

BERLIN WATER WORKS
Financial Statements
June 30, 2023
and
Independent Auditor's Report

**BERLIN WATER WORKS
FINANCIAL STATEMENTS
June 30, 2023**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Water Commissioners of the
Berlin Water Works

Opinion

We have audited the accompanying financial statements of the Berlin Water Works, a component unit of the City of Berlin, New Hampshire, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Berlin Water Works' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Berlin Water Works, as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Berlin Water Works, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Berlin Water Works' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly after.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Berlin Water Works' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Berlin Water Works' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in Berlin Water Works' proportionate share of the net OPEB liability, schedule of Berlin Water Works OPEB contributions, schedule of changes in Berlin Water Works' total OPEB liability and related ratios, schedule of changes in Berlin Water Works' proportionate share of the net pension liability, and schedule of Berlin Water Works pension contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Vashon Clukay & Company PC

Manchester, New Hampshire
February 22, 2024

**BERLIN WATER WORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2023**

THE FINANCIAL STATEMENTS AND REPORTING ENTITY

The Financial Statements

The financial statements presented herein include all of the activities of the Berlin Water Works using the integrated approach as prescribed by GASB Statement #34.

The financial statements present the financial picture of the Berlin Water Works from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets (including infrastructure) and deferred outflows of resources of the Berlin Water Works, as well as all liabilities (including long-term obligations) and deferred inflows of resources.

The Berlin Water Works is a component unit of the City of Berlin (City). Berlin Water Works is reported as a business-type activity whereas it charges a user fee to customers to cover the cost of services it provides.

The Berlin Water Works is governed by a Board of Water Commissioners, appointed by the Mayor of the City of Berlin. Berlin Water Works primary function is to provide water services for residential, commercial, industrial and industrial entities for the City.

REPORTING THE BERLIN WATER WORKS AS A WHOLE

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position report information about the Berlin Water Works as a whole and about its activities. These statements include *all* assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Berlin Water Works using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

The two statements report the Berlin Water Works' net position and changes in them. Net position is the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources, one way to measure the Berlin Water Works' financial health, or financial position. Over time, increases or decreases in the Berlin Water Works' net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the Berlin Water Works' customer base and condition of the Berlin Water Works infrastructure.

**BERLIN WATER WORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2023**

Net Position of the Berlin Water Works as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Capital and other assets:		
Capital assets, net	\$ 35,404,053	\$ 36,377,193
Other assets	<u>2,519,942</u>	<u>2,768,455</u>
Total assets	<u>37,923,995</u>	<u>39,145,648</u>
Deferred outflows of resources:		
Deferred outflows of resources related to OPEB	28,063	39,179
Deferred outflows of resources related to pensions	<u>177,886</u>	<u>184,486</u>
Total deferred outflows of resources	<u>205,949</u>	<u>223,665</u>
Long-term and other liabilities:		
Long-term liabilities	5,954,462	6,471,699
Other liabilities	<u>51,080</u>	<u>48,058</u>
Total liabilities	<u>6,005,542</u>	<u>6,519,757</u>
Deferred inflows of resources:		
Deferred inflows of resources related to OPEB	56,837	63,918
Deferred inflows of resources related to pensions	<u>65,655</u>	<u>242,806</u>
Total deferred inflows of resources	<u>122,492</u>	<u>306,724</u>
Net position:		
Net investment in capital assets	30,588,959	30,925,240
Unrestricted	<u>1,412,951</u>	<u>1,617,592</u>
Total net position	<u>\$ 32,001,910</u>	<u>\$ 32,542,832</u>

The change in net position for the fiscal years ended June 30, 2023 and 2022 are follows:

	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 2,623,487	\$ 2,694,419
Operating expenses	<u>(3,091,630)</u>	<u>(2,827,958)</u>
Net operating profit (loss)	<u>(468,143)</u>	<u>(133,539)</u>
Non-operating revenues	41,984	49,781
Non-operating expenses	<u>(114,763)</u>	<u>(129,410)</u>
Loss before capital contributions	<u>(540,922)</u>	<u>(213,168)</u>
Capital contributions	<u>-</u>	<u>-</u>
Change in net position	<u>\$ (540,922)</u>	<u>\$ (213,168)</u>

Total net position decreased by \$540,922 or 1.7% for fiscal year 2023. Unrestricted net position decreased by \$204,641 or 12.7% in 2023.

**BERLIN WATER WORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2023**

BERLIN WATER WORKS ACTIVITIES

As shown in the Statement of Revenues, Expenses and Changes in Net Position, the revenue earned from users of the system were \$2,623,487 and \$2,694,419 for fiscal years 2023 and 2022, respectively. For fiscal year 2023 this represents a 2.6% decrease from the prior year. The Water Works had no capital contributions for the fiscal years 2023 and 2022. Operating expenses were \$3,091,630 and \$2,827,958 for fiscal years 2023 and 2022, respectively. For fiscal year 2023 this represents a 9.3% increase from the prior year.

Cash Management

Cash represents cash on hand and cash deposits maintained by the Berlin Water Works. The funds are invested in the state investment pool, certificates of deposit, and savings accounts to maximize returns and maintain timely availability to meet the debt payment schedule.

Capital Assets

The capital assets of the Berlin Water Works are those assets, which are used in the performance of Berlin Water Works daily operations, including infrastructure assets. At June 30, 2023 and 2022, net capital assets of the Berlin Water Works totaled \$35,404,053 and \$36,377,193, respectively. See Note 3 in the Notes to the Basic Financial Statements for a summary of all capital assets activity.

Debt Administration

Debt, considered a liability of business-type activities, decreased in total for fiscal year 2023 by \$636,859. This consisted of scheduled payments on the existing notes of \$636,859. See Note 4 in the Notes to the Basic Financial Statements for additional information on the long-term obligations of the Berlin Water Works.

