BERLIN WATER WORKS

Annual Financial Statements

For the Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Water Commissioners
Berlin Water Works
Berlin, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of Berlin Water Works (the Department), a component unit of the City of Berlin, New Hampshire, as of and for the year ended June 30, 2017 which collectively comprises the Department's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Department's 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Berlin Water Works, as of June 30, 2017, and the respective changes in financial position and cash flows thereof in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Berlin Water Works are intended to represent the financial position, and the changes in financial position and cash flows, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berlin, New Hampshire that is attributable to the transactions of Berlin Water Works. They do not purport to, and do not, present fairly the financial position of the City of Berlin, New Hampshire as of June 30, 2017, and the changes in its financial position and its cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension and OPEB schedules appearing on pages 28 to 30 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 evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2018 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 Department's internal control over financial reporting and compliance.

Melanson Heath

February 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Department, we offer readers this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2017.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements include: (1) the Statement of Net Position, (2) the Statement of Revenues, Expenses, and Changes in Net Position, and (3) the Statement of Cash Flows.

The Statement of Net Position presents information on all assets, liabilities, and deferred outflows/inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Department'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 only result in cash flows in future fiscal periods. Activities for the year resulted in a change in net position of $34,678.

The Statement of Cash Flows provides information about cash receipts and cash payments during the accounting period. This statement provides the cash effects of the Department's operations, its capital and related financing transactions, and its investing transactions. A reconciliation of operating income to net cash flow from operating activities is also provided.

Summary of Net Position

	2017	2016
Current and other assets	$ 2,305,690	$ 2,063,989
Capital assets	40,238,865	40,887,680
Total assets	42,544,555	42,951,669
Deferred outflows of resources	288,608	85,489
Long-term liabilities	11,033,820	10,170,955
Other liabilities	1,430,206	2,625,779
Total liabilities	12,464,026	12,796,734
Deferred inflows of resources	143,976	49,941
Net position:		
Net investment in capital assets	29,249,712	29,439,243
Unrestricted	975,449	751,240
Total net position	$ 30,225,161	$ 30,190,483

As noted earlier, net position may serve over time as a useful indicator of financial position. At the close of the most recent fiscal year, total net position was $30,225,161, a change of $34,678 from the prior year.

The largest portion of net position, $29,249,712, reflects our investment in capital assets (e.g., land, buildings and improvements, machinery and equipment, vehicles, and infrastructure); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to water rate payers; consequently, these assets are not available for future spending. Although the investment in 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 cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net position $975,449 may be used to meet the Department's ongoing obligations to citizens and creditors.

Summary of Changes in Net Position

	2017	2016
Operating revenues	$ 2,827,061	$ 2,826,081
Operating expenses	(2,900,448)	(2,904,389)
Operating (loss)	(73,387)	(78,308)
Nonoperating expenses	(279,055)	(89,462)
(Loss) before Contributions	(352,442)	(167,770)
Capital contributions	387,120	365,471
Change in net position	34,678	197,701
Net position - beginning of year	30,190,483	29,992,782
Net position - end of year	$ 30,225,161	$ 30,190,483

B. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for the Department at year-end amounted to $40,238,865 (net of accumulated depreciation), a change of $(648,815) from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, vehicles, and infrastructure.

Additional information on capital assets can be found in the Notes to Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was $9,667,022, a change of $744,814 in comparison to the prior year. The Department also had $1,322,131 in notes payable outstanding at year-end, a change of $(1,204,098).

Additional information on long-term debt can be found in the Notes to Financial Statements.

