222
Total Noncurrent Assets	<u>28,865,017</u>	<u>38,245,614</u>	<u>67,110,631</u>	<u>40,887,680</u>
Total Assets	<u>44,232,066</u>	<u>46,312,286</u>	<u>90,544,352</u>	<u>42,951,669</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pension	<u>2,519,250</u>	<u>68,991</u>	<u>2,588,241</u>	<u>85,489</u>
Total Deferred Outflows of Resources	<u>2,519,250</u>	<u>68,991</u>	<u>2,588,241</u>	<u>85,489</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	432,465	31,392	463,857	46,899
Accrued expenses	531,159	166,039	697,198	52,651
Advances from grantors	57,162		57,162	
Unearned revenue	8,688		8,688	
Current portion of bonds payable	326,703	594,455	921,158	919,464
Current portion of notes payable			-	2,526,229
Current portion of capital leases payable	106,878		106,878	
Current portion of compensated absences payable	93,781		93,781	29,339
Current portion of estimated liability for landfill postclosure care costs	<u>9,900</u>	<u>11,400</u>	<u>21,300</u>	
Total Current Liabilities	<u>1,566,736</u>	<u>803,286</u>	<u>2,370,022</u>	<u>3,574,582</u>
Noncurrent Liabilities:				
Bonds payable	9,047,876	15,132,916	24,180,792	8,002,744
State of New Hampshire revolving loan		239,340	239,340	
Capital leases payable	72,769		72,769	
Compensated absences payable	1,454,671	144,631	1,599,302	146,385
Net pension liability	22,542,589	686,179	23,228,768	1,026,099
Other post-employment benefits liability	935,121	36,795	971,916	46,924
Estimated liability for landfill postclosure care costs	<u>99,000</u>	<u>205,200</u>	<u>304,200</u>	
Total Noncurrent Liabilities	<u>34,152,026</u>	<u>16,445,061</u>	<u>50,597,087</u>	<u>9,222,152</u>
Total Liabilities	<u>35,718,762</u>	<u>17,248,347</u>	<u>52,967,109</u>	<u>12,796,734</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes collected in advance	3,703,826		3,703,826	
Deferred inflows related to pension	<u>1,411,818</u>	<u>47,569</u>	<u>1,459,387</u>	<u>49,941</u>
Total Deferred Inflows of Resources	<u>5,115,644</u>	<u>47,569</u>	<u>5,163,213</u>	<u>49,941</u>
NET POSITION				
Net investment in capital assets	26,891,159	21,392,142	48,283,301	29,439,243
Restricted	386,957	488,000	874,957	
Unrestricted (Deficit)	<u>(21,361,206)</u>	<u>7,205,219</u>	<u>(14,155,987)</u>	<u>751,240</u>
Total Net Position	<u>\$ 5,916,910</u>	<u>\$ 29,085,361</u>	<u>\$ 35,002,271</u>	<u>\$ 30,190,483</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, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating	Capital	Primary Government			
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental Activities:								
General government	\$ 2,226,769	\$ 179,223	\$ 32,846		\$ (2,014,700)		\$ (2,014,700)	
Public safety	5,581,545	241,015	249,645	\$ 274,488	(4,816,397)		(4,816,397)	
Airport/Aviation center	361,137	96,135	9,901	24,277	(230,824)		(230,824)	
Highways and streets	2,177,093	66,153	237,147	1,079,090	(794,703)		(794,703)	
Health and welfare	651,320	139,468	378,207		(133,645)		(133,645)	
Sanitation	808,561	30,427			(778,134)		(778,134)	
Culture and recreation	711,492	43,539	3,519		(664,434)		(664,434)	
Economic development	959,126		892,009		(67,117)		(67,117)	
Education	19,184,631	1,348,381	12,612,320	178,244	(5,045,686)		(5,045,686)	
Food service	643,114	221,783	412,678		(8,653)		(8,653)	
Debt service	445,753		321,672		(124,081)		(124,081)	
Intergovernmental	1,553,959				(1,553,959)		(1,553,959)	
Total governmental activities	<u>35,304,500</u>	<u>2,366,124</u>	<u>15,149,944</u>	<u>1,556,099</u>	<u>(16,232,333)</u>	<u>\$ -</u>	<u>(16,232,333)</u>	
Business-type activities:								
Sewer	3,036,174	2,552,404		29,915		(453,855)	(453,855)	
Nonmajor enterprise funds	19,979					(19,979)	(19,979)	
Total business-type activities	<u>3,056,153</u>	<u>2,552,404</u>	<u>-</u>	<u>29,915</u>	<u>-</u>	<u>(473,834)</u>	<u>(473,834)</u>	
Total primary government	<u>\$ 38,360,653</u>	<u>\$ 4,918,528</u>	<u>\$ 15,149,944</u>	<u>\$ 1,586,014</u>	<u>(16,232,333)</u>	<u>(473,834)</u>	<u>(16,706,167)</u>	
Component unit:								
Water	<u>\$ 3,017,579</u>	<u>\$ 2,775,737</u>		<u>\$ 365,471</u>				<u>\$ 123,629</u>
Total component unit	<u>\$ 3,017,579</u>	<u>\$ 2,775,737</u>	<u>\$ -</u>	<u>\$ 365,471</u>				<u>123,629</u>
General revenues:								
Property and other taxes					15,946,998		15,946,998	
Licenses and permits					1,390,755		1,390,755	
Grants and contributions:								
Rooms and meals tax distribution					511,570		511,570	
Interest and investment earnings					7,668	6,009	13,677	23,728
Miscellaneous					396,732	121,333	518,065	50,344
Net loss on disposal of capital assets					(400)		(400)	
Total general revenues and net loss on disposal of capital assets					<u>18,253,323</u>	<u>127,342</u>	<u>18,380,665</u>	<u>74,072</u>
Change in net position					2,020,990	(346,492)	1,674,498	197,701
Net Position at beginning of year, as restated					<u>3,895,920</u>	<u>29,431,853</u>	<u>33,327,773</u>	<u>29,992,782</u>
Net Position at end of year					<u>\$ 5,916,910</u>	<u>\$ 29,085,361</u>	<u>\$ 35,002,271</u>	<u>\$ 30,190,483</u>

See accompanying notes to the basic financial statements

EXHIBIT C  
CITY OF BERLIN, NEW HAMPSHIRE  
Balance Sheet  
Governmental Funds  
June 30, 2016

	General Fund	Bond Issue Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 18,469,365		\$ 3,374	\$ 18,472,739
Investments	2,281		374,915	377,196
Taxes receivable, net	759,729			759,729
Accounts receivable	420,880		29,396	450,276
Due from other governments	656,097		1,395,703	2,051,800
Due from other funds	1,175,001	\$ 7,110,844	38,420	8,324,265
Prepaid expenses	223,468		24,320	247,788
Inventory			9,093	9,093
Tax deeded property	385,413			385,413
Total Assets	<u>22,092,234</u>	<u>7,110,844</u>	<u>1,875,221</u>	<u>31,078,299</u>
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 22,092,234</u>	<u>\$ 7,110,844</u>	<u>\$ 1,875,221</u>	<u>\$ 31,078,299</u>
LIABILITIES				
Accounts payable	\$ 132,805	\$ 21,592	\$ 277,568	\$ 431,965
Accrued expenses	437,897		16,144	454,041
Advances from grantors			57,162	57,162
Unearned revenue	2,622		6,066	8,688
Due to other funds	14,328,526		1,172,711	15,501,237
Total Liabilities	<u>14,901,850</u>	<u>21,592</u>	<u>1,529,651</u>	<u>16,453,093</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes collected in advance	3,703,826			3,703,826
Uncollected property tax revenue	674,205			674,205
Total Deferred Inflows of Resources	<u>4,378,031</u>	<u>-</u>	<u>-</u>	<u>4,378,031</u>
FUND BALANCES				
Nonspendable	608,881		184,466	793,347
Restricted		7,089,252	235,904	7,325,156
Committed			183,833	183,833
Assigned	958,488			958,488
Unassigned (Deficit)	1,244,984		(258,633)	986,351
Total Fund Balances	<u>2,812,353</u>	<u>7,089,252</u>	<u>345,570</u>	<u>10,247,175</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 22,092,234</u>	<u>\$ 7,110,844</u>	<u>\$ 1,875,221</u>	<u>\$ 31,078,299</u>