SIGNIFICANT ACCOMPLISHMENTS OF BERLIN WATER WORKS FOR FISCAL YEAR 2023

Berlin Water Works continues planned water main replacement of vintage 1890 through 1930's unlined 6" and 8" diameter cast iron pipe. The water main replaced will be the highest failure rate water main since the BWW Distribution System based on our records. Running water Customers will also be addressed by lowering and insulating service lines to prevent freezing. Most of the proposed scope streets have stamped design drawings from previously funded projects. Previous years' work was completed thru the funding of NH State Revolving Loans and Rural Development Grants.

As of FY23, we now are using our Capital Improvement Funds. In FY23 BWW completed water mains and water services on Lancaster Street from Beaudoin Street to Westcott St. We also completed water main and services work on Wescott Street from Lancaster Street to the dead end. Crews installed approximately 792' of 8" HDPE pipe, and 677' of new copper service lines.

Berlin Water Works permanent staffing is 11 full time positions. The FY23 Budget for temporary help included 3 Students and 1 Part Time Temp. The manning level should decrease over the next few years as BWW is now funding its own projects. The temporary staffing is used to assist our current labor force with water main replacement & maintenance.

**BERLIN WATER WORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2023**

Berlin Water Works continues to pass the lead and copper water sampling compliance regulations set forth by the NHDES for the 12th consecutive round of testing. The overall average lead and copper sample levels have dropped to new low levels. Water sampling will continue to monitor lead and copper levels. The next round of testing is scheduled for September 2023.

ECONOMIC FACTORS, RATES AND 2023 BUDGET:

Key assumptions in our revenue forecast were:

The proposed budget reflects a significant increase compared to the FY2023 Budget. After the Board has had time to review the documents, there were discussions on how to balance the budget. The Board has agreed to allocate funds from the Capital Improvement accrual account to balance the FY2023 budget and have also agreed to leave out our annual allocated funds of \$150,000 in additional Capital Improvement contributions from the FY2024 budget. It was also discussed to raise the water rates for all customers (residential, institutional and industrial) to make up the remaining deficit on the FY2024 budget. This water rate increase will mark the first increase in water rates in 25 years, with the last increase being in April 1998. This increase will be a 5% water rate increase on each billing period and an additional \$3 increase on the base assessment charge per quarter.

New to the area is a large-scale commercial greenhouse project going under the name of North Country Growers LLC. We anticipate North Country Growers will be using city water which should bring in additional revenue.

BWW processed around 280 residential property sales in FY23. Residential property sales continued in FY23 with approximately 215 transactions.

The Federal Corrections Institute inmate and employee levels continue to increase, and will continue to increase at an 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.

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 requiring thawing.

ASSUMPTIONS for FY2024:

The Berlin Water Works debt repayment schedule was at \$686,757 for FY2020, \$685,280 in FY21 and \$699,278 for both FY22 and FY23. The debt repayment for year ending June 30, 2024 will remain at \$699,278.

In Fiscal years 2010 through 2023, significant efforts were applied to the installation of backflow Preventers and additional radio read devices. The radio read units will reduce hazard exposures and reduce meter read time.

**BERLIN WATER WORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2023**

In 2005, Board revised regulations pertaining to backflow preventers that will result in additional costs to the Berlin Water Works over the future. As of 2023, approximately 847 backflow preventers remain to be installed over the next 5 to 10 years.

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 the reduced resident inspection cost by more than 50%.

FY 2024 BUDGET:

The new items specifically addressed in the FY 2024 Budget were:

The FY23 Budget is \$2,652,658. The FY24 Budget is \$2,766,677. This year, Operations increased by 5.84%, and there was no change in Debt for an overall increase of \$114,019. or 4.30%.

The Berlin Water Works is continuing a path forward to pay down debt. BWW has not applied for any new State Revolving Loans or Loans from other funding Agencies.

This Budget includes \$699,278 for the yearly debt payment.

The Outstanding Long Term Debt balance as of June 30, 2023 is \$4,815,094.

FISCAL YEAR JUNE 30, 2024 BUDGET:

A Public Hearing was held on May 30, 2023 at City Hall to present the FY24 Budget in the amount of \$2,766,677. And is summarized as follows.

<u>OPERATIONS & MAINTENANC</u>	<u>FY 24</u>	<u>FY 23</u>
Labor	799,850	762,550
Fringe Benefits	460,555	405,423
Utilities	161,000	147,200
Material & Services	512,000	373,700
Insurance	78,494	73,507
Minor & Replacements	55,278	191,000
<u>DEBT:</u>		
Northway Bank Loan	<u>699,278</u>	<u>699,278</u>
<u>Total Budget</u>	<u>\$2,766,677</u>	<u>\$2,652,658</u>

The above categories have all increased except for Minor & Replacements from the FY23 Budget.

Contributing factors for Labor, Fringe & Materials are that we no longer have force account funding to maintain crews & equipment, therefore, reducing labor & maintenance cost.

Utilities were increased due to unpredictable electric rates and fuel prices.

**BERLIN WATER WORKS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2023**

The Insurance category is for Workers Compensation and Property & Liability. The overall increase was \$4,987. Between both, the P&L increased due to higher property values.

Minor Purchases & Replacements contribute to the funding of accrual accounts for Vehicle replacement, Garage Improvements, Process Control/Electronic, Treatment Plant & Booster Stations as well as to fund the Capital Improvement Program for water line replacement. No additional funds were included to pay down debt or for Capital Improvement Projects.

Berlin Water Works consolidated its 5 remaining State Revolving Loans in February, 2021 and re-financed with Northway Bank for a 10-year term and interest rate at 2.25% with fixed yearly payments.

There has been no rate increase for 26 consecutive years.

CONTACTING BERLIN WATER WORKS' FINANCIAL MANAGEMENT

This financial report is intended to provide our citizens, customers, regulators, and creditors with a general overview of the Berlin Water Works' finances and to show accountability for the money it receives. If you have questions about this report or need to get additional information, contact the Berlin Water Works at 55 Willow Street, Berlin, NH 03570. You may also call the Berlin Water Works office at (603)752-1677 or email cj@bwwberlinnh.org.