C. SIGNIFICANT ACCOMPLISHMENTS FOR FISCAL YEAR 2017

- A $2,000,000 New Hampshire State Revolving Loan (NHSRL) #10 was awarded in July 2012. These funds will continue water main replacement work. Completed in FY13 were 11th Street, Alpine Street, and Pine Island. Sections of Riverside Drive from Noury to 12th Street and the River Crossing were completed with this funding in conjunction with funding from NHSRL #8. FY15 completed punch list for Alpine Street and Pine Island. All of this work was performed under Davis Bacon. The balance of this loan was due to be expended in 2015, BWW was not able to meet the deadline and the NHDES granted an extension until 2016. In FY16 BWW completed water main installation on Grafton Street from Cheshire Street to Sullivan Street, Summer Street from Elm Street to Cedar Street, Western Avenue from Mink Street north for a total of approximately 1100 feet, a portion of the high pressure line on Route 110, and Riverside Drive from Twelfth Street to Noury Street paving trenches in preparation for the City of Berlin project to repave Main Street. FY17 BWW completed the intersection work at Hillside Avenue and Willow Street. The project was closed out November 23, 2016.
- A $2,000,000 NHSRL #11 was awarded to BWW on January 28, 2015. BWW has completed water main work on Main Street from Peavey Lane to Eighth Street elimination a 10” cast iron main, Sullivan Street from Grafton to Rockingham Street, Mason Street from Burgess Street to Sullivan Street, Grafton Street from Lancaster Street to Sullivan Street in FY15. In FY16 BWW installed water main on Cedar Street from Prospect Street to Hillside Avenue, Birch Street from Main Street to School Street and on Hillside Avenue from Spruce Street to Poplar Street. FY17 BWW continued work on Hillside Avenue from Wight Street to Willow Street, Willow Street from

Hillside Avenue to State Street, Second Avenue from Sessions to Madigan Street and Howard Street from Noury Street to Woodward Street. The completion date for the loan was extended to December 2017 and we will ask for another extension in FY18 to complete by December 2018.

- The Berlin Water Works permanent staffing is at 11 full time positions and one part time office employee. The temporary employees were increased to 4 temps plus 5 summer employees to support "force account" construction. Starting in 2013, the total temporary labor was reduced by plan as funding availability decreases. The manning level will decrease for the next two years as NHSRL funded projects are completed.
- Berlin Water Works continued to pass the lead and copper compliance regulations for the 7th consecutive round of testing. The next scheduled test is in September 2018.

D. ECONOMIC FACTORS, RATES AND BUDGET

In considering the BWW Projected Revenue and the level of "force account" funded work available for FY18, the Board of Water Commissioners and BWW staff determined no need to increase the water rates imposed on customers for the year 2018. The decision to maintain existing water rates would not have been possible without the NHSRLs and the outstanding funding from the RUD Grant. The force account needed to balance the budget for FY18 is $329,660.

Key assumptions in our revenue forecast were:

- That the BWW revenues have begun to increase and are now similar to before FY06 when the permanent shutdown and demolition of the Fraser pulp mill began. Other small revenue reduction changes due to customer base erosion continue to be expected in 2018. The Federal Prison operation continues to not achieve forecasted operating levels in FY17 and water sales revenue was lower than anticipated. On the positive side, Prison population and employee levels continue to increase, so the Federal Prison has and will continue to increase at some unknown rate. A significant increase in revenue was experienced by mid FY14 from the Bio-Mass Project "on and off line" Start-up. BWW anticipates that cash flow will continue to improve as annual debt payments decrease and revenue strengthens.
- The proposed FY18 budget had a short fall of revenue vs. operating income as did the FY17 budget. The deficiency between water revenue and debt and operating cost is beginning to lessen as debt decreases and revenue increases. The Board decided to continue at the moderate level of "force account" work with additional "temporary crewing" (up to 9) and using BWW construction to increase cash flow. The total balance of grant and loan funding and the NHDOT project will support "force account" projects for about 1 additional year with the remaining funds from NHSRL #11.