See accompanying notes to the basic financial statements

**EXHIBIT C-1**  
**CITY OF BERLIN, NEW HAMPSHIRE**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**June 30, 2016**

Total Fund Balances - Governmental Funds (Exhibit C)	\$ 10,247,175
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	28,865,017
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis	674,205
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	2,519,250
Deferred inflows of resources attributable to net pension liability	(1,411,818)
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	(9,374,579)
Capital leases payable	(179,647)
Accrued interest on long-term obligations	(77,118)
Compensated absences payable	(1,548,452)
Net pension liability	(22,542,589)
Other post-employment benefits liability	(935,121)
Estimated liability for landfill postclosure care costs	<u>(108,900)</u>
Net Position of Governmental Activities (Exhibit A)	<u>\$ 5,916,910</u>

**EXHIBIT D**  
**CITY OF BERLIN, NEW HAMPSHIRE**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2016**

	General Fund	Bond Issue Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 16,047,242			\$ 16,047,242
Licenses and permits	1,390,755			1,390,755
Intergovernmental	12,197,334	\$ 440,403	\$ 4,236,582	16,874,319
Charges for services	2,000,829		352,127	2,352,956
Interest income	2,719		4,949	7,668
Miscellaneous	409,900		95,294	505,194
Total Revenues	<u>32,048,779</u>	<u>440,403</u>	<u>4,688,952</u>	<u>37,178,134</u>
Expenditures:				
Current operations:				
General government	1,981,028		32,861	2,013,889
Public safety	5,396,288		521,761	5,918,049
Airport/Aviation center			160,434	160,434
Highways and streets	1,866,216			1,866,216
Health and welfare	652,666		1,418	654,084
Sanitation	832,216			832,216
Culture and recreation	637,209		43,985	681,194
Economic development			888,881	888,881
Education	17,338,037		2,040,255	19,378,292
Food service			638,996	638,996
Capital outlay	1,141,152	319,294	429,112	1,889,558
Debt service:				
Principal retirement	616,703			616,703
Interest and fiscal charges	195,482	16,000		211,482
Intergovernmental	<u>1,553,959</u>			<u>1,553,959</u>
Total Expenditures	<u>32,210,956</u>	<u>335,294</u>	<u>4,757,703</u>	<u>37,303,953</u>
Excess of revenues over (under) expenditures	<u>(162,177)</u>	<u>105,109</u>	<u>(68,751)</u>	<u>(125,819)</u>
Other Financing Sources (Uses):				
Proceeds from bond issuance		5,500,000		5,500,000
Transfers in	6,115		206,853	212,968
Transfers out	<u>(206,853)</u>		<u>(6,115)</u>	<u>(212,968)</u>
Total Other Financing Sources (Uses)	<u>(200,738)</u>	<u>5,500,000</u>	<u>200,738</u>	<u>5,500,000</u>
Net change in fund balances	(362,915)	5,605,109	131,987	5,374,181
Fund balances at beginning of year	<u>3,175,268</u>	<u>1,484,143</u>	<u>213,583</u>	<u>4,872,994</u>
Fund balances at end of year	<u>\$ 2,812,353</u>	<u>\$ 7,089,252</u>	<u>\$ 345,570</u>	<u>\$ 10,247,175</u>

*See accompanying notes to the basic financial statements*

**EXHIBIT D-1**  
**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, 2016**

Net Change in Fund Balances - Governmental Funds (Exhibit D)	\$ 5,374,181
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.	721,197
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.	(400)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	147,756
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.	658,312
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.	68,670
Proceeds from bond issuances are other financing sources in the funds, but bond issuances increase long-term liabilities in the statement of net position.	(5,500,000)
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.	2,059
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.	575,357
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.	<u>(26,142)</u>
Change in Net Position of Governmental Activities (Exhibit B)	<u>\$ 2,020,990</u>

*See accompanying notes to the basic financial statements*



**EXHIBIT E**  
**CITY OF BERLIN, NEW HAMPSHIRE**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2016**

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
<b>ASSETS</b>			
Current Assets:			
Accounts receivable	\$ 489,856		\$ 489,856
Due from other governments	259,198	\$ 70,576	329,774
Due from other funds	6,144,981	1,033,781	7,178,762
Prepaid expenses	2,175		2,175
Inventory	66,105		66,105
Total Current Assets	<u>6,962,315</u>	<u>1,104,357</u>	<u>8,066,672</u>
Noncurrent Assets:			
Due from other governments	886,761		886,761
Capital assets:			
Non-depreciable capital assets	57,949	96,203	154,152
Depreciable capital assets, net	<u>37,204,701</u>		<u>37,204,701</u>
Total Noncurrent Assets	<u>38,149,411</u>	<u>96,203</u>	<u>38,245,614</u>
Total Assets	<u>45,111,726</u>	<u>1,200,560</u>	<u>46,312,286</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pension	<u>68,991</u>		<u>68,991</u>
Total Deferred Outflows of Resources	<u>68,991</u>	<u>-</u>	<u>68,991</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	31,287	105	31,392
Accrued expenses	166,039		166,039
Current portion of bonds payable	594,455		594,455
Current portion of estimated liability for landfill postclosure care costs		11,400	11,400
Total Current Liabilities	<u>791,781</u>	<u>11,505</u>	<u>803,286</u>
Noncurrent Liabilities:			
Bonds payable	15,132,916		15,132,916
State of New Hampshire revolving loan	239,340		239,340
Compensated absences payable	144,631		144,631
Net pension liability	686,179		686,179
Other post-employment benefits liability	36,795		36,795
Estimated liability for landfill postclosure care costs		205,200	205,200
Total Noncurrent Liabilities	<u>16,239,861</u>	<u>205,200</u>	<u>16,445,061</u>
Total Liabilities	<u>17,031,642</u>	<u>216,705</u>	<u>17,248,347</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pension	<u>47,569</u>		<u>47,569</u>
Total Deferred Inflows of Resources	<u>47,569</u>	<u>-</u>	<u>47,569</u>
<b>NET POSITION</b>			
Net investment in capital assets	21,295,939	96,203	21,392,142
Restricted for:			
Short-lived asset replacement reserve	488,000		488,000
Unrestricted	<u>6,317,567</u>	<u>887,652</u>	<u>7,205,219</u>
Total Net Position	<u>\$ 28,101,506</u>	<u>\$ 983,855</u>	<u>\$ 29,085,361</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, 2016**

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Operating revenues:			
Charges for services	\$ 2,552,404		\$ 2,552,404
Miscellaneous	26,024	\$ 95,309	121,333
Total Operating Revenues	<u>2,578,428</u>	<u>95,309</u>	<u>2,673,737</u>
Operating expenses:			
Personnel services	907,890		907,890
Contractual services	15,945	265	16,210
Repairs and maintenance	54,560	13,090	67,650
Administrative	82,555	6,624	89,179
Materials and supplies	236,635		236,635
Utilities	207,973		207,973
Depreciation	1,077,218		1,077,218
Total Operating Expenses	<u>2,582,776</u>	<u>19,979</u>	<u>2,602,755</u>
Operating income (loss)	<u>(4,348)</u>	<u>75,330</u>	<u>70,982</u>
Non-operating revenues (expenses):			
Interest income	5,937	72	6,009
Interest expense	(453,398)		(453,398)
Net non-operating revenues (expenses)	<u>(447,461)</u>	<u>72</u>	<u>(447,389)</u>
Income (Loss) before capital contributions	(451,809)	75,402	(376,407)
Capital contributions	<u>29,915</u>		<u>29,915</u>
Change in net position	(421,894)	75,402	(346,492)
Net Position at beginning of year	<u>28,523,400</u>	<u>908,453</u>	<u>29,431,853</u>
Net Position at end of year	<u>\$ 28,101,506</u>	<u>\$ 983,855</u>	<u>\$ 29,085,361</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, 2016**