EXHIBIT A
BERLIN WATER WORKS
Statement of Net Position
June 30, 2023

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 661,075
Investments	1,038,060
Accounts receivable, net	182,858
Unbilled charges	419,738
Inventory	<u>218,211</u>
Total Current Assets	<u>2,519,942</u>
Noncurrent Assets:	
Capital Assets:	
Non-depreciable capital assets	649,844
Depreciable capital assets, net	<u>34,754,209</u>
Total Noncurrent Assets	<u>35,404,053</u>
Total Assets	<u>37,923,995</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to OPEB	28,063
Deferred outflows of resources related to pension	<u>177,886</u>
Total Deferred Outflows of Resources	<u>205,949</u>

LIABILITIES

Current Liabilities:	
Accounts payable	15,892
Accrued liabilities	35,188
Current portion of notes payable	<u>595,656</u>
Total Current Liabilities	<u>646,736</u>
Noncurrent Liabilities:	
Notes payable	4,219,438
Compensated absences payable	97,959
OPEB liability	197,308
Net pension liability	<u>844,101</u>
Total Noncurrent Liabilities	<u>5,358,806</u>
Total Liabilities	<u>6,005,542</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to OPEB	56,837
Deferred inflows of resources related to pension	<u>65,655</u>
Total Deferred Inflows of Resources	<u>122,492</u>

NET POSITION

Net investment in capital assets	30,588,959
Unrestricted	<u>1,412,951</u>
Total Net Position	<u>\$ 32,001,910</u>

See accompanying notes to the basic financial statements

EXHIBIT B
BERLIN WATER WORKS
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2023

Operating revenues:	
Charges for services	\$ 2,553,390
Miscellaneous revenues	<u>70,097</u>
Total Operating revenues	<u>2,623,487</u>
Operating expenses:	
Water supply	543,173
Water distribution	206,119
Service department	201,054
Administration	894,163
Depreciation	<u>1,247,121</u>
Total Operating expenses	<u>3,091,630</u>
Operating loss	<u>(468,143)</u>
Non-operating revenues (expenses):	
Interest income	41,984
Interest expense	<u>(114,763)</u>
Net Non-operating revenues (expenses)	<u>(72,779)</u>
Change in net position	(540,922)
Net Position - July 1, 2022	<u>32,542,832</u>
Net Position - June 30, 2023	<u>\$ 32,001,910</u>

See accompanying notes to the basic financial statements

EXHIBIT C
BERLIN WATER WORKS
Statement of Cash Flows
For the Year Ended June 30, 2023

Cash flows from operating activities:	
Cash received from customers	\$ 2,666,989
Cash paid to suppliers	(1,065,436)
Cash paid to employees	(777,543)
Net cash provided by operating activities	<u>824,010</u>
Cash flows from capital and related financing activities:	
Principal paid on notes payable	(636,859)
Interest paid on long-term debt	(116,942)
Purchases of capital assets	(273,981)
Net cash used for capital and related financing activities	<u>(1,027,782)</u>
Cash flows from investing activities:	
Redemptions of investments	(39,180)
Interest on investments	41,984
Net cash provided by investing activities	<u>2,804</u>
Net decrease in cash and cash equivalents	(200,968)
Cash and cash equivalents, beginning of year	<u>862,043</u>
Cash and cash equivalents, end of year	<u>\$ 661,075</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (468,143)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	1,247,121
Change in deferred outflows related to OPEB	11,116
Change in deferred outflows related to pension	6,600
Change in deferred inflows related to OPEB	(7,081)
Change in deferred inflows related to pension	(177,151)
Changes in assets and liabilities:	
Accounts receivable, net	20,717
Unbilled charges	22,785
Inventory	43,223
Accounts payable	1,740
Accrued liabilities	3,461
Compensated absences payable	10,494
OPEB liability	(25,434)
Net pension liability	134,562
Net cash provided by operating activities	<u>\$ 824,010</u>

See accompanying notes to the basic financial statements

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Berlin Water Works conform to accounting principles 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 Berlin Water Works was established in 1925. Berlin Water Works is governed by a Board of Water Commissioners appointed by the mayor of the City of Berlin, New Hampshire. Berlin Water Works meets the criteria as a component unit of the City of Berlin, New Hampshire (“the City”). Such criteria includes appointment of the Board of Water Commissioners by the Mayor of the City and debt service guarantees by the City.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting, wherein revenues are recognized when earned and expenses are recognized when incurred.

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.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

Cash and Cash Equivalents - For purposes of the Statement of Cash Flows, cash and cash equivalents are comprised of demand deposits and cash on hand.

Investments - Investments are recorded at their fair value. Certificates of deposit with a maturity of greater than ninety days from the date of issuance are included in investments.

Accounts Receivable - At June 30, 2023, accounts receivable includes unpaid water user fees. An allowance for uncollected receivables of \$65,000 has been recorded as of June 30, 2023.

Inventory - Inventory is valued at lower of cost or market on a first-in, first-out basis.

Capital Assets - Capital assets are recorded at cost or estimated historical cost and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. Improvements are capitalized; 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. Berlin Water Works maintains a capitalization threshold of \$10,000. All reported capital assets except for land and construction in progress are depreciated. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets.

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

Estimated useful lives are as follows:

	<u>Years</u>
Infrastructure	50
Land improvements	10
Buildings and improvements	5-50
Machinery and equipment	5-50
Vehicles	5-15

Compensated Absences - Employees earn vacation and sick leave as they provide services. Employees earn 12 sick days per year, to a maximum of 71 days. Employees may add an additional sick day for each six month period of “perfect attendance”, to a maximum cap of 100 days. Vacation time is earned dependent upon length of service and may be carried to the employee’s anniversary date, at which time the unused balance is forfeited. Upon retirement employees receive 65% of their accumulated sick time at their current rate of pay. Employees who retire at the early retirement age of 62 receive 100% of their accrued sick time and 100% of unused vacation time at their current rates of pay.

