



August 31, 2016

MEMORANDUM TO PROSPECTIVE BIDDERS

**Re: TOWN OF BERLIN, CONNECTICUT
\$1,455,000 General Obligation Bond Anticipation Notes**

Dated: September 19, 2016 Date of Sale: Wednesday, September 7, 2016

Due: May 18, 2017 Time of Sale: 11:30 A.M. (Eastern Time)

*****Phone Number to Place Bid: (860) 828-7044*****

As per the Notice of Telephone Sale, proposals may be submitted by telephone on Wednesday, September 7, 2016. Please note that a representative of Phoenix Advisors, LLC will be available until 11:30 A.M. (Eastern Time) on the day of the sale to assist with telephone bids. We ask that you submit your final bid by telephone at **(860) 828-7044 no later than 11:30 A.M. on Wednesday, September 7, 2016.**

The issue of notes is exempt from the provisions of Rule 15c2-12, as amended, of the Securities and Exchange Commission. No Official Statement has been prepared by or on behalf of the Issuer for this sale.

The General Purpose Financial Statements have been excerpted from the Annual Financial Report of The Town of Berlin, Connecticut as of June 30, 2015. These excerpts are included in this package. Copies of the complete reports for June 30th are available upon request from Phoenix Advisors, LLC, Attention: Matthew A. Spoerndle, Senior Managing Director, 53 River Street, Suite 1, Milford, Connecticut, telephone (203) 878-4945.

We trust we may be of service.

PHOENIX ADVISORS, LLC



Telephone Sale Term Sheet

\$1,455,000

General Obligation Bond Anticipation Notes Town of Berlin, Connecticut

Date of Sale:	Wednesday, September 7, 2016 at 11:30 A.M. (Eastern Time).
Location of Sale:	Town of Berlin, Town Hall, Town Manager's Conference Room, 240 Kensington Road, Berlin, Connecticut 06037. Telephone: (860) 828-7044
Issuer:	Town of Berlin, Connecticut (the "Town").
Issue:	\$1,455,000 General Obligation Bond Anticipation Notes (the "Notes").
Dated Date:	September 19, 2016
Principal and Interest Due:	At maturity on May 18, 2017
Purpose:	The Notes are being issued to finance various general purpose and school projects.
Denominations:	\$100,000 or whole multiples thereof, except one such note will include the odd \$155,000.
Redemption:	The Notes are not subject to redemption prior to maturity.
Security:	The Notes will be general obligations of the Town and the Town will pledge its full faith and credit to the payment of principal of and interest on the Notes when due.
Credit Rating:	No application for a rating on this Note issue has been made to any credit rating agency. The Town has outstanding bond ratings from Standard & Poor's Corporation of "AA+" and Moody's Investors Service of "Aa2".
Basis of Award:	Lowest Net Interest Cost (NIC), as of dated date.
Form of Legal Opinion and Tax Exemption:	See "Bond Counsel Opinion" in the Notice of Telephone Sale.
Bank Qualification:	The Notes shall NOT be designated by the Town as qualified tax-exempt obligations under the provisions of Section 265(b) of the Internal Revenue Code of 1986, as amended, for purposes of the deduction by financial institutions for interest expense allocable to the Notes.
Continuing Disclosure	The Notes are being offered subject to the exemption of certain requirements under Rule 15c2-12, as amended, of the Securities and Exchange Commission. An Official Statement has not been prepared by or on behalf of the Issuer for this sale, nor does the Issuer intend to enter into a continuing disclosure agreement with respect to the Notes.
Registrar, Transfer Agent, Certifying Agent and Paying Agent:	U.S. Bank National Association of Hartford, Connecticut, Goodwin Square, 225 Asylum Street, 23rd Floor, Hartford, Connecticut 06103, unless the winning bidder is so designated. See "Option for No Book Entry" in the Notice of Sale.
Financial Advisor:	Phoenix Advisors, LLC of Milford, Connecticut will act as Financial Advisor. Telephone (203) 878-4945.
Legal Opinion:	Joseph Fasi LLC, of Hartford, Connecticut will act as Bond Counsel.
Delivery and Payment:	It is expected that delivery of the Notes in book-entry-only form will be made to The Depository Trust Company on or about September 19, 2016. Delivery of the Notes will be made against payment in immediately available Federal Funds.
Option for No Book Entry:	A bidder for the Notes may request that the Notes be issued in the form of a single fully registered physical certificate in the par amount of the Notes, rather than in book-entry form through the facilities of DTC. See "Option for No Book Entry" in the Notice of Sale.
Issuer Official:	Questions concerning this Official Statement should be directed to Barbara Bertrand, Interim Finance Director, Town Hall, 240 Kensington Road, Berlin, Connecticut 06037, Telephone: (860) 828-7044 or Mr. Matthew A. Spoerndle, Senior Managing Director, Phoenix Advisors, LLC, 53 River Street, Milford, Connecticut, Telephone: (203) 878-4945.