	Business-type Activities		
	Sewer Fund	Nonmajor Enterprise Funds	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 2,722,721	\$ 81,746	\$ 2,804,467
Cash paid to suppliers	(520,367)	(25,141)	(545,508)
Cash paid to employees	(954,029)		(954,029)
Other operating cash receipts	1,848	10,668	12,516
Net cash provided by operating activities	<u>1,250,173</u>	<u>67,273</u>	<u>1,317,446</u>
Cash flows from capital and related financing activities:			
Proceeds from State of New Hampshire revolving loan	47,048		47,048
Principal paid on bonds payable	(577,638)		(577,638)
Interest paid on long-term debt	(458,265)		(458,265)
Capital contributions	287,958		287,958
Purchases of capital assets	(627,797)	(96,203)	(724,000)
Net cash used for capital and related financing activities	<u>(1,328,694)</u>	<u>(96,203)</u>	<u>(1,424,897)</u>
Cash flows from investing activities:			
Interest on investments	5,937	72	6,009
Net cash provided by investing activities	<u>5,937</u>	<u>72</u>	<u>6,009</u>
Net decrease in cash and cash equivalents	(72,584)	(28,858)	(101,442)
Cash and cash equivalents at beginning of year	6,217,565	1,062,639	7,280,204
Cash and cash equivalents at end of year	<u>\$ 6,144,981</u>	<u>\$ 1,033,781</u>	<u>\$ 7,178,762</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (4,348)	\$ 75,330	\$ 70,982
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,077,218		1,077,218
Change in deferred outflows related to pension	3,814		3,814
Change in deferred inflows related to pension	(34,191)		(34,191)
Changes in assets and liabilities:			
Accounts receivable	146,141	7,964	154,105
Due from other governments		16,630	16,630
Prepaid expenses	4,114		4,114
Inventory	4,035		4,035
Accounts payable	(4,664)	(15)	(4,679)
Accrued expenses	(6,797)		(6,797)
Unearned revenue		(236)	(236)
Compensated absences payable	17,709		17,709
Net pension liability	47,186		47,186
Other post-employment benefits liability	(44)		(44)
Estimated liability for landfill postclosure care costs		(32,400)	(32,400)
Net cash provided by operating activities	<u>\$ 1,250,173</u>	<u>\$ 67,273</u>	<u>\$ 1,317,446</u>
Non-cash transactions affecting financial position:			
Capital asset additions included in year end liabilities	<u>\$ 5,621</u>	<u>\$ -</u>	<u>\$ 5,621</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, 2016**

	Private- Purpose <u>Trusts</u>	Agency <u>Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,142	\$ 244,888
Investments	113,421	
Due from other funds		500
Total Assets	<u>124,563</u>	<u>\$ 245,388</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Total Deferred Outflows of Resources	<u>-</u>	
<b>LIABILITIES</b>		
Deposits		\$ 500
Due to student groups		244,888
Due to other funds	<u>2,290</u>	
Total Liabilities	<u>2,290</u>	<u>\$ 245,388</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Total Deferred Inflows of Resources	<u>-</u>	
<b>NET POSITION</b>		
Held in trust	<u>122,273</u>	
Total Net Position	<u>\$ 122,273</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, 2016**

	Private- Purpose <u>Trusts</u>
ADDITIONS:	
Contributions:	
Investment earnings:	
Investment income	\$ 384
Total Additions	<u>384</u>
DEDUCTIONS:	
Benefits	<u>2,043</u>
Total Deductions	<u>2,043</u>
Change in Net Position	(1,659)
Net Position at beginning of year	<u>123,932</u>
Net Position at end of year	<u>\$ 122,273</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, 2016**

**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, 2016**

**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 represent the City's major governmental funds:

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.

The *Bond Issue Capital Projects Fund* accounts for all financial transactions used for the acquisition or construction of major capital facilities, infrastructure and equipment. It accounts for any federal, state, and local financing of these projects and the related capital outlay expenditures.

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

**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, 2016**

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 12). 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 deferred inflows of resources.

**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, 2016**

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, 2016, the City applied \$1,150,000 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	\$ 6,144,981
Nonmajor Enterprise Funds	<u>1,033,781</u>
Total cash and cash equivalents	<u>\$ 7,178,762</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, 2016 are recorded as receivables net of reserves for estimated uncollectible taxes of \$566,518.

***Due from Other Governments***

Receivables due from other governments at June 30, 2016 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 \$259,198 and \$886,761, respectively.

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

***Prepaid Expenses***

Payments made to vendors for services that will benefit periods beyond June 30, 2016 are recorded as prepaid items. Prepaid expenses reported on the modified accrual basis of accounting in the General Fund at June 30, 2016 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, 2016, 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, 2016**

	<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***

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 accumulated depreciation, reduced by the outstanding balances on any borrowings used for the

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

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, 2016**

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—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

***Deficit Fund Balance***

At June 30, 2016, the Airport Authority Fund, a Nonmajor Governmental Fund, had a deficit 'Unassigned' fund balance of (\$258,633) and total deficit fund balance of (\$234,313).

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

**NOTE 3—DEPOSITS AND INVESTMENTS**

Deposits and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 18,472,739
Investments	377,196
Statement of Fiduciary Net Position:	
Cash and cash equivalents	256,030
Investments	113,421
Total deposits and investments	<u>\$ 19,219,386</u>

Deposits and investments as of June 30, 2016 consist of the following:

Cash on hand	\$ 3,353
Deposits with financial institutions	19,213,752
Investments	2,281
Total deposits and investments	<u>\$ 19,219,386</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, \$18,609,875 was collateralized by securities held by the bank in the bank's name and \$11,385 was uninsured and uncollateralized.

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

**NOTE 4—CAPITAL ASSETS**

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

	Balance (As Restated) 07/01/15	Additions	Reductions	Balance 06/30/16
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 1,189,275	\$ 18,750		\$ 1,208,025
Construction in progress	13,151,153	739,082	\$ (662,854)	13,227,381
Total capital assets not being depreciated	14,340,428	757,832	(662,854)	14,435,406
Other capital assets:				
Infrastructure	9,068,045	380,252		9,448,297
Land improvements	5,297,189			5,297,189
Buildings and improvements	11,010,251	720,979		11,731,230
Vehicles and equipment	9,244,590	861,415	(336,015)	9,769,990
Total other capital assets at historical cost	34,620,075	1,962,646	(336,015)	36,246,706
Less accumulated depreciation for:				
Infrastructure	(5,480,877)	(278,272)		(5,759,149)
Land improvements	(3,285,297)	(144,702)		(3,429,999)
Buildings and improvements	(5,827,112)	(226,536)		(6,053,648)
Vehicles and equipment	(6,470,997)	(433,917)	330,615	(6,574,299)
Total accumulated depreciation	(21,064,283)	(1,083,427)	330,615	(21,817,095)
Total other capital assets, net	13,555,792	879,219	(5,400)	14,429,611
Total capital assets, net	\$ 27,896,220	\$ 1,637,051	\$ (668,254)	\$ 28,865,017

Depreciation expense was charged to governmental functions as follows:

General government	\$ 49,690
Public safety	163,413
Airport/Aviation center	202,249
Highways and streets	328,952
Health and welfare	2,940
Sanitation	15,961
Culture and recreation	36,985
Education	279,119
Food service	4,118
Total governmental activities depreciation expense	\$ 1,083,427

The balance of capital assets acquired through capital leases as of June 30, 2016 is as follows:

Vehicles and equipment	\$ 182,260
Less: Accumulated depreciation	(36,452)
	\$ 145,808

During the year ended June 30, 2016, 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, \$248,000 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, 2016**