Other Postemployment Benefits - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Hampshire Retirement System (NHRS) OPEB Plan 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, NHRS recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for non-registered commingled funds valued at net asset value (NAV) as a practical expedient to estimate fair value.

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, deferred outflows of resources, liabilities and deferred inflows of resources. The net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of bonds, notes or other borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by Berlin Water Works 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.

Berlin Water Works’ policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

Revenues and Expenses

Operating Revenues and Expenses - Operating revenues and expenses for Berlin Water Works are those that result from providing services and producing and delivering goods in connection with its principal ongoing operations. Operating expenses 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 non-operating revenues and expenses.

Capital Contributions - Funds received from other governments for the purpose of constructing assets are recorded as capital contributions.

NOTE 2—DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2023 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 661,075
Investments	<u>1,038,060</u>
Total deposits and investments	<u>\$ 1,699,135</u>

Deposits and investments at June 30, 2023 consist of the following:

Cash on hand	\$ 150
Deposits with financial institutions	660,925
Investments	<u>1,038,060</u>
Total deposits and investments	<u>\$ 1,699,135</u>

Berlin Water Works follows the City of Berlin, New Hampshire’s investment policy. The City's investment policy 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.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized statistical rating organization. The City’s investment policy for managing credit risk is based on the prudent person principal to ensure capital preservation and protection of investment principal while maintaining sufficient liquidity and seeking a fair rate of return.

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

As of June 30, 2023, Berlin Water Works' investments in the NHPDIP, a state investment pool, had a fair value of \$1,038,060 and was rated *AAA-m*.

Custodial Credit Risk

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

Of Berlin Water Works' deposits with financial institutions at year end, \$434,086 was collateralized by securities held by the bank in the bank's name.

Investments in NHPDIP

Berlin Water Works is a voluntary participant in the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company. The NHPDIP was created by state law and is administered by a public body of state, local and banking officials. Financial statements for the NHPDIP can be accessed through the NHPDIP's website at www.NHPDIP.com.

Berlin Water Works' exposure to derivatives is indirect through its participation in the NHPDIP. Berlin Water Works' proportional share of these derivatives is not available. The fair value of the position in the investment pool is equal to the value of the pool shares.

NOTE 3—CAPITAL ASSETS

The following is a summary of changes in capital assets during the year ended June 30, 2023:

	Balance <u>7/1/2022</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2023</u>
Capital assets not being depreciated:				
Land	\$ 353,649			\$ 353,649
Construction in progress	<u>93,562</u>	\$ 202,633		<u>296,195</u>
Total capital assets not being depreciated	<u>447,211</u>	<u>202,633</u>	\$ -	<u>649,844</u>
Other capital assets:				
Infrastructure	41,863,050			41,863,050
Land improvements	15,040			15,040
Buildings and improvements	14,652,272			14,652,272
Machinery and equipment	1,760,860		(92,740)	1,668,120
Vehicles	<u>254,906</u>	<u>71,348</u>	<u>(32,677)</u>	<u>293,577</u>
Total other capital assets at historical cost	<u>58,546,128</u>	<u>71,348</u>	<u>(125,417)</u>	<u>58,492,059</u>

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

Less accumulated depreciation for:				
Infrastructure	(13,866,436)	(893,493)		(14,759,929)
Land improvements	(2,757)	(1,504)		(4,261)
Buildings and improvements	(7,399,253)	(311,268)		(7,710,521)
Machinery and equipment	(1,114,380)	(27,890)	92,740	(1,049,530)
Vehicles	(233,320)	(12,966)	32,677	(213,609)
Total accumulated depreciation	<u>(22,616,146)</u>	<u>(1,247,121)</u>	<u>125,417</u>	<u>(23,737,850)</u>
Total other capital assets, net	<u>35,929,982</u>	<u>(1,175,773)</u>	<u>-</u>	<u>34,754,209</u>
Total capital assets, net	<u>\$ 36,377,193</u>	<u>\$ (973,140)</u>	<u>\$ -</u>	<u>\$ 35,404,053</u>

NOTE 4—LONG-TERM OBLIGATIONS

Changes in Long-term Obligations

The changes in Berlin Water Works long-term obligations for the year ended June 30, 2023 are as follows:

	Balance <u>7/1/2022</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2023</u>	Due Within <u>One Year</u>
Notes payable	\$ 5,451,953		\$ (636,859)	\$ 4,815,094	\$ 595,656
Compensated absences	87,465	\$ 23,240	(12,746)	97,959	
Total	<u>\$ 5,539,418</u>	<u>\$ 23,240</u>	<u>\$ (649,605)</u>	<u>\$ 4,913,053</u>	<u>\$ 595,656</u>

General Obligation Notes

Notes payable at June 30, 2023 is comprised of the following individual issue:

<u>Description</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Balance at 6/30/2023</u>
General Obligation Note	2.25%	January 2031	<u>\$ 4,815,094</u>

General obligation notes are direct obligations of Berlin Water Works, for which its full faith and credit are pledged and are payable from all revenue raised from collecting and setting water rates for, and/or levying assessments against, its water customers. As well as any and all revenue received from the State of New Hampshire or the United States government or any agency or subdivision thereof, and from any and all unrestricted revenues received from any other source, which in each case may lawfully be used to pay for the expenditures of the Berlin Water Works funded by the Note.