NOTICE OF SALE
\$1,455,000
TOWN OF BERLIN, CONNECTICUT
GENERAL OBLIGATION BOND ANTICIPATION NOTES

The Town of Berlin, Connecticut (the "Issuer"), will receive **telephone proposals only** until:

11:30 A.M. (E.D.T.)
Wednesday, September 7, 2016

at the **Town of Berlin, Town Hall, Town Manager's Conference Room, 240 Kensington Road, Berlin, Connecticut 06037**, for the purchase of:

\$1,455,000 TOWN OF BERLIN
GENERAL OBLIGATION BOND ANTICIPATION NOTES

NOT BANK QUALIFIED

Proposals may be submitted to Matthew A. Spoerndle, Senior Managing Director, Phoenix Advisors, LLC as Agent for the Issuer, **at telephone no. (860) 828-7044**.

The Notes will be dated **September 19, 2016**, will be payable to the registered owner on **May 18, 2017** and are not subject to redemption prior to maturity. They will be issued in the minimum denomination of \$100,000 or whole multiples thereof, except one such note will include the odd \$155,000. **Denominations of less than \$100,000 will not be made available.** They will bear interest (which interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months) payable at maturity at the rate or rates per annum fixed in the proposal or proposals accepted for their purchase, which rates shall be in multiples of 1/100 of 1% per annum.

DTC Book-Entry/Denominations

The Notes will be issued by means of a book-entry system with no physical distribution of note certificates made to the public, unless the no book-entry option is requested. See option for No Book-Entry below. The Notes will be issued in registered form and one note certificate for each interest rate will be issued to The Depository Trust Company, New York, New York (DTC), registered in the name of its nominee, Cede & Co., and immobilized in their custody. The book-entry system will evidence ownership of the Notes in the minimum principal amounts of \$100,000, as described above, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures adopted by DTC and its participants. The winning bidder or bidders, as a condition to delivery of the Notes, will be required to deposit the note certificates with DTC, registered in the name of Cede & Co. Principal of and interest on the Notes will be payable by the Issuer or its agent in same-day funds to DTC or its nominee as registered owner of the Notes. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial

owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The Issuer will not be responsible or liable for payments by DTC to its participants or by DTC participants to beneficial owners or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

Option For No Book-Entry

A bidder for the Notes may request that the Notes be issued in the form of a single fully registered physical certificate in the par amount of the Notes, rather than in book-entry form through the facilities of DTC, provided the bid is for all of the Notes at the same interest rate, and the request is submitted with the bid. A bidder for the Notes requesting that the Notes be issued in non-book-entry form may request that it be designated by the Town as the Certifying Agent, Registrar and Paying Agent for the Notes if it is a bank or trust company authorized to act in such capacity pursuant to the Connecticut General Statutes, and is a qualified public deposit under Connecticut law. The Town reserves the right to decline any request to issue the Notes in non-book-entry form, or to designate the winning bidder as Certifying Agent, Registrar and Paying Agent for the Notes, if it should determine, in its sole discretion, that issuing the Notes in such manner or with such designation is not in its best interests. If the Notes are issued in non-book-entry form, they are non-transferable, and must be held to maturity by the winning bidder requesting the No Book-Entry option.