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

	<u>Balance 07/01/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/16</u>
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 57,949	\$ 96,203		\$ 154,152
Construction in progress	16,243,053		\$(16,243,053)	-
Total capital assets not being depreciated	<u>16,301,002</u>	<u>96,203</u>	<u>(16,243,053)</u>	<u>154,152</u>
Other capital assets:				
Infrastructure	22,633,632	16,513,491		39,147,123
Buildings and improvements	23,135,568	10,305		23,145,873
Vehicles and equipment	894,630	9,391	(39,232)	864,789
Total other capital assets at historical cost	<u>46,663,830</u>	<u>16,533,187</u>	<u>(39,232)</u>	<u>63,157,785</u>
Less accumulated depreciation for:				
Infrastructure	(7,547,057)	(574,879)		(8,121,936)
Buildings and improvements	(16,810,983)	(462,939)		(17,273,922)
Vehicles and equipment	(557,058)	(39,400)	39,232	(557,226)
Total accumulated depreciation	<u>(24,915,098)</u>	<u>(1,077,218)</u>	<u>39,232</u>	<u>(25,953,084)</u>
Total other capital assets, net	<u>21,748,732</u>	<u>15,455,969</u>	<u>-</u>	<u>37,204,701</u>
Total capital assets, net	<u>\$ 38,049,734</u>	<u>\$ 15,552,172</u>	<u>\$(16,243,053)</u>	<u>\$ 37,358,853</u>

Depreciation expense was charged to proprietary funds as follows:

Sewer Fund	<u>\$ 1,077,218</u>
Total business-type activities depreciation expense	<u>\$ 1,077,218</u>

**NOTE 5—LONG-TERM OBLIGATIONS**

***Changes in Long-Term Obligations***

The changes in the City's long-term obligations for the year ended June 30, 2016 are as follows:

	<u>Balance 07/01/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/16</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable	\$ 3,843,406	\$ 5,500,000	\$ (311,703)	\$ 9,031,703	\$ 326,703
Unamortized bond premium	411,546		(68,670)	342,876	
Total Bonds payable	4,254,952	5,500,000	(380,373)	9,374,579	326,703
Capital leases payable	526,256		(346,609)	179,647	106,878
Compensated absences payable	1,686,368	119,858	(257,774)	1,548,452	93,781
Total governmental activities	<u>\$ 6,467,576</u>	<u>\$ 5,619,858</u>	<u>\$ (984,756)</u>	<u>\$ 11,102,678</u>	<u>\$ 527,362</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.

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

	<u>Balance</u> <u>07/01/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/16</u>	<u>Due Within</u> <u>One Year</u>
Business-type activities:					
Bonds payable	\$ 16,305,009		\$ (577,638)	\$ 15,727,371	\$ 594,455
State of New Hampshire revolving loan	192,292	\$ 47,048		239,340	
Compensated absences payable	126,922	21,549	(3,840)	144,631	
Total business-type activities	<u>\$ 16,624,223</u>	<u>\$ 68,597</u>	<u>\$ (581,478)</u>	<u>\$ 16,111,342</u>	<u>\$ 594,455</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.

	<u>Balance</u> <u>07/01/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/16</u>	<u>Due Within</u> <u>One Year</u>
Component unit:					
Bonds payable	<u>\$ 6,226,111</u>	<u>\$ 4,000,000</u>	<u>\$ (1,303,903)</u>	<u>\$ 8,922,208</u>	<u>\$ 919,464</u>
Total component unit	<u>\$ 6,226,111</u>	<u>\$ 4,000,000</u>	<u>\$ (1,303,903)</u>	<u>\$ 8,922,208</u>	<u>\$ 919,464</u>

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

***General Obligation Bonds***

Governmental Activities:

Bonds payable at June 30, 2016 are comprised of the following individual issues:

<u>Description</u>	<u>Original</u> <u>Issue</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>Date</u>	<u>Balance at</u> <u>June 30, 2016</u>
1997 Landfill Closure Bonds	\$ 1,134,062	4.48%	November 2016	\$ 56,703
2013 Series C Bonds	3,971,500	4.1-5.6%	August 2025	3,475,000
2016 Series Bonds	5,500,000	2.65%	July 2036	5,500,000
	<u>\$ 10,605,562</u>			9,031,703
			Add: <i>Unamortized bond premium</i>	342,876
			Total Bonds Payable	<u>\$ 9,374,579</u>

Debt service requirements to retire outstanding general obligation bonds for governmental activities at June 30, 2016 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 326,703	\$ 256,751	\$ 583,454
2018	485,000	296,618	781,618
2019	520,000	274,606	794,606
2020	545,000	252,216	797,216
2021	565,000	229,066	794,066

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

2022-2026	3,205,000	762,645	3,967,645
2027-2031	1,420,000	356,425	1,776,425
2032-2036	1,615,000	155,621	1,770,621
2037	350,000	4,638	354,638
Sub-total Bonds Payable	9,031,703	2,588,586	11,620,289
Add: <i>Unamortized Bond Premium</i>	342,876	-	342,876
Total Bonds Payable	<u>\$ 9,374,579</u>	<u>\$ 2,588,586</u>	<u>\$ 11,963,165</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, 2016, the landfill closure debt reimbursement was recorded in the General Fund in the amount of \$9,524.

As included on the Statement of Activities (Exhibit B) as 'Debt service' expense, interest expense for the year ended June 30, 2016 was \$127,380 on general obligation debt of the governmental activities.

Business-type Activities:

Bonds payable at June 30, 2016 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, 2016</u>
2007 Rural Utilities Bond	\$ 5,000,000	4.25%	September 2032	\$ 3,844,950
2014 Rural Utilities Bond #R-1	6,508,000	2.375%	September 2037	6,182,507
2014 Rural Utilities Bond #R-2	6,000,000	2.375%	September 2037	5,699,914
	<u>\$ 17,508,000</u>			<u>\$ 15,727,371</u>

Debt service requirements to retire outstanding general obligation bonds for business-type activities at June 30, 2016 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 594,455	\$ 441,449	\$ 1,035,904
2018	611,803	424,101	1,035,904
2019	629,701	406,203	1,035,904
2020	648,167	387,737	1,035,904
2021	667,221	368,682	1,035,903
2022-2026	3,643,982	1,535,538	5,179,520
2027-2031	4,221,231	958,289	5,179,520
2032-2036	3,678,973	357,097	4,036,070
2037-2038	1,031,838	24,515	1,056,353
	<u>\$ 15,727,371</u>	<u>\$ 4,903,611</u>	<u>\$ 20,630,982</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, 2016, the sewer related debt reimbursement was \$287,958.

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

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, 2016 was \$453,398 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, 2016, the total reimbursement from Berlin Water Works was \$312,148, which consists of \$305,000 in principal and \$7,148 in interest.

Bonds payable for the Berlin Water Works at June 30, 2016 are comprised of the following individual issues:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at June 30, 2016</u>
State Revolving Loan	0.00%	December 2017	\$ 300,187
State Revolving Loan	0.00%	December 2017	232,272
State Revolving Loan	0.00%	December 2017	136,160
State Revolving Loan	0.00%	December 2018	417,876
State Revolving Loan	0.00%	May 2021	732,707
State Revolving Loan	0.00%	September 2024	862,816
State Revolving Loan	1.10%	October 2031	1,315,689
Rural Utilities Service - Water Facility	2.25%	October 2031	924,501
State Revolving Loan	2.46%	December 2035	3,000,000
State Revolving Loan	2.46%	December 2035	1,000,000
			<u>\$ 8,922,208</u>

Debt service requirements to retire outstanding general obligation bonds for the component unit at June 30, 2016 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 919,464	\$ 292,272	\$ 1,211,736
2018	966,605	174,479	1,141,084
2019	642,555	160,880	803,435
2020	512,300	149,895	662,195
2021	522,959	140,116	663,075
2022-2026	1,912,781	558,375	2,471,156
2027-2031	1,729,606	339,729	2,069,335
2032-2036	1,715,938	149,318	1,865,256
	<u>\$ 8,922,208</u>	<u>\$ 1,965,064</u>	<u>\$ 10,887,272</u>

Interest expense for the year ended June 30, 2016 was \$113,190 for the Berlin Water Works.