Debt service requirements to retire outstanding notes payable at June 30, 2023 are as follows:

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 595,656	\$ 103,622	\$ 699,278
2025	609,459	89,819	699,278
2026	623,288	75,990	699,278
2027	637,431	61,847	699,278
2028	651,894	47,384	699,278
2029-2031	<u>1,697,366</u>	<u>53,021</u>	<u>1,750,387</u>
Total Notes Payable	<u>\$ 4,815,094</u>	<u>\$ 431,683</u>	<u>\$ 5,246,777</u>

NOTE 5—OTHER POSTEMPLOYMENT BENEFITS

Total OPEB Liabilities, Deferred Outflows of Resources, Deferred Inflows of Resources and OPEB Expense

	<u>Deferred Outflows</u>	<u>OPEB Liability</u>	<u>Deferred Inflows</u>	<u>OPEB Expense</u>
Cost-Sharing Multiple Employer Plan	\$ 1,884	\$ 17,239		\$ 2,563
Single Employer Plan	<u>26,179</u>	<u>180,069</u>	<u>\$ 56,837</u>	<u>(21,234)</u>
Total	<u>\$ 28,063</u>	<u>\$ 197,308</u>	<u>\$ 56,837</u>	<u>\$ (18,671)</u>

The net amount of deferred outflows of resources and deferred inflows of resources related to OPEB is reflected a decrease to unrestricted net position in the amount of \$28,774.

COST-SHARING MULTIPLE EMPLOYER PLAN

Plan Description

The New Hampshire Retirement System (NHRS) administers a cost-sharing multiple-employer other postemployment benefit plan (OPEB Plan). The OPEB Plan provides a medical insurance subsidy to qualified retired members.

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 at 54 Regional Drive, Concord, New Hampshire 03301 or from their website at www.nhrs.org.

The OPEB Plan is divided into four membership types. The four membership types are Group II Police Officer and Firefighters, Group I Teachers, Group I Political Subdivision Employees, and Group I State Employees. The OPEB plan is closed to new entrants.

Benefits Provided

Benefit amounts and eligibility requirements for the OPEB Plan are set by state law (RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b), and members are designated in statute by type. The medical insurance subsidy is a payment made by NHRS to the former employer or its insurance administrator toward the cost of health insurance for a qualified retiree, his/her qualified spouse, and his/her certified dependent children with

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

a disability who are living in the household and being cared for by the retiree. If the health insurance premium amount is less than the medical subsidy amount, then only the health insurance premium amount will be paid. If the health insurance premium amount exceeds the medical subsidy amount, then the retiree or other qualified person is responsible for paying any portion that the employer does not pay.

Group I benefits are based on creditable service, age and retirement date. Group II benefits are based on hire date, age and creditable service. Medical subsidy rates established by RSA 100-A:52 II are dependent upon whether retirees are eligible for Medicare. Retirees not eligible for Medicare may receive a maximum medical subsidy of \$375.56 for a single person plan and \$751.12 for a two-person plan. Retirees eligible for Medicare may receive a maximum medical subsidy of \$236.84 for a single person plan and \$473.68 for a two-person plan.

Funding Policy

Per RSA 100-A:16, contribution rates are established and may be amended by the New Hampshire State legislature and are determined by the NHRS Board of Trustees based on an actuarial valuation. Berlin Water Works' contribution rates for the covered payroll of employees was 0.31% for the year ended June 30, 2023. Contributions to the OPEB plan for Berlin Water Works were \$1,837 for the year ended June 30, 2023. Employees are not required to contribute to the OPEB plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2023, the Berlin Water Works reported a liability of \$17,239 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by a roll forward of the actuarial valuation from June 30, 2021. The Berlin Water Works' proportion of the net OPEB liability was based on actual contributions by the Berlin Water Works 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, 2022, the Berlin Water Works' proportion was approximately 0.0046 percent, which was an increase of approximately 0.0005 percentage points from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the Berlin Water Works recognized OPEB expense of \$2,563. At June 30, 2023, the Berlin Water Works reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Net difference between projected and actual earnings on OPEB plan investments	\$ 47	
Berlin Water Works contributions subsequent to the measurement date	<u>1,837</u>	
Totals	<u>\$ 1,884</u>	<u>\$ -</u>

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

The Berlin Water Works reported \$1,837 as deferred outflows of resources related to OPEB resulting from Berlin Water Works contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net OPEB liability in the measurement period ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense for the measurement periods as follows:

<u>June 30,</u>	
2023	\$ 8
2024	2
2025	(19)
2026	<u>56</u>
	<u>\$ 47</u>

Actuarial Assumptions

The total OPEB liability was determined by a roll forward of the actuarial valuation as of June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00%
Wage inflation	2.75% (2.25% for Teachers)
Salary increases	5.40%, average, including inflation
Investment rate of return	6.75% per year, net of OPEB plan investment expense, including inflation for determining solvency contributions

Mortality rates were based on the Pub-2010 Healthy Retiree Mortality Tables with credibility adjustments for each group (Police and Fire combined) and projected fully generational mortality improvements using Scale MP-2019.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2015 – June 30, 2019.

The long-term expected rate of return on OPEB 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. Following is a table presenting target allocations and geometric real rates of return for each asset class:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return</u>
Public Equity	50%	7.60-7.90%
Private Market Equity	20%	6.60-8.85%
Private Debt	5%	7.25%
Fixed Income	<u>25%</u>	3.60%
Total	<u>100%</u>	

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

The discount rate used to measure the collective total OPEB liability as of June 30, 2022 was 6.75%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made under the current statutes RSA 100-A:16 and RSA 100-A:53. Based on those assumptions, the OPEB Plan’s fiduciary net position was projected to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the collective total OPEB liability.

Sensitivity of the Berlin Water Works’ Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Berlin Water Works’ proportionate share of the net OPEB liability calculated using the discount rate of 6.75 percent, as well as what the Berlin Water Works’ proportionate share of the net OPEB 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:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Net OPEB liability	\$ 18,716	\$ 17,239	\$ 15,953

SINGLE EMPLOYER PLAN

Plan Description

The Berlin Water Works administers the retiree health care benefits program, a single employer defined benefits plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time employees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The Berlin Water Works provides medical and life insurance benefits to its eligible retirees and their covered spouses. Employees and their spouses are eligible to receive the benefits upon retirement with an attained age of 62. Employees are eligible to receive retiree medical coverage at no cost until age 65 if they retire at the early retirement age of 62. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50.