Submitting Proposals

Proposals for purchase may be submitted by telephone call only to the Issuer's Agent as previously set forth. In submitting a bid by telephonic means, the bidder accepts the terms and conditions of this Notice of Sale and agrees to be bound thereby and, further, such bidder accepts and understands the risk that its bid may not be received by the Issuer or may be received later than the time specified as the result of a failure in communications, including but not limited to a failure in telephonic communications, or the inability to reach the Agent by the time specified.

Proposals for the purchase of said Notes will be transcribed by the Agent onto the form of proposal for purchase attached hereto. A proposal may be for all or any part of the Notes but any proposal for a part must be for a minimum of \$100,000, of principal amount per interest rate bid, or a whole multiple thereof, except that one such proposal for a part may include the odd \$155,000, of principal amount per interest rate bid, and the total of all principal amounts bid shall not exceed \$1,455,000. No bid for less than par and accrued interest, if any, will be considered.

Unless all bids are rejected the Notes will be awarded to the bidder or bidders offering to purchase the Notes at the lowest net interest cost, computed as to each interest rate stated by adding the total interest which will be paid at such rate and deducting therefrom the premium offered, if any. As between proposals resulting in the same lowest net interest cost to the Issuer, the award will be made on the basis of the highest principal amount of the Notes specified. The Issuer reserves the right to award to any bidder all or any part of the Notes bid for in his proposal. If a bidder is awarded only a part of the Notes bid for in his proposal, any premium

offered in such proposal will be proportionately reduced so that the resulting net interest cost to the Issuer with respect to the Notes awarded is the same as that contained in the bidder's proposal with respect to the entire amount bid, carried to four places.

Any bid received after the time specified, as determined in the sole discretion of the Issuer, will not be reviewed or honored by the Issuer.

Award

The Notes will be awarded or all bids will be rejected promptly after after the bid opening and not later than 4:00 P.M. (Hartford time) on September 7, 2016. The right is reserved to reject any and all proposals and to waive any irregularity or informality with respect to any proposal.

Legal Opinion

The legality of the issue will be passed upon by Joseph Fasi LLC, Bond Counsel, of Hartford, Connecticut, and the winning bidder or bidders will be furnished with their opinion without charge.

The Notes will be general obligations of the Issuer payable, unless paid from other sources, from ad valorem taxes which may be levied on all taxable property subject to taxation by the Issuer without limit as to rate or amount except as to classified property such as certified forest land taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts. There was, however, no such certified forest land on the last completed grand list of the Issuer and under existing statutes the State of Connecticut is obligated to pay the Issuer the amount of tax revenue which the Issuer would have received except for the limitation upon its power to tax such dwelling houses.

The legal opinion will further state that, under existing statutes and court decisions interest on the Notes (i) is not included in the gross income of the owners thereof for purposes of Federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) is not treated as a preference item for purposes of computing the Federal alternative minimum tax; such interest is, however, includable in the adjusted current earnings of certain corporations (as defined for federal income tax purposes) for purposes of computing the Federal alternative minimum tax imposed on corporations under the Code.

Under existing statutes, the interest on the Notes is **excluded** from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates, and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay Federal alternative minimum tax.

In rendering the legal opinion, Joseph Fasi LLC will rely upon and assume the material accuracy of the representations and statements of expectation contained in the Tax Regulatory Agreement entered into by the Issuer for the benefit of the owners of the Notes, and further, will

assume continuing compliance by the Issuer with the covenants and procedures set forth in such Tax Regulatory Agreement.

Reoffering Price Certification

IT SHALL BE THE RESPONSIBILITY OF THE WINNING BIDDER OR BIDDERS TO CERTIFY TO THE ISSUER BEFORE THE DELIVERY OF THE NOTES AND IN A MANNER SATISFACTORY TO BOND COUNSEL THE PRICE OR PRICES AT WHICH A SUBSTANTIAL AMOUNT OF THE NOTES WERE INITIALLY OFFERED AND SOLD TO THE PUBLIC.

Documentation to Winning Bidders

The winning bidder or bidders will also be furnished with a Signature and No Litigation Certificate, and a Receipt of payment satisfactory in form to said firm.