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

***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, 2016:

School Equipment, due in annual installments of \$47,901, including interest at 3.090%, through August 2017	\$ 91,537
IT Equipment, due in monthly installments of \$5,300, including interest at 3.0%, through November 2017	88,110
	<u>\$ 179,647</u>

Debt service requirements to retire outstanding capital lease obligations for governmental activities at June 30, 2016 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 106,878	\$ 4,627	\$ 111,505
2018	72,769	1,633	74,402
	<u>\$ 179,647</u>	<u>\$ 6,260</u>	<u>\$ 185,907</u>

***State of New Hampshire Revolving Loan***

The City has drawn \$15,092,199 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, 2016, 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 \$239,340.

**NOTE 6—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

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

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 and local employees, public school teachers, permanent firefighters and permanent police officers within the State are eligible and required to participate in the Pension Plan.

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 22.54%, 25.32%, 12.72%, and 10.86%, respectively. The City contributes 100% of the employer cost for police officers, fire employees, teachers, and general employees of the City.

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

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, 2016 was \$2,115,681.

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

At June 30, 2016, the City reported a liability of \$23,228,768 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by a roll forward of the actuarial valuation from June 30, 2014. The City's proportion of the net pension liability was based on actual contributions by the City during the relevant 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, 2015, the City's proportion was approximately 0.5864 percent, which was a decrease of 0.0095 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$1,557,016. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience		\$ 509,732
Net difference between projected and actual earnings on pension plan investments		620,816
Changes in proportion and differences between City contributions and proportionate share of contributions	\$ 472,560	328,839
City contributions subsequent to the measurement date	<u>2,115,681</u>	<u>                    </u>
Totals	<u>\$ 2,588,241</u>	<u>\$ 1,459,387</u>

The net amount of deferred outflows of resources and deferred inflows of resources related to pension is reflected as an increase to unrestricted net position in the amount of \$1,128,854. The City reported \$2,115,681 as deferred outflows of resources related to pension 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense for the measurement periods as follows:

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

Year ended June 30,	
2016	\$ (391,062)
2017	(391,063)
2018	(391,065)
2019	261,570
2020	(75,207)
	<u>\$ (986,827)</u>

***Actuarial Assumptions***

The total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to 2015 measurements:

Inflation	3.0 percent
Wage inflation	3.75 percent
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 July 1, 2005 – June 30, 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%	(1.00)-0.28%
Domestic equity	30%	3.00%
International equity	20%	4.00-6.00%
Real estate	10%	3.50%
Private equity	5%	5.50%
Private debt	5%	4.50%
Opportunistic	5%	2.75%
Total	<u>100%</u>	



**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

***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 to 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:

	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	\$ 30,577,655	\$ 23,228,768	\$ 16,963,801

**NOTE 7—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.

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

***Annual OPEB Costs***

For the year ended June 30, 2016, 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, 2016, 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)	\$ 486,068
Interest on net OPEB obligation	31,249
Amortization of net OPEB obligation	<u>(26,041)</u>
Annual OPEB cost	491,276
Contributions made	<u>(300,562)</u>
Increase in net OPEB obligation	190,714
Net OPEB obligation - beginning of year	<u>781,202</u>
Net OPEB obligation - end of year	<u><u>\$ 971,916</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ending June 30, 2016, 2015 and 2014 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 491,276	61.2%	\$ 971,916
6/30/2015	\$ 472,490	62.6%	\$ 781,202
6/30/2014	\$ 504,392	57.2%	\$ 604,426

The City's total net OPEB obligation as of June 30, 2016 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	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 5,755,837</u></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

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

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 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 8—LANDFILL POSTCLOSURE CARE COSTS**

State and federal laws and regulations required 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 \$325,500 as of June 30, 2016. The estimated liability for the post-closure care costs of the East Milan landfill (\$108,900) and the Cates Hill landfill (\$216,600) 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, 2016. 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, 2016:

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

	Governmental activities	Business-type activities	Totals
Balance - July 1, 2015	\$ 135,600	\$ 249,000	\$ 384,600
Reductions (actual current year payments)	(4,554)	(5,147)	(9,701)
Change in estimated liability	(22,146)	(27,253)	(49,399)
Balance - June 30, 2016	<u>\$ 108,900</u>	<u>\$ 216,600</u>	<u>\$ 325,500</u>

**NOTE 9—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, 2016 are as follows:

		Due from		
		General	Nonmajor Governmental	Fiduciary
		Fund	Funds	Funds
Due to	General Fund		\$ 1,172,711	\$ 2,290
	Bond Issue Capital Projects Fund	\$ 7,110,844		
	Nonmajor Governmental Funds	38,420		
	Sewer Fund	6,144,981		
	Nonmajor Enterprise Funds	1,033,781		
	Fiduciary Funds	500		
		<u>\$ 14,328,526</u>	<u>\$ 1,172,711</u>	<u>\$ 2,290</u>
				<u>\$ 15,503,527</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, 2016 are as follows:

		Transfers out		
		General	Nonmajor Governmental	
		Fund	Funds	Totals
Transfers in	General Fund		\$ 6,115	\$ 6,115
	Nonmajor Governmental Funds	\$ 206,583		206,583
		<u>\$ 206,583</u>	<u>\$ 6,115</u>	<u>\$ 212,698</u>

**NOTE 10—RESTRICTED NET POSITION**

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

Permanent Funds - Principal	\$ 151,053
Permanent Funds - Income	219,222
School Private Grants and Contributions	1,710
Food Service Operations	1,980
Health Department Donations	1,789
Police Forfeiture Funds	8,075
CDBG Program Income	3,128
	<u>\$ 386,957</u>

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

**NOTE 11—COMPONENTS OF FUND BALANCE**

The components of the City's fund balance for its governmental funds at June 30, 2016 are as follows:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Bond Issue Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Nonspendable:</b>				
Prepaid expenses	\$ 223,468		\$ 24,320	\$ 247,788
Tax deeded property	385,413			385,413
Inventory			9,093	9,093
Permanent funds - Principal			151,053	151,053
<b>Restricted for:</b>				
Capital projects		\$ 7,089,252		7,089,252
Permanent funds - Income			219,222	219,222
School private grants and contributions			1,710	1,710
Food service operations			1,980	1,980
Health department donations			1,789	1,789
Police forfeiture funds			8,075	8,075
CDBG program income			3,128	3,128
<b>Committed for:</b>				
Hutchins Street capital projects			169,002	169,002
Recreation and parks programs			14,831	14,831
<b>Assigned for:</b>				
Continuing appropriations	920,552			920,552
Encumbrances	37,936			37,936
<b>Unassigned (Deficit):</b>				
Unassigned - General operations	1,244,984			1,244,984
Airport Authority Fund (Deficit)			(258,633)	(258,633)
	<u>\$ 2,812,353</u>	<u>\$ 7,089,252</u>	<u>\$ 345,570</u>	<u>\$ 10,247,175</u>

**NOTE 12—PROPERTY TAXES**

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$396,801,516 as of April 1, 2015) and are due in two installments on July 8, 2015 and January 5, 2016. Taxes paid after the due dates accrue interest at 12% per annum. On the modified accrual basis of accounting, property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

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

In accordance with State law, the City collects taxes for Coos County, an independent governmental unit, which are remitted to the County as required by law. Total taxes appropriated to Coos County for the year ended June 30, 2016 were \$1,553,959. The City bears responsibility for uncollected taxes.

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

**NOTE 13—TOP TAXPAYERS**

The following are the five major property owners as they relate to the City's total assessed property valuation of \$396,801,516 (as of April 1, 2015):

<u>Taxpayer</u>	<u>Property Valuation</u>	<u>Percentage of Total Valuation</u>
Eversource (formerly PSNH)	\$ 93,458,000	23.55%
Great Lakes Hydro America, LLC	33,400,000	8.42%
Portland Natural Gas	18,145,800	4.57%
DWP Berlin Realty	1,871,800	0.47%
TKB Properties, LLC	1,823,000	0.46%

**NOTE 14—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, 2016, 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, 2016.

***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, 2016**

**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, 2016, the City expended \$323,000 under the terms of the emergency ambulance service agreement.