Employees Covered By Benefit Terms

At June 30, 2023, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	5
Active employees	11
	<u>16</u>

Total OPEB Liability

The Berlin Water Works’ total OPEB liability of \$180,069 was measured as of June 30, 2023, and was determined by an actuarial valuation as of July 1, 2022, rolled forward to the OPEB plan’s fiscal year end.

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

Actuarial Assumptions and Other Inputs for OPEB

The total OPEB liability in the July 1, 2022 valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Discount rate	3.65%
Healthcare cost trend rates	8% for 2022, decreasing 0.5% per year to 6% then grading down to an ultimate trend rate of 4.1% in 2075

The discount rate was based on the Bond Buyer 20-Bond GO Index published on June 30, 2023.

Mortality rates for active employees were based on the PubG-2010 headcount-weighted Employee General Mortality Tables, projected with fully generational mortality improvement using scale MP-2019. Mortality rates for retirees were based on the 101% of PubG-2010 headcount-weighted Retiree General Mortality Tables for males and 109% of PubG-2010 headcount-weighted Retiree General Mortality Tables for females, projected with fully generational mortality improvement using scale MP-2019.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2022	\$ 206,400
Changes for the year:	
Service cost	5,137
Interest	7,474
Differences between expected and actual experience	(29,000)
Changes of assumptions or other inputs	(9,119)
Benefit payments	(823)
Net changes	<u>(26,331)</u>
Balance at June 30, 2023	<u>\$ 180,069</u>

Changes of assumptions and other inputs reflect a change in the discount rate of 3.54% at June 30, 2022 to 3.65% at June 30, 2023. Additionally, the inflation rate was increased from 2.40% at June 30, 2022 to 2.50% at June 30, 2023.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Berlin Water Works, as well as what the Berlin Water Works' total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Total OPEB liability	\$ 195,094	\$ 180,069	\$ 166,446

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the Berlin Water Works, as well as what the Berlin Water Works' total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.0 percent decreasing to 3.1 percent) or 1-percentage-point higher (9.0 percent decreasing to 5.1 percent) than the current healthcare cost trend rate:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Total OPEB liability	\$ 162,210	\$ 180,069	\$ 201,071

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the Berlin Water Works recognized negative OPEB expense of (\$21,234). At June 30, 2023, the Berlin Water Works reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,729	\$ 5,142
Changes of assumptions	<u>16,450</u>	<u>51,695</u>
Totals	<u>\$ 26,179</u>	<u>\$ 56,837</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>June 30,</u>	
2024	\$ (4,678)
2025	(7,604)
2026	(11,484)
2027	(5,554)
2028	<u>(1,338)</u>
	<u>\$ (30,658)</u>

NOTE 6—DEFINED BENEFIT PENSION PLAN

Plan Description

The Berlin Water Works contributes to the New Hampshire Retirement System (NHRS), a public employee retirement system that administers a single cost-sharing multiple-employer defined benefit pension plan. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature.

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

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 at 54 Regional Drive, Concord, New Hampshire 03301 or from their website at www.nhrs.org.

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.

Benefits Provided

Benefit formulas and eligibility requirements for the pension plan are set by State law (RSA 100-A).

Group I benefits are provided based on creditable service and average final salary for the highest of either three or five years, depending on when service commenced.

Group II benefits are provided based on age, years of creditable service and a benefit multiplier depending on vesting status as of January 1, 2012. The maximum retirement allowance for Group II members vested by January 1, 2012 (45 years of age with 20 years of service or age 60 regardless of years of creditable service) is the average final compensation multiplied by 2.5% multiplied by creditable service. For Group II members not vested by January 1, 2012 the benefit is calculated the same way but the multiplier used in the calculation will change depending on age and years of creditable service as follows:

Years of Creditable Service as of <u>January 1, 2012</u>	<u>Minimum Age</u>	<u>Minimum Service</u>	<u>Benefit Multiplier</u>
At least 8 but less than 10 years	46	21	2.4%
At least 6 but less than 8 years	47	22	2.3%
At least 4 but less than 6 years	48	23	2.2%
Less than 4 years	49	24	2.1%

Funding Policy

Plan members are required to contribute 7.0% of their covered salary and the Berlin Water Works is required to contribute at an actuarially determined rate. The Berlin Water Works' contribution rate for the covered payroll of employees was 13.75% for the year ended June 30, 2023. The Berlin Water Works contributes 100% of the employer cost.

Per RSA 100-A: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 Berlin Water Works' contributions to the NHRS for the year ending June 30, 2023 were \$81,477.

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

At June 30, 2023, the Berlin Water Works reported a liability of \$844,101 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

liability used to calculate the net pension liability was determined by a roll forward of the actuarial valuation from June 30, 2021. The Berlin Water Works' proportion of the net pension liability was based on actual contributions by the Berlin Water Works 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, 2022, the Berlin Water Works' proportion was approximately 0.0147 percent, which was a decrease of approximately 0.0013 from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the Berlin Water Works recognized pension expense of \$48,453. At June 30, 2023, the Berlin Water Works 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	\$ 15,842	\$ 3,240
Changes of assumptions	44,899	
Net difference between projected and actual earnings on pension plan investments	31,990	
Changes in proportion and differences between Berlin Water Works contributions and proportionate share of contributions	3,678	62,415
Berlin Water Works' contributions subsequent to the measurement date	<u>81,477</u>	
Totals	<u>\$ 177,886</u>	<u>\$ 65,655</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 \$112,231. The Berlin Water Works reported \$81,477 as deferred outflows of resources related to pension resulting from the Berlin Water Works' contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense in the measurement periods as follows:

<u>June 30,</u>	
2023	\$ 17,034
2024	10,161
2025	(28,885)
2026	<u>32,444</u>
	<u>\$ 30,754</u>

Actuarial Assumptions

The total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2021, using the following actuarial assumptions:

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

Inflation	2.00%
Wage inflation	2.75% (2.25% for Teachers)
Salary increases	5.40%, average, including inflation
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the Pub-2010 Healthy Retiree Mortality Tables with credibility adjustments for each group (Police and Fire combined) and projected fully generational mortality improvements using Scale MP-2019.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2015 – June 30, 2019.