- The high annual debt payments have been reduced significantly by the full payment of the 1993 Bond (FY14), the 1994 Bond (FY15) and the 1995 Bond (FY16). This FY18 budget will have a total of $703,866 for debt payment of seven NHSRLs and one USDA Rural Development Grant and Loan.
- Because of the Berlin Water Works' aggressive progress on capital improvement work, the Board expects to continue reducing unplanned maintenance work such as water main breaks, service line breaks, and frozen water lines that require thawing. This will support resource availability to continue "force account" work providing funding is available. Berlin Water Works continued "force account" work at a high level as established in 2010 through 2013. This level reduced slightly for FY15, FY16 and FY17 and will reduce slightly more for FY18.

ASSUMPTIONS

- The Berlin Water Works debt repayment schedule was at $1,187,979 (adjusted for re-financing) for year ending June 30, 2015; at $1,014,799 for year ending June 30, 2016; at $923,162 for year ending June 30, 2017 and at $703,866 for year ending June 30, 2018.
- In fiscal years 2010 through 2017, significant efforts were applied to the installation of backflow preventers (2,043) and additional radio read devices. A total of 1,515 radio read units were authorized to be purchased and installed. The radio read units will reduce hazard exposures and reduce meter read time.
- In 2005, Board revised regulations pertaining to backflow preventers that will result in additional costs to the Berlin Water Works over the future. In 2017, approximately 1,430 backflow preventers remain to be purchased and installed over the next 5 to 10 years.
- In 2005, Board revised regulation pertaining to maintenance responsibilities of water service lines in the public right-of-way. This has resulted in additional cost to the Berlin Water Works.
- All project resident services will continue to be performed by Berlin Water Works permanent employees rather than through engineering contracts in order to reduce project costs. This process continues to reduce the resident inspection cost by more than 50%.

FY18 BUDGET

The new items specifically addressed in the FY18 budget were:

- The Berlin Water Works continued to replace water mains with BWW staff performing the design and record drawings on AutoCAD in house. BWW also purchased GIS equipment to upgrade current system mapping. This reduces the cost of project design and project management through outside contracts with engineering firms. BWW project engineering and construction efforts are handled by Andy Sharpe, P.E. of AJSPELLC Engineer. BWW's cost to install water mains continues to be significantly less costly than by outside contractors.

- The BWW applied and was awarded an Asset Management grant in the amount of $15,000 on May 4, 2016. The Board approved the amount of $15,000 in the budget for GIS mapping of BWW assets and an Asset Management Plan for BWW to match the $15,000 grant. BWW needs to spend $30,000 in order to receive the grant amount of $15,000. BWW received payment of $15,000 on June 7, 2017. On June 21, 2017, BWW was awarded an Asset Management grant in the amount of $20,000. BWW will spend $40,000 on GIS mapping of BWW assets and be reimbursed the $20,000 before May 31, 2018.
- The FY18 budget includes the proposed Brown Farm Back up Well. A test well was dug under the supervision of Geo Insight with satisfactory water quality and sufficient flow levels. Price proposals for Driller were solicited and Layne Christensen Company was awarded the contract on June 23, 2017 to drill the well.
- The Board of Water Commissioners reviewed BWW staffing levels for FY18 and decided to replace the mechanic that had terminated employment with BWW in FY18.
- The Federal Bureau of Prisons Facility has hired staffing for the Facility in FY14 (260 of planned 342) and has 977 of 1280+ inmates to date. The schedule to reach full operation levels is to be determined. Water sales increased in the FY15 budget year and will continue in FY16. In FY17, the water sales decreased slightly.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Berlin Water Work's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office Manager