*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**

*Government-Wide Financial Statements*

During the year ended June 30, 2016, it was determined that capital assets of the governmental activities were overstated. Net Position of the Governmental Activities as of July 1, 2015 has been restated as follows:

	Governmental
	<u>Activities</u>
Net Position, July 1, 2015 (as previously reported)	\$ 4,322,562
Amount of restatement due to:	
Overstatement of capital assets	<u>(426,642)</u>
Net Position, July 1, 2015 - as restated	<u>\$ 3,895,920</u>

**CITY OF BERLIN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2016**

**NOTE 18—SUBSEQUENT EVENTS**

*Debt Refunding*

During July 2016, the City issued general obligation bonds in the amount of \$3,670,000 with a premium of \$233,498 (total proceeds of \$3,903,498) for the purpose of current refunding the outstanding 2007 USDA debt in the Sewer Fund. The refunding bonds have an interest rate ranging from 2.0% to 4.0%, with a true interest cost of 1.85%, and mature on August 15, 2032.



**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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Taxes	\$ 16,029,055	\$ 16,029,055	\$ 15,946,998	\$ (82,057)
Licenses and permits	1,253,650	1,253,650	1,390,755	137,105
Intergovernmental	12,169,631	12,169,631	12,197,334	27,703
Charges for services	1,981,256	1,981,256	2,000,829	19,573
Interest income	13,000	13,000	2,719	(10,281)
Miscellaneous	261,750	261,750	409,900	148,150
Total Revenues	<u>31,708,342</u>	<u>31,708,342</u>	<u>31,948,535</u>	<u>240,193</u>
Expenditures:				
Current operations:				
General government	2,235,136	2,231,201	1,961,036	270,165
Public safety	5,441,073	5,441,073	5,396,288	44,785
Highways and streets	2,021,526	2,021,526	1,866,216	155,310
Health and welfare	649,905	649,905	652,666	(2,761)
Sanitation	838,186	838,186	832,216	5,970
Culture and recreation	627,304	627,304	637,209	(9,905)
Education	17,566,807	17,566,807	17,330,099	236,708
Capital outlay	2,241,233	1,155,614	1,141,152	14,462
Debt service:				
Principal retirement	616,703	616,703	616,703	-
Interest and fiscal charges	195,482	195,482	195,482	-
Intergovernmental	<u>1,553,959</u>	<u>1,553,959</u>	<u>1,553,959</u>	<u>-</u>
Total Expenditures	<u>33,987,314</u>	<u>32,897,760</u>	<u>32,183,026</u>	<u>714,734</u>
Excess of revenues over (under) expenditures	<u>(2,278,972)</u>	<u>(1,189,418)</u>	<u>(234,491)</u>	<u>954,927</u>
Other Financing Sources (Uses):				
Transfers in	4,500	4,500	6,115	1,615
Transfers out	<u>(37,851)</u>	<u>(206,853)</u>	<u>(206,853)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(33,351)</u>	<u>(202,353)</u>	<u>(200,738)</u>	<u>1,615</u>
Net change in fund balance	(2,312,323)	(1,391,771)	(435,229)	956,542
Fund balance at beginning of year				
- Budgetary Basis	<u>3,883,851</u>	<u>3,883,851</u>	<u>3,883,851</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 1,571,528</u>	<u>\$ 2,492,080</u>	<u>\$ 3,448,622</u>	<u>\$ 956,542</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, 2016**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2010	\$ -	\$ 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, 2016**

	For the Measurement Period Ended June 30:		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
City's proportion of the net pension liability (asset)	0.5864%	0.5959%	0.5788%
City's proportionate share of the net pension liability (asset)	\$ 23,228,768	\$ 22,367,371	\$ 24,911,429
City's covered-employee payroll	\$ 14,750,588	\$ 14,461,687	\$ 13,904,404
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	157.48%	154.67%	179.16%
Plan fiduciary net position as a percentage of the total pension liability	65.47%	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, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 2,115,681	\$ 1,967,282	\$ 1,933,217	\$ 1,439,273
Contributions in relation to the contractually required contribution	<u>(2,115,681)</u>	<u>(1,967,282)</u>	<u>(1,933,217)</u>	<u>(1,439,273)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 14,905,786	\$ 14,750,588	\$ 14,461,687	\$ 13,904,404
Contributions as a percentage of covered-employee payroll	14.19%	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, 2016**

**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 expenditures were adjusted for encumbrances.

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 32,054,894	\$ 32,417,809
Difference in property taxes meeting susceptible to accrual criteria	(100,244)	
Encumbrances - June 30, 2016		37,936
Encumbrances - June 30, 2015		(65,866)
Per Schedule 1	<u>\$ 31,954,650</u>	<u>\$ 32,389,879</u>

**NOTE 2—BUDGETARY FUND BALANCE**

The components of the budgetary fund balance for the General Fund at June 30, 2016 are as follows:

<i><b>Nonspendable:</b></i>	
Prepaid expenses	\$ 223,468
Tax deeded property	385,413
<i><b>Assigned for:</b></i>	
Continuing appropriations	920,552
<i><b>Unassigned:</b></i>	
Unassigned - General operations	<u>1,919,189</u>
	<u>\$ 3,448,622</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, 2016**

**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, 2016**

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>DEPARTMENT OF AGRICULTURE</b>			
Pass Through Payments from the New Hampshire Department of Education <i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	\$ -	\$ 81,179
National School Lunch Program	10.555		
- School Lunch (Cash)		-	299,453
- Commodities (Non-cash)		-	29,898
		-	329,351
<i>Total Child Nutrition Cluster</i>		-	410,530
Fresh Fruit and Vegetable Program	10.582	-	22,945
<b>Total Department of Agriculture</b>		-	433,475
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
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-FSED	14.228	-	6,533
#014-053-CDHS		-	412,744
#015-053-CDED		473,500	473,655
#015-053-FSPF1		-	7,498
#015-053-FSPF2		-	141
		473,500	900,571
<b>Total Department of Housing and Urban Development</b>		473,500	900,571
<b>DEPARTMENT OF TRANSPORTATION</b>			
Pass Through Payments from the New Hampshire Department of Transportation			
Airport Improvement Program	20.106		
#SBG-01-03-2010		-	773
#SBG-01-04-2013		-	1,923
#SBG-01-05-2016		-	18,746
		-	21,442
Highway Planning and Construction	20.205		
#X-A001(088), 16019		-	390,687

**SCHEDULE I**  
**CITY OF BERLIN, NEW HAMPSHIRE**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended June 30, 2016**

Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number	Federal Catalogue Number	Passed Through to Subrecipients	Total Federal Expenditures
Pass Through Payments from the New Hampshire Highway Safety Agency <i>Highway Safety Cluster:</i>			
State and Community Highway Safety	20.600		
#16-06, 01		-	161
#314-15B-011		-	4,464
#315-15B-050		-	661
#315-15B-115		-	3,964
#315-15B-140		-	4,352
#315-16B-034		-	7,841
		-	21,443
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		
#308-15B-034		-	5,539
#308-15B-035		-	7,698
		-	13,237
National Priority Safety Programs	20.616		
#308-16B-031		-	6,783
<i>Total Highway Safety Cluster</i>		-	41,463
<b>Total Department of Transportation</b>		-	453,592
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
Pass Through Payments from the New Hampshire Department of Environmental Services Capitalization Grants for Clean Water State Revolving Funds	66.458		
#CS-330111-11		-	39,207
<b>Total Environmental Protection Agency</b>		-	39,207
<b>DEPARTMENT OF EDUCATION</b>			
Pass Through Payments from the New Hampshire Department of Education Title I Grants to Local Educational Agencies	84.010		
#50012		-	38,332
#51521		-	10,710
#60012		-	539,808
#60174		-	12,586
#60175		-	14,450
#60217		-	52,904
		-	668,790