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. Following is a table presenting target allocations and geometric real rates of return for each asset class:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return</u>
Public Equity	50%	7.60-7.90%
Private Market Equity	20%	6.60-8.85%
Private Debt	5%	7.25%
Fixed Income	25%	3.60%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the collective pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that 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 contributions are projected based on the expected payroll of current members only. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current 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 collective pension liability.

Sensitivity of the Berlin Water Works' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Berlin Water Works' proportionate share of the net pension liability calculated using the discount rate of 6.75 percent, as well as what the Berlin Water Works' 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:

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Net pension liability	\$ 1,132,571	\$ 844,101	\$ 604,265

NOTE 7—RISK MANAGEMENT

The Berlin Water Works 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 fiscal year ended June 30, 2023, the Berlin Water Works was a member of and participated in a public entity risk pool (Trust) 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 Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2023.

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 Berlin Water Works shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self-Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000, up to an aggregate of \$1,200,000. 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.

NOTE 8—CONTINGENCIES

Litigation

There may be various claims and suits pending against the Berlin Water Works, which arise in the normal course of the Berlin Water Works’ activities. In the opinion of Berlin Water Works’ management, any potential claims against the Berlin Water Works, which are not covered by insurance, are immaterial and would not affect the financial position of the Berlin Water Works.

BERLIN WATER WORKS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2023

NOTE 9—SIGNIFICANT CONCENTRATION OF REVENUE RISK

For the year ended June 30, 2023, a single industrial consumer approximated 26.3% of the total revenue generated from user charges.

NOTE 10—CHANGE IN ACCOUNTING PRINCIPLE

GASB Statement No. 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements

During the year ended June 30, 2023, the Water Works implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. Under Statement No. 94, the Water Works is required to record a receivable for installment payments and a deferred inflow of resources for the consideration received or to be received as part of the availability payment arrangement. Governmental fund revenue would be recognized in a systematic and rational manner over the term of the arrangement. No such arrangements have been identified by the Water Works. Accordingly, management has determined that the effect of implementing GASB Statement No. 94 to its financial statements to be immaterial.

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. GASB Statement No. 96 defines a subscription-based information technology arrangement (SBITA) as a contract to use another party's software, alone or in combination with tangible capital assets as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, governments generally recognize a right-to-use subscription asset (intangible asset) and a corresponding subscription liability for each SBITA agreement greater than one year in length. No such SBITA agreements have been identified by the Water Works. Accordingly, management has determined that the effect of implementing GASB Statement No. 96 to its financial statements to be immaterial.

SCHEDULE 1

BERLIN WATER WORKS

Schedule of Changes in the Berlin Water Works' Proportionate Share of the Net OPEB Liability

For the Year Ended June 30, 2023

Cost-Sharing Multiple Employer Plan Information Only					
<u>Measurement Period Ended</u>	<u>Berlin Water Works' Proportion of the Net OPEB Liability</u>	<u>Berlin Water Works' Proportionate Share of the Net OPEB Liability</u>	<u>Berlin Water Works' Covered Payroll</u>	<u>Berlin Water Works' Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</u>
June 30, 2022	0.00456197%	\$ 17,239	\$ 598,112	2.88%	10.64%
June 30, 2021	0.00408073%	\$ 16,342	\$ 676,035	2.42%	11.06%
June 30, 2020	0.00408685%	\$ 17,889	\$ 649,228	2.76%	7.74%
June 30, 2019	0.00426637%	\$ 18,704	\$ 648,972	2.88%	7.75%
June 30, 2018	0.00415075%	\$ 19,004	\$ 611,982	3.11%	7.53%
June 30, 2017	0.00336763%	\$ 15,398	\$ 643,939	2.39%	7.91%
June 30, 2016	0.00384641%	\$ 18,621	\$ 720,965	2.58%	5.21%
June 30, 2015	*	*	*	*	*
June 30, 2014	*	*	*	*	*
June 30, 2013	*	*	*	*	*

* 10 Year schedule, historical information not available

Significant Actuarial Assumptions					
<u>Measurement Periods</u>	<u>Inflation</u>	<u>Salary Increases</u>	<u>Investment Rate of Return</u>	<u>Mortality Table</u>	<u>Mortality Scale</u>
June 30, 2022	2.00%	5.40%	6.75%	Pub-2010	MP-2019
June 30, 2020 - 2021	2.00%	5.60%	6.75%	Pub-2010	MP-2019
June 30, 2016 - 2019	2.50%	5.60%	7.25%	RP-2014	MP-2015

SCHEDULE 2
BERLIN WATER WORKS
Schedule of Berlin Water Works OPEB Contributions
For the Year Ended June 30, 2023

Cost-Sharing Multiple Employer Plan Information Only						
<u>Year Ended</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Berlin Water Works' Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>	
June 30, 2023	\$ 1,837	\$ (1,837)	\$ -	\$ 592,561	0.31%	
June 30, 2022	\$ 1,853	\$ (1,853)	\$ -	\$ 598,112	0.31%	
June 30, 2021	\$ 1,961	\$ (1,961)	\$ -	\$ 676,035	0.29%	
June 30, 2020	\$ 1,883	\$ (1,883)	\$ -	\$ 649,228	0.29%	
June 30, 2019	\$ 1,947	\$ (1,947)	\$ -	\$ 648,972	0.30%	
June 30, 2018	\$ 1,836	\$ (1,836)	\$ -	\$ 611,982	0.30%	
June 30, 2017	\$ 1,996	\$ (1,996)	\$ -	\$ 643,939	0.31%	
June 30, 2016	\$ 2,235	\$ (2,235)	\$ -	\$ 720,965	0.31%	
June 30, 2015	*	*	*	*	*	
June 30, 2014	*	*	*	*	*	