Certifying/Paying Agent

The Notes will be certified by U.S. Bank National Association, unless the no book-entry option is chosen.

Bank Qualification

The Notes **shall NOT** be designated by the Issuer as qualified tax exempt obligations under the provisions of Section 265(b) of the Code for purposes of the deduction by financial institutions for interest expenses allocable to the Notes.

Official Statement/Continuing Disclosure

The notes are being offered subject to the exemption of certain requirements under Rule 15c2-12, as amended, of the Securities and Exchange Commission. An Official Statement has not been prepared by or on behalf of the Issuer for this sale, nor does the Issuer intend to enter into a continuing disclosure agreement with respect to the notes.

Delivery and Payment

The Notes will be delivered to DTC or its Agent via “Fast” on or about September 19, 2016. The deposit of the Notes with DTC under a book-entry system requires the assignment of CUSIP numbers prior to delivery. It shall be the responsibility of the winning bidder or bidders to obtain CUSIP numbers for the Notes prior to delivery, and the Issuer will not be responsible for any delay occasioned by the inability to deposit the Notes with DTC due to the failure of the winning bidder or bidders to obtain such numbers and to supply them to the Issuer in a timely manner. The Issuer assumes no responsibility for any CUSIP Service Bureau charge or other charge that may be imposed for the assignment of such numbers, which charges shall be the responsibility of and shall be paid for by the purchaser. If the no book-entry option is chosen the Notes will be delivered to the winning bidder, and CUSIP number will not be required.

The purchase price must be paid in Federal Funds.

More Information

More information regarding this issue and the Issuer, and bid forms may be obtained from the undersigned or from Matthew A. Spoerndle, Senior Managing Director, Phoenix Advisors, LLC, 53 River Street, Milford, Connecticut 06460, (203) 878-4945.

Mark H. Kaczynski
Mayor

Denise M. McNair
Town Manager

Nancy L. Lockwood
Treasurer

Barbara J. Bertrand
Interim Finance Director

August 31, 2016

(See attached for form of Proposal for Purchase)

PROPOSAL FOR NOTES

September 7, 2016

Mark H. Kaczynski, Mayor
Denise M. McNair, Town Manager
Nancy L. Lockwood, Treasurer
Barbara J. Bertrand, Interim Finance Director
c/o Town of Berlin
Town Hall
Town Manager's Conference Room
240 Kensington Road
Berlin, Connecticut 06037

Ladies and Gentlemen:

Subject to the provisions of the Notice of Sale dated August 31, 2016, which Notice is made a part of this proposal, we offer to purchase the indicated principal amount of \$1,455,000 of Town of Berlin, Connecticut General Obligation Bond Anticipation Notes and to pay therefor par and accrued interest, if any, to the date of delivery, and pay the premium specified below, if any (and we provide our computations of net interest cost carried to four decimals and made as provided in the above-mentioned Notice of Sale, but not constituting any part of the foregoing proposal) as follows:

Principal amount _____ %
Stated interest rate _____ Percent Net Interest Cost
Premium _____ (Four Decimals)

Principal amount _____ %
Stated interest rate _____ Percent Net Interest Cost
Premium _____ (Four Decimals)

Principal amount _____ %
Stated interest rate _____ Percent Net Interest Cost
Premium _____ (Four Decimals)

Principal amount _____ %
Stated interest rate _____ Percent Net Interest Cost
Premium _____ (Four Decimals)

The undersigned hereby agrees to accept delivery of and make payment for the indicated principal amount of Notes in Federal Funds on the date of the Notes or as soon thereafter (but no later than 30 days thereafter) as such Notes may be prepared and ready for delivery by the Issuer.