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, 2016**

<u>Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b><i>Special Education Cluster (IDEA):</i></b>			
Special Education - Grants to States #65232	84.027	-	303,681
Special Education - Preschool Grants #65232	84.173	-	9,974
<b><i>Total Special Education Cluster (IDEA)</i></b>		-	313,655
Career and Technical Education - Basic Grants to States #55011 #65011	84.048	- - -	8,937 61,971 70,908
Twenty-First Century Community Learning Centers #66282	84.287	-	166,460
Rural Education #56470 #66470	84.358	- - -	4,193 13,215 17,408
Improving Teacher Quality State Grants #44798 #54798 #55371 #64798	84.367	- - - - -	9,440 88,375 8,330 41,273 147,418
<b>Total Department of Education</b>		-	1,384,639
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Pass Through Payments from the New Hampshire Department of Education Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		
#52625		-	106,513
#62576		-	412,094
		-	518,607
<b>Total Department of Health and Human Services</b>		-	518,607

*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, 2016**

<u>Federal Granting Agency/Recipient State Agency/Grant Program/State Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>DEPARTMENT OF HOMELAND SECURITY</b>			
Pass Through Payments from the New Hampshire Department of Safety Emergency Management Performance Grants #EMPG-09-2015-03	97.042	<u>-</u>	<u>20,000</u>
Received directly from U.S. Treasury Department Assistance to Firefighters Grant #EMW-2013-FO-03020	97.044	<u>-</u>	<u>3,681</u>
Pass Through Payments from the New Hampshire Department of Safety Pre-Disaster Mitigation #072-500574	97.047	<u>-</u>	<u>3,850</u>
Homeland Security Grant Program	97.067	<u>-</u>	<u>295,171</u>
Received directly from U.S. Treasury Department Staffing for Adequate Fire and Emergency Response (SAFER) #EMW-2014-FH-00868	97.083	<u>-</u>	<u>174,436</u>
<b>Total Department of Homeland Security</b>		<u>-</u>	<u>497,138</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 473,500</u>	<u>\$ 4,227,229</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, 2016**

**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, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported 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. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**NOTE 3—INDIRECT COST RATE**

The City of Berlin, New Hampshire has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 4—RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

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

Nonmajor Governmental Funds	<u>\$ 4,158,124</u>
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Additionally, the recognition of expenditures of federal awards in the amount of \$39,207 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 \$1,955,920 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, 2016, 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 24, 2017. Our report includes a reference to other auditors who audited the financial statements of Berlin Water Works, the discretely presented component unit, as described in our report on the City of Berlin, New Hampshire's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

Manchester, New Hampshire  
March 24, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

**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 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, 2016. 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 City of Berlin, New Hampshire's schedule of expenditures of federal awards during the year ended June 30, 2016. 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 the Uniform Guidance.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

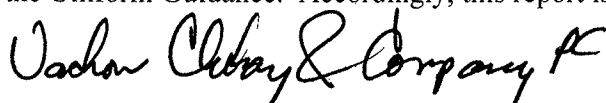
### **Report on Internal Control Over Compliance**

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Manchester, New Hampshire  
March 24, 2017

**City of Berlin, New Hampshire  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2016**

**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	_____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	_____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 2 CFR 200.516(a)?	_____yes	_____X_____no
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Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program

Dollar threshold used to distinguish between Type A and Type B program: \$ 750,000 .

Auditee qualified as low-risk auditee?	_____X_____yes	_____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 2 CFR 200.516(a).

**SCHEDULE A**  
**CITY OF BERLIN, NEW HAMPSHIRE**  
**Combining Balance Sheet**  
**Governmental Funds - All Nonmajor Funds**  
**June 30, 2016**

	Special Revenue Funds	Permanent Funds	Hutchins Street Capital Projects Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,899	\$ 1,475		\$ 3,374
Investments		374,915		374,915
Accounts receivable	29,396			29,396
Due from other governments	1,022,790		\$ 372,913	1,395,703
Due from other funds	15,004		23,416	38,420
Prepaid expenses	24,320			24,320
Inventory	9,093			9,093
Total Assets	<u>1,102,502</u>	<u>376,390</u>	<u>396,329</u>	<u>1,875,221</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,102,502</u>	<u>\$ 376,390</u>	<u>\$ 396,329</u>	<u>\$ 1,875,221</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 50,241		\$ 227,327	\$ 277,568
Accrued expenses	16,144			16,144
Advances from grantors	57,162			57,162
Unearned revenue	6,066			6,066
Due to other funds	1,166,596	\$ 6,115		1,172,711
Total Liabilities	<u>1,296,209</u>	<u>6,115</u>	<u>227,327</u>	<u>1,529,651</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Nonspendable	33,413	151,053		184,466
Restricted	16,682	219,222		235,904
Committed	14,831		169,002	183,833
Unassigned (Deficit)	(258,633)			(258,633)
Total Fund Balances (Deficit)	<u>(193,707)</u>	<u>370,275</u>	<u>169,002</u>	<u>345,570</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,102,502</u>	<u>\$ 376,390</u>	<u>\$ 396,329</u>	<u>\$ 1,875,221</u>

**SCHEDULE A-1**  
**CITY OF BERLIN, NEW HAMPSHIRE**  
**Combining Balance Sheet**  
**Governmental Funds - All Nonmajor Special Revenue Funds**  
**June 30, 2016**

	Federal Projects Fund	Food Service Fund	Airport Authority Fund	Health Department Fund	Grants Fund	CDBG Fund	Recreation and Parks Programs Fund	Combining Totals
<b>ASSETS</b>								
Cash and cash equivalents				\$ 1,899				\$ 1,899
Accounts receivable	\$ 5,476	\$ 12,631	\$ 316			\$ 10,973		29,396
Due from other governments	580,841	22,019	19,795		\$ 209,272	190,863		1,022,790
Due from other funds							\$ 15,004	15,004
Prepaid expenses			24,320					24,320
Inventory		9,093						9,093
Total Assets	<u>586,317</u>	<u>43,743</u>	<u>44,431</u>	<u>1,899</u>	<u>209,272</u>	<u>201,836</u>	<u>15,004</u>	<u>1,102,502</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>								
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 586,317</u>	<u>\$ 43,743</u>	<u>\$ 44,431</u>	<u>\$ 1,899</u>	<u>\$ 209,272</u>	<u>\$ 201,836</u>	<u>\$ 15,004</u>	<u>\$ 1,102,502</u>
<b>LIABILITIES</b>								
Accounts payable	\$ 16,559	\$ 416	\$ 25,079		\$ 7,666	\$ 416	\$ 105	\$ 50,241
Accrued expenses	207	140	10,005		5,724		68	16,144
Advances from grantors	25,651				31,511			57,162
Unearned revenue		5,916	150					6,066
Due to other funds	542,190	26,198	243,510	\$ 110	156,296	198,292		1,166,596
Total Liabilities	<u>584,607</u>	<u>32,670</u>	<u>278,744</u>	<u>110</u>	<u>201,197</u>	<u>198,708</u>	<u>173</u>	<u>1,296,209</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>								
Nonspendable		9,093	24,320					33,413
Restricted	1,710	1,980		1,789	8,075	3,128		16,682
Committed							14,831	14,831
Unassigned (Deficit)			(258,633)					(258,633)
Total Fund Balances (Deficit)	<u>1,710</u>	<u>11,073</u>	<u>(234,313)</u>	<u>1,789</u>	<u>8,075</u>	<u>3,128</u>	<u>14,831</u>	<u>(193,707)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 586,317</u>	<u>\$ 43,743</u>	<u>\$ 44,431</u>	<u>\$ 1,899</u>	<u>\$ 209,272</u>	<u>\$ 201,836</u>	<u>\$ 15,004</u>	<u>\$ 1,102,502</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, 2016**