Berlin Water Works

55 Willow Street

Berlin, New Hampshire 03570

BERLIN WATER WORKS

PROPRIETARY FUND

STATEMENT OF NET POSITION

JUNE 30, 2017

Assets	
Current:	
Cash and short-term equivalents	$ 1,565,332
Receivables, net of allowance for uncollectibles	
Accounts	239,769
Intergovernmental	244,295
Other	649
Inventory	255,645
Total current assets	2,305,690
Noncurrent:	
Capital assets:	
Land and construction in progress	1,839,613
Other capital assets, net of accumulated depreciation	38,399,252
Total noncurrent assets	40,238,865
Deferred Outflows of Resources	
Related to pensions	288,608
Total Assets and Deferred Outflows Of Resources	42,833,163
Liabilities	
Current:	
Accounts payable	33,511
Accrued liabilities	74,564
Notes payable	1,322,131
Current portion of long-term liabilities:	
Bonds payable	1,134,060
Compensated absences	16,111
Total current liabilities	2,580,377
Noncurrent:	
Bonds payable, net of current portion	8,532,962
Net OPEB obligation	42,948
Net pension liability	1,162,737
Compensated absences, net of current portion	145,002
Total noncurrent liabilities	9,883,649
Deferred Inflows of Resources	
Related to pensions	143,976
Total Liabilities and Deferred Inflows Of Resources	12,608,002
Net Position	
Net investment in capital assets	29,249,712
Unrestricted	975,449
Total Net Position	$ 30,225,161

The accompanying notes are an integral part of these financial statements.

BERLIN WATER WORKS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

Operating Revenues:	
Water sales and assessments	$ 2,698,297
Other	128,764
Total Operating Revenues	2,827,061
Operating Expenses:	
Water supply	403,703
Water distribution	173,326
Service departments	193,834
Administration and other expenses	965,142
Depreciation	1,164,443
Total Operating Expenses	2,900,448
Operating (Loss)	(73,387)
Nonoperating Revenues (Expenses):	
Interest income	1,118
Intergovernmental revenues	35,864
Interest expense	(316,037)
Total Nonoperating Revenues (Expenses), Net	(279,055)
(Loss) Before Capital Contributions	(352,442)
Capital contributions	387,120
Change in Net Position	34,678
Net Position at Beginning of Year	30,190,483
Net Position at End of Year	$ 30,225,161

The accompanying notes are an integral part of these financial statements.

BERLIN WATER WORKS

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

Cash Flows From Operating Activities:	
Receipts from customers and users	$ 2,824,907
Payments to vendors	(726,714)
Payments to employees for salaries and benefits	(957,721)
Net Cash Provided By Operating Activities	1,140,472
Cash Flows From Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(515,628)
Proceeds from issuance of notes	795,902
Principal payment on notes	(2,000,000)
Proceeds from issuance of bonds	2,000,000
Principal payment on bonds, net of state subsidy	(868,066)
Interest expense	(292,578)
Intergovernmental revenues	152,054
Net Cash (Used For) Capital and Related Financing Activities	(728,316)
Cash Flows From Investing Activities:	
Investment income	1,118
Net Cash Provided By Investing Activities	1,118
Net Change in Cash and Short-Term Equivalents	413,274
Cash and Short-Term Equivalents, Beginning of Year	1,152,058
Cash and Short-Term Equivalents, End of Year	$ 1,565,332
Reconciliation of Operating (Loss) to Net Cash Provided By Operating Activities:	
Operating (loss)	$ (73,387)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation	1,164,443
Changes in assets/deferred outflows and liabilities/deferred inflows:	
Accounts receivable	(2,562)
Inventory	57,945
Deferred outflows - related to pensions	(203,119)
Accounts payable	(13,388)
Accrued liabilities	(1,546)
Net OPEB obligation	(3,976)
Compensated absences	(14,611)
Net pension liability	136,638
Deferred inflows - related to pensions	94,035
Net Cash Provided By Operating Activities	$ 1,140,472

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

The accounting policies of the Department conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. *Reporting Entity*

The Department is a component unit of the City of Berlin, New Hampshire and is governed by a Board of Water Commissioners, as appointed by the Mayor of the City of Berlin. As required by generally accepted accounting principles, these financial statements present the Department and applicable component units for which the Department is considered to be financially accountable. In fiscal year 2017, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

Proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Water sales and assessments are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. *Cash and Short-Term Equivalents*

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term equivalents.

D. *Investments*

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

E. *Inventories*

Inventories are valued at lower of cost or market.

F. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the proprietary fund financial statements. Capital assets are defined by the Department as assets with an initial individual cost of more than $10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, equipment, and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	3 - 50
Machinery and equipment	3 - 15
Vehicles	5
Infrastructure	15 - 50

G. Compensated Absences

It is the Department's policy to permit employees to accumulate a limited amount of earned but unused sick pay benefits. Upon retirement, termination, or death, certain employees are compensated for unused sick leave at their then current rates of pay. All vested sick pay is accrued when incurred in the proprietary fund financial statements.

H. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Cash and Short-Term Equivalents

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus, exception that a City or Town with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank." The Department's deposit policy for custodial credit risk is to fully collateralize all deposits.

As of June 30, 2017, all of the Department's bank balance of $1,578,209 was fully insured and collateralized.

3. Allowance for Doubtful Accounts

The receivables reported in the accompanying financial statements reflect an estimated allowance for doubtful accounts of $10,600.

4. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2017.

5. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Buildings and improvements	$ 15,231	$ -	$ -	$ 15,231
Machinery, equipment, and furnishings	1,990	10	-	2,000
Vehicles	403	-	(53)	350
Infrastructure	37,188	2,196	-	39,384
Total capital assets, being depreciated	54,812	2,206	(53)	56,965
Less accumulated depreciation for:				
Buildings and improvements	(6,102)	(341)	-	(6,443)
Machinery, equipment, and furnishings	(1,794)	(73)	-	(1,867)
Vehicles	(392)	(4)	52	(344)
Infrastructure	(9,166)	(746)	-	(9,912)
Total accumulated depreciation	(17,454)	(1,164)	52	(18,566)
Total capital assets, being depreciated, net	37,358	1,042	(1)	38,399
Capital assets, not being depreciated:				
Land	354	-	-	354
Construction in progress	3,176	493	(2,183)	1,486
Total capital assets, not being depreciated	3,530	493	(2,183)	1,840
Total capital assets, net	$ 40,888	$ 1,535	$ (2,184)	$ 40,239

6. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Department that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, are more fully discussed in Note 14.

7. Accounts Payable

Accounts payable represent 2017 expenditures paid on or after July 1, 2017.

8. Notes Payable

The Department had the following notes outstanding at June 30, 2017:

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/17
Water Infrastructure Improvements	2.97%	01/28/15	upon completion	$ 1,322,131
Total				$ 1,322,131

All outstanding notes will be permanently funded upon completion of project.

The following summarizes activity in notes payable during fiscal year 2017:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Water Mains and Service Lines	$ 1,746,256	$ 253,744	$ (2,000,000)	$ -
Water Infrastructure Improvements	779,973	542,158	-	1,322,131
Total	$ 2,526,229	$ 795,902	$ (2,000,000)	$ 1,322,131

9. Long-Term Debt

A. *General Obligation Bonds*

The Department issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate %	Amount Outstanding as of 6/30/2017
State revolving loan	12/01/18	0.00%	$ 279,995
State revolving loan	05/01/21	0.00%	588,636
State revolving loan	09/01/24	0.00%	773,897
State revolving loan	10/01/31	1.10%	1,248,784
RUD - Water Facility	10/27/41	2.25%	897,947
State revolving loan	12/01/35	2.46%	2,928,947
State revolving loan	12/01/35	2.46%	948,816
State revolving loan	12/01/36	1.96%	2,000,000
			$ 9,667,022

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

Proprietary Fund	Principal	Interest	Total
2018	$ 1,134,060	$ 259,830	$ 1,393,890
2019	708,335	190,218	898,553
2020	579,370	177,943	757,313
2021	591,343	166,850	758,193
2022	453,253	155,496	608,749
2023 - 2027	2,226,617	618,989	2,845,606
2028 - 2032	2,183,548	364,711	2,548,259
2033 - 2037	1,568,926	119,353	1,688,279
2038 - 2042	221,570	15,176	236,746
Total	$ 9,667,022	$ 2,068,566	$ 11,735,588

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/16	Additions	Reductions	Total Balance 6/30/17	Less Current Portion	Equals Long-Term Portion 6/30/17
Bonds payable	$ 8,922	$ 2,000	$ (1,255)	$ 9,667	$ (1,134)	$ 8,533
Net OPEB obligation	47	17	(21)	43	-	43
Net pension liability	1,026	137	-	1,163	-	1,163
Compensated absences	176	4	(19)	161	(16)	145
Totals	$ 10,171	$ 2,158	$ (1,295)	$ 11,034	$ (1,150)	$ 9,884

10. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Department that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

Deferred inflows of resources related to pensions will be recognized in pension expense in future years and is more fully described in Note 14.

11. Line of Credit

During fiscal year 2017, the Department had available a revolving line of credit with Bank of New Hampshire in the amount of $1,025,000. On October 25, 2016, the line of credit was closed. The Department did not borrow against the line of credit during the fiscal year.

12. Commitments and Contingencies

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Department expects such amounts, if any, to be immaterial.

13. Other Post-Employment Benefits – GASB 45

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

A. Plan Description

In addition to providing the pension benefits described, the Department provides post-employment healthcare and life insurance benefits for retired employees through the City of Berlin's single employer defined benefit plan. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of July 1, 2016, the actuarial valuation date, approximately 12 retirees and 12 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Department provides medical, prescription drug, mental health/substance abuse, and life insurance to retirees and their covered dependents. These benefits are provided through the City of Berlin's group plans. All active employees who retire from the Department and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 100% of the cost of the health plan, as determined by the City of Berlin.

D. *Annual OPEB Costs and Net OPEB Obligation*

The Department's fiscal 2017 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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Department's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the plan, and the change in the Department's net OPEB obligation based on an actuarial valuation as of July 1, 2016.

Annual Required Contribution (ARC)	$ 15,512
Interest on net OPEB obligation	1,877
Adjustment to ARC	(1,564)
Annual OPEB cost	15,825
Contributions made	(19,801)
Change in net OPEB obligation	(3,976)
Net OPEB obligation - beginning of year	46,924
Net OPEB obligation - end of year	$ 42,948

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2017	$ 15,825	125.1%	$ 42,948
2016	$ 20,255	75.5%	$ 46,924
2015	$ 19,560	62.9%	$ 41,954
2014	$ 40,588	14.5%	$ 34,692

E. *Funded Status and Funding Progress*

The funded status of the plan as of July 1, 2016, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	$	305,122
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	$	305,122
Funded ratio (actuarial value of plan assets/AAL)		0.0%
Covered payroll (active plan members)		Not available
UAAL as a percentage of covered payroll		Not available

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Department 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 Department and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City had not advance funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 8%, which decreases to a 5% long-term rate for all healthcare benefits after five years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

14. Retirement System

The Department follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* with respect to the State of New Hampshire Retirement System (NHRS).

A. Plan Description

Full-time employees participate in the State of New Hampshire Retirement System (the System), a cost-sharing, multiple-employer defined benefit contributory pension plan and trust established in 1967 by RSA 100-A:2 and qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death, and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent fire-fighters, and permanent police officers within the State of New Hampshire are eligible and required to participate in the system. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

The New Hampshire Retirement System, a Public Employees Retirement System (PERS), is divided into two membership groups. State or local employees and teachers belong to *Group I*. Police officers and firefighters belong to *Group II*. All assets are held in a single trust and are available to each group. Additional information is disclosed in the System's annual report publicly available from the New Hampshire Retirement System located at 54 Regional Drive, Concord, New Hampshire 03301-8507.

B. 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 nonvested 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 ¼ 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 earned compensation and/or service.

C. Contributions

Plan members are required to contribute a percentage of their gross earnings to the pension plan, which the contribution rates are 7% for employees and teachers 11.55% for police and 11.80% for fire. The Department makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16, and range from 11.17% to 29.16% of covered compensation. The Department's contributions to the System for the year ended June 30, 2017 was $69,534, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

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 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 benefit terms. Investments are reported at fair value.

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

At June 30, 2017, the Department reported a liability of $1,162,737 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The Department's proportion of the net pension liability was based on a projection of the Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the Department's proportion was 0.02590159%.

At the most recent measurement date of June 30, 2016, the Department's proportion was 0.02186584%, which was a decrease of 0.00403575% from its previous year proportion.

For the year ended June 30, 2017, the Department recognized pension expense of $97,477. In addition, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,231	$ 14,682
Changes of assumptions	143,096	-
Net difference between projected and actual earnings on pension plan investments	72,747	-
Changes in proportion and differences between pension contributions and proportionate share of contributions	-	129,294
Pension contributions subsequent to the measurement date	69,534	-
Total	$ 288,608	$ 143,976

The $69,534 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflows (Inflows) of Resources
2018	$ 9,333
2019	9,333
2020	34,434
2021	21,783
2022	215
Total	$ 75,098

F. *Actuarial Assumptions*

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5% per year
Salary increases	5.6% average, including inflation
Investment rate of return	7.25%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

Asset Class	Target Allocation Percentage	Weighted Average Average Long-Term Expected Real Rate of Return
Large Cap Equities	22.50 %	4.25%
Small/Mid Cap Equities	7.50	4.50%
Total domestic equities	30.00	
Int'l Equities (unhedged)	13.00	4.75%
Emerging Int'l Equities	7.00	6.25%
Total international equities	20.00	
Core Bonds	5.00	0.64%
Short Duration	2.00	-0.25%
Global Multi-Sector Fixed Income	11.00	1.71%
Unconstrained Fixed Income	7.00	1.08%
Total fixed income	25.00	
Private equity	5.00	6.25%
Private debt	5.00	4.75%
Real estate	10.00	3.68%
Opportunistic	5.00	3.25%
Total alternative investments	25.00	
Total	100.00 %	

G. Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that the plan member 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. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the pension plan's actuarial funding policy and as required by RSA 100-A:16. 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 plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.25%) or 1 percentage-point higher (8.25%) than the current rate:

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 1,494,038	$ 1,162,737	$ 887,975

I. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NHRS financial report.

15. Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

16. <u>Implementation of New GASB Standard</u>

The Governmental Accounting Standards Board (GASB) has issued Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, replacing requirements of Statements No.45 and 57, effective for the Department beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet specific criteria and for employers whose employees are provided with defined contribution OPEB.

BERLIN WATER WORKS

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2017
(Unaudited)

New Hampshire Retirement System						
Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2017	June 30, 2016	0.02186584%	$ 1,162,737	$ 717,415	162.07%	58.3%
June 30, 2016	June 30, 2015	0.02590159%	$ 1,026,099	$ 832,344	123.28%	65.5%
June 30, 2015	June 30, 2014	0.02598995%	$ 975,555	$ 807,874	120.76%	66.3%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

BERLIN WATER WORKS

SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2017
(Unaudited)

New Hampshire Retirement System					
Fiscal Year	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2017	$ 69,534	$ 69,534	$ -	$ 640,275	10.86%
June 30, 2016	$ 77,911	$ 77,911	$ -	$ 717,415	10.86%
June 30, 2015	$ 87,389	$ 87,389	$ -	$ 832,344	10.50%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

BERLIN WATER WORKS

SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)

June 30, 2017
(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent-age of Covered Payroll [(b-a)/c]
07/01/16	$ -	$ 305,122	$ 305,122	0.0%	N/A	N/A
07/01/14	$ -	$ 309,334	$ 309,334	0.0%	N/A	N/A
07/01/12	$ -	$ 260,657	$ 260,657	0.0%	N/A	N/A

See Independent Auditors' Report.