(Name of Bidder) (Mailing Address)
(Telephone Number)
(Authorized Signature) (Facsimile Number)

- Request that the Notes be issued in non-book-entry form, and be registered in the name of the bidder, as provided in the Notice of Sale.
Only if submitting request that Notes not be issued in book-entry form: We request to be designated as the Certifying Agent, Registrar and Paying Agent for the Notes, as provided in the Notice of Sale.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements which must be met subsequent to delivery of the Notes in order that interest on the Notes not be included in gross income under Section 103 of the Code. The Tax Regulatory Agreement, which will be executed and delivered by the Issuer concurrently with the Notes, contains representations, covenants and procedures relating to the use, expenditure and investment of proceeds of the Notes in order to comply with such requirements of the Code. Pursuant to the Tax Regulatory Agreement, the Issuer also covenants and agrees that it shall perform all things necessary or appropriate under any valid provision of law to ensure interest on the Notes shall not be included in gross income of owners thereof for purposes of Federal income taxation under the Code. Failure to comply with the continuing requirements of the Code may cause the interest on the Notes to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Notes irrespective of the date on which non compliance occurs. In rendering its opinion, Bond Counsel relies on the continuing compliance by the Town with the Tax Regulatory Agreement.

In the opinion of Bond Counsel, based on existing statutes and court decisions and assuming continuing compliance by the Issuer with its covenants and the procedures contained in the Tax Regulatory Agreement, interest on the Notes is not included in the gross income of the owners thereof for purposes of Federal income taxation and is not treated as a preference item for purposes of computing the Federal alternative minimum tax. Interest on the Notes is, however, includable in the adjusted current earnings of certain corporations (as defined for federal income tax purposes) for purposes of computing the Federal alternative minimum tax on corporations.

Ownership of the Notes may also result in certain collateral Federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security and Railroad Retirement benefits and taxpayers who have or are deemed to have incurred indebtedness to purchase or carry tax exempt obligations, such as the Notes. Prospective purchasers of the Notes, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of ownership and disposition of the Notes.

In the opinion of Bond Counsel, based on existing statutes, interest on the Notes is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates, and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. Prospective purchasers of the Notes are advised to consult their own tax advisors regarding the state and local tax consequences of ownership and disposition of the Notes.

FUTURE EVENTS

The Federal and State tax treatment of municipal bonds is determined by Federal, State and local legislation, administrative pronouncements and court decisions. For example, recent Federal legislative proposals have been introduced into Congress which, if enacted, would eliminate or curtail the exclusion from gross income of interest paid on municipal bonds or have other collateral tax consequences that will adversely affect their tax treatment, including limiting the exclusion from gross income on tax exempt bonds for higher income taxpayers. Current ongoing Federal budget discussions include such proposals. The enactment of such proposals may adversely affect the tax treatment of: the interest paid on the Notes, their sale or disposition, market price, marketability, or otherwise prevent Beneficial Owners from receiving the full current tax benefit of ownership. There can be no assurance that changes of law by Federal or State governments will not occur or that they will not be made retroactive. Bond Counsel does not opine as to post issuance acts, including changes of law. Prospective purchasers and Beneficial Owners should consult their own tax advisors regarding pending or proposed law changes.

JOSEPH FASI LLC

56 ARBOR STREET, SUITE 418
HARTFORD, CONNECTICUT 06106

A T T O R N E Y S A T L A W

TELEPHONE (860)296-0510
FACSIMILE (860)296-0541

FORM OF OPINION OF BOND COUNSEL

Town of Berlin
Berlin, Connecticut

Ladies and Gentlemen:

We have represented the Town of Berlin, Connecticut as bond counsel with respect to the issuance and sale of \$1,455,000 Town of Berlin, Connecticut General Obligation Bond Anticipation Notes, bearing a Dated Date and an Original Issue Date of September 19, 2016, maturing May 18, 2017 (the "notes").

We have examined a record of the proceedings authorizing the notes, a Tax Regulatory Agreement of the Town dated September 19, 2016 (the "Tax Regulatory Agreement"), and other proofs submitted to us.

The notes are originally registered in the name of Cede & Co., as nominee of The Depository Trust Company, to effect a book-entry system for the ownership and transfer of the notes, and are certified by U.S. Bank National Association, Hartford, Connecticut (the "Certifying Agent").

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of an official statement or other offering material relating to the notes, if any, (except to the extent, if any, stated in such official statement) and we express no opinion relating thereto.

We are of the opinion that such proceedings and proofs show lawful authority for the issuance and sale of the notes under authority of the constitution and statutes of the State of Connecticut and that when certified by the Certifying Agent the notes are a valid and binding general obligation of the Town of Berlin payable both principal and interest from ad valorem taxes which may be levied on all taxable property subject to taxation by the Town without limitation as to rate or amount except as to classified property such as certified forest land taxable at a limited rate and dwelling houses of qualified elderly persons of low income or of qualified disabled persons taxable at limited amounts. There was, however, no such certified forest land on the last completed grand list of the Town and under existing statutes the State of Connecticut is obligated to pay the Town the amount of tax revenue which the Town would have received except for the limitation upon its power to tax such dwelling houses. We are further of the opinion that the Tax Regulatory Agreement is a valid and binding agreement of the Town.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the notes in order that interest on the notes not be included in gross income under Section 103 of the Code. The Town has covenanted in the Tax Regulatory Agreement that it will at all times perform all acts and things necessary or appropriate under any valid provision of law to ensure that interest paid on the notes shall not be included in the gross income of the owners thereof for Federal income tax purposes under the Code.

In our opinion, under existing statutes and court decisions, interest on the notes is not included in the gross income of the owners thereof for purposes of Federal income taxation pursuant to Section 103 of the Code and is not treated as a preference item for purposes of computing the Federal alternative minimum tax. Interest on the notes is, however, includable in the adjusted current earnings of certain corporations (as defined for federal income tax purposes) for purposes of computing the Federal alternative minimum tax imposed on corporations. We express no opinion regarding other Federal income tax consequences caused by ownership or disposition of, or receipt of interest on, the notes.

In rendering the foregoing opinions regarding the Federal income tax treatment of interest on the notes, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and expectations, and certifications of fact contained in the Tax Regulatory Agreement, and (ii) continuing compliance by the Town with the covenants and procedures set forth in the Tax Regulatory Agreement as to such tax matters.

We are further of the opinion that, under existing statutes, interest on the notes is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates, and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. We express no opinion regarding other State income tax consequences caused by ownership or disposition of the notes.

The rights of owners of the notes and the enforceability of the notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by application of equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully yours,

JOSEPH FASI LLC

TOWN OF BERLIN, CONNECTICUT

FINANCIAL INFORMATION

Excerpted from the
Annual Financial Report of
The Town of Berlin, Connecticut
Year Ended June 30, 2015



Accounting | Tax | Business Consulting

Independent Auditors' Report

To the Town Council
Town of Berlin, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Berlin, Connecticut, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Berlin, Connecticut's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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 of 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Berlin, Connecticut, as of June 30, 2015 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 18 to the financial statements, during the fiscal year ended June 30, 2015, the Town adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The net position of the Town has been restated to recognize the net pension liability required in implementing GASB No. 68. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15, the budgetary comparison information on pages 61 through 69 and the pension schedules on pages 70 through 73 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, which 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Berlin, Connecticut's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Town of Berlin, Connecticut, as of and for the year ended June 30, 2014 (not presented herein), and have issued our report thereon dated November 17, 2014, which contained unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. The accompanying General Fund balance sheet as of June 30, 2014 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the 2014 financial statements. The accompanying General Fund balance sheet has been subjected to the auditing procedures applied in the audit of the 2014 basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the General Fund balance sheet is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2014.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2015 on our consideration of the Town of Berlin, Connecticut'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 Town of Berlin, Connecticut's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
December 8, 2015

**TOWN OF BERLIN, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

This discussion and analysis of the Town of Berlin, Connecticut's (the Town) financial performance is provided by management to provide an overview of the Town's financial activities for the fiscal year ended June 30, 2015. Please read this Management Discussion and Analysis (MD&A) in conjunction with the transmittal letter and the Town's financial statements, Exhibits I to IX. All amounts are expressed in thousands unless otherwise noted.

FINANCIAL HIGHLIGHTS

- The Town's total net position increased by \$13,961 or 13.6%, as a result of this year's operations. Net position of the Town's governmental activities increased by \$12,575, or 14.5%, and net position of the Town's business-type activities increased by \$1,386 or 8.8%. It should be