	Special Revenue Funds	Permanent Funds	Hutchins Street Capital Projects Fund	Total Nonmajor Governmental Funds
Revenues:				
Intergovernmental	\$ 3,845,895		\$ 390,687	\$ 4,236,582
Charges for services	352,127			352,127
Interest income		\$ 4,949		4,949
Miscellaneous	95,294			95,294
Total Revenues	<u>4,293,316</u>	<u>4,949</u>	<u>390,687</u>	<u>4,688,952</u>
Expenditures:				
Current operations:				
General government	32,846	15		32,861
Public safety	521,761			521,761
Airport/Aviation center	160,434			160,434
Health and welfare	1,418			1,418
Culture and recreation	43,985			43,985
Economic development	888,881			888,881
Education	2,040,255			2,040,255
Food service	638,996			638,996
Capital outlay	38,425		390,687	429,112
Total Expenditures	<u>4,367,001</u>	<u>15</u>	<u>390,687</u>	<u>4,757,703</u>
Excess of revenues over (under) expenditures	<u>(73,685)</u>	<u>4,934</u>	<u>-</u>	<u>(68,751)</u>
Other Financing Sources (Uses):				
Transfers in	37,851		169,002	206,853
Transfers out		(6,115)		(6,115)
Total Other Financing Sources (Uses)	<u>37,851</u>	<u>(6,115)</u>	<u>169,002</u>	<u>200,738</u>
Net change in fund balances	(35,834)	(1,181)	169,002	131,987
Fund balances (deficit) at beginning of year	<u>(157,873)</u>	<u>371,456</u>	<u>-</u>	<u>213,583</u>
Fund balances (deficit) at end of year	<u>\$ (193,707)</u>	<u>\$ 370,275</u>	<u>\$ 169,002</u>	<u>\$ 345,570</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, 2016**

	Federal Projects Fund	Food Service Fund	Airport Authority Fund	Health Department Fund	Grants Fund	CDBG Fund	Recreation and Parks Programs Fund	Combining Totals
Revenues:								
Intergovernmental	\$ 1,978,627	\$ 412,678	\$ 24,277		\$ 1,011,959	\$ 418,354		\$ 3,845,895
Charges for services		221,783	96,135				\$ 34,209	352,127
Miscellaneous	61,628		9,901	\$ 263	23,502			95,294
Total Revenues	<u>2,040,255</u>	<u>634,461</u>	<u>130,313</u>	<u>263</u>	<u>1,035,461</u>	<u>418,354</u>	<u>34,209</u>	<u>4,293,316</u>
Expenditures:								
Current operations:								
General government					32,846			32,846
Public safety					521,761			521,761
Airport/Aviation center			160,434					160,434
Health and welfare				110	1,308			1,418
Culture and recreation					3,519		40,466	43,985
Economic development					473,655	415,226		888,881
Education	2,040,255							2,040,255
Food service		638,996						638,996
Capital outlay			38,425					38,425
Total Expenditures	<u>2,040,255</u>	<u>638,996</u>	<u>198,859</u>	<u>110</u>	<u>1,033,089</u>	<u>415,226</u>	<u>40,466</u>	<u>4,367,001</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>(4,535)</u>	<u>(68,546)</u>	<u>153</u>	<u>2,372</u>	<u>3,128</u>	<u>(6,257)</u>	<u>(73,685)</u>
Other Financing Sources:								
Transfers in			37,851					37,851
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>37,851</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,851</u>
Net change in fund balances	-	(4,535)	(30,695)	153	2,372	3,128	(6,257)	(35,834)
Fund balances (deficit) at beginning 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>21,088</u>	<u>(157,873)</u>
Fund balances (deficit) at end of year	<u>\$ 1,710</u>	<u>\$ 11,073</u>	<u>\$ (234,313)</u>	<u>\$ 1,789</u>	<u>\$ 8,075</u>	<u>\$ 3,128</u>	<u>\$ 14,831</u>	<u>\$ (193,707)</u>

**SCHEDULE C**  
**CITY OF BERLIN, NEW HAMPSHIRE**  
**Combining Statement of Net Position**  
**All Nonmajor Proprietary Funds**  
**June 30, 2016**

	Industrial Development and Park Authority <u>Fund</u>	Cates Hill Landfill <u>Fund</u>	Combining <u>Totals</u>
<b>ASSETS</b>			
Current Assets:			
Due from other governments		\$ 70,576	\$ 70,576
Due from other funds	\$ 726,295	307,486	1,033,781
Total Current Assets	<u>726,295</u>	<u>378,062</u>	<u>1,104,357</u>
Noncurrent Assets:			
Capital assets:			
Non-depreciable capital assets	96,203		96,203
Total Noncurrent Assets	<u>96,203</u>	<u>-</u>	<u>96,203</u>
Total Assets	<u>822,498</u>	<u>378,062</u>	<u>1,200,560</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	105		105
Current portion of estimated liability for landfill postclosure care costs		11,400	11,400
Total Current Liabilities	<u>105</u>	<u>11,400</u>	<u>11,505</u>
Noncurrent Liabilities:			
Estimated liability for landfill postclosure care costs		205,200	205,200
Total Noncurrent Liabilities	<u>-</u>	<u>205,200</u>	<u>205,200</u>
Total Liabilities	<u>105</u>	<u>216,600</u>	<u>216,705</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>			
Net investment in capital assets	96,203		96,203
Unrestricted	726,190	161,462	887,652
Total Net Position	<u>\$ 822,393</u>	<u>\$ 161,462</u>	<u>\$ 983,855</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, 2016**

	Industrial Development and Park Authority <u>Fund</u>	Cates Hill Landfill <u>Fund</u>	Combining <u>Totals</u>
Operating revenues:			
Miscellaneous	\$ 81,982	\$ 13,327	\$ 95,309
Total Operating Revenues	<u>81,982</u>	<u>13,327</u>	<u>95,309</u>
Operating expenses:			
Contractual services	265		265
Repairs and maintenance	13,090		13,090
Administrative	<u>6,624</u>		<u>6,624</u>
Total Operating Expenses	<u>19,979</u>	<u>-</u>	<u>19,979</u>
Operating income	<u>62,003</u>	<u>13,327</u>	<u>75,330</u>
Non-operating revenues:			
Interest income	<u>72</u>		<u>72</u>
Non-operating revenues	<u>72</u>	<u>-</u>	<u>72</u>
Change in net position	62,075	13,327	75,402
Net Position at beginning of year	<u>760,318</u>	<u>148,135</u>	<u>908,453</u>
Net Position at end of year	<u>\$ 822,393</u>	<u>\$ 161,462</u>	<u>\$ 983,855</u>

**SCHEDULE E**  
**CITY OF BERLIN, NEW HAMPSHIRE**  
**Combining Statement of Cash Flows**  
**All Nonmajor Proprietary Funds**  
**For the Year Ended June 30, 2016**

	Industrial Development and Park Authority Fund	Cates Hill Landfill Fund	Combining Totals
Cash flows from operating activities:			
Cash received from customers	\$ 81,746		\$ 81,746
Cash paid to suppliers	(19,994)	\$ (5,147)	(25,141)
Other operating cash receipts	7,964	2,704	10,668
Net cash provided (used) by operating activities	<u>69,716</u>	<u>(2,443)</u>	<u>67,273</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	<u>(96,203)</u>	<u>          </u>	<u>(96,203)</u>
Net cash used for capital and related financing activities	<u>(96,203)</u>	<u>-</u>	<u>(96,203)</u>
Cash flows from investing activities:			
Interest on investments	<u>72</u>	<u>          </u>	<u>72</u>
Net cash provided by investing activities	<u>72</u>	<u>-</u>	<u>72</u>
Net decrease in cash and cash equivalents	(26,415)	(2,443)	(28,858)
Cash and cash equivalents at beginning of year	<u>752,710</u>	<u>309,929</u>	<u>1,062,639</u>
Cash and cash equivalents at end of year	<u>\$ 726,295</u>	<u>\$ 307,486</u>	<u>\$ 1,033,781</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 62,003	\$ 13,327	\$ 75,330
Changes in assets and liabilities:			
Accounts receivable	7,964		7,964
Due from other governments		16,630	16,630
Accounts payable	(15)		(15)
Unearned revenue	(236)		(236)
Estimated liability for landfill postclosure care costs		(32,400)	(32,400)
Net cash provided (used) by operating activities	<u>\$ 69,716</u>	<u>\$ (2,443)</u>	<u>\$ 67,273</u>