* 10 Year schedule, historical information not available

SCHEDULE 3

BERLIN WATER WORKS

Schedule of Changes in the Berlin Water Works' Total OPEB Liability and Related Ratios

For the Year Ended June 30, 2023

<u>Single Employer Plan Information Only</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total OPEB Liability:										
Service cost	\$ 5,137	\$ 7,091	\$ 8,895	\$ 9,533	\$ 9,400	\$ 6,313	*	*	*	*
Interest	7,474	4,873	8,031	11,230	10,290	9,776	*	*	*	*
Changes of benefit terms	-	-	-	-	-	-	*	*	*	*
Changes of assumptions or other inputs	(9,119)	(22,441)	(126,524)	32,844	103,671	(5,239)	*	*	*	*
Differences between expected and actual experience	(29,000)	-	(24,232)	-	(47,414)	-	*	*	*	*
Benefit payments	(823)	(3,225)	(1,176)	(19,676)	(22,506)	(19,761)	*	*	*	*
Net change in total OPEB liability	(26,331)	(13,702)	(135,006)	33,931	53,441	(8,911)	*	*	*	*
Total OPEB Liability - beginning of year	206,400	220,102	355,108	321,177	267,736	276,647	*	*	*	*
Total OPEB Liability - end of year	<u>\$ 180,069</u>	<u>\$ 206,400</u>	<u>\$ 220,102</u>	<u>\$ 355,108</u>	<u>\$ 321,177</u>	<u>\$ 267,736</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Covered employee payroll	\$ 514,127	\$ 478,419	\$ 533,434	\$ 529,163	\$ 662,902	\$ 612,927	*	*	*	*
Total OPEB liability as a percentage of covered employee payroll	35.02%	43.14%	41.26%	67.11%	48.45%	43.68%	*	*	*	*
<u>Significant Actuarial Assumptions</u>										
Discount rate	3.65%	3.54%	2.16%	2.21%	3.50%	3.87%	*	*	*	*
Health cost trend rates:										
Initial	8% - 2022	7% - 2020	7% - 2020	8% - 2018	8% - 2018	8% - 2016	*	*	*	*
Ultimate	4% - 2075	4% - 2075	4% - 2075	3.9% - 2075	3.9% - 2075	5% - 2019	*	*	*	*
Mortality improvement scale	MP-2019	MP-2019	MP-2019	MP-2015	MP-2015	MP-2014	*	*	*	*

Note To Schedule:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75

* 10 Year schedule, historical information not available

SCHEDULE 4

BERLIN WATER WORKS

Schedule of Changes in the Berlin Water Works' Proportionate Share of the Net Pension Liability

For the Year Ended June 30, 2023

<u>Measurement Period Ended</u>	<u>Berlin Water Works' Proportion of the Net Pension Liability</u>	<u>Berlin Water Works' Proportionate Share of the Net Pension Liability</u>	<u>Berlin Water Works' Covered Payroll</u>	<u>Berlin Water Works' Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2022	0.01471551%	\$ 844,101	\$ 598,112	141.13%	65.12%
June 30, 2021	0.01600975%	\$ 709,539	\$ 676,035	104.96%	72.22%
June 30, 2020	0.01602100%	\$ 1,024,727	\$ 649,228	157.84%	58.72%
June 30, 2019	0.01652322%	\$ 795,040	\$ 648,972	122.51%	65.59%
June 30, 2018	0.01604324%	\$ 772,514	\$ 611,982	126.23%	64.73%
June 30, 2017	0.01908920%	\$ 938,805	\$ 643,939	145.79%	62.66%
June 30, 2016	0.02186584%	\$ 1,162,737	\$ 720,965	161.28%	58.30%
June 30, 2015	0.02590159%	\$ 1,026,099	\$ 832,344	123.28%	65.47%
June 30, 2014	0.02598995%	\$ 975,555	\$ 807,638	120.79%	66.32%
June 30, 2013	0.02560616%	\$ 1,102,034	\$ 750,833	146.77%	59.81%

Significant Actuarial Assumptions

<u>Measurement Periods</u>	<u>Inflation</u>	<u>Salary Increases</u>	<u>Investment Rate of Return</u>	<u>Mortality Table</u>	<u>Mortality Scale</u>
June 30, 2022	2.00%	5.40%	6.75%	Pub-2010	MP-2019
June 30, 2020 - 2021	2.00%	5.60%	6.75%	Pub-2010	MP-2019
June 30, 2016 - 2019	2.50%	5.60%	7.25%	RP-2014	MP-2015
June 30, 2013 - 2015	3.00%	3.75-5.80%	7.75%	RP-2000	Scale AA

SCHEDULE 5
BERLIN WATER WORKS
Schedule of Berlin Water Works Pension Contributions
For the Year Ended June 30, 2023

<u>Year Ended</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Berlin Water Works' Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2023	\$ 81,477	\$ (81,477)	\$ -	\$ 592,561	13.75%
June 30, 2022	\$ 82,240	\$ (82,240)	\$ -	\$ 598,112	13.75%
June 30, 2021	\$ 73,553	\$ (73,553)	\$ -	\$ 676,035	10.88%
June 30, 2020	\$ 70,636	\$ (70,636)	\$ -	\$ 649,228	10.88%
June 30, 2019	\$ 71,906	\$ (71,906)	\$ -	\$ 648,972	11.08%
June 30, 2018	\$ 67,808	\$ (67,808)	\$ -	\$ 611,982	11.08%
June 30, 2017	\$ 69,932	\$ (69,932)	\$ -	\$ 643,939	10.86%
June 30, 2016	\$ 78,297	\$ (78,297)	\$ -	\$ 720,965	10.86%
June 30, 2015	\$ 86,897	\$ (86,897)	\$ -	\$ 832,344	10.44%
June 30, 2014	\$ 84,317	\$ (84,317)	\$ -	\$ 807,638	10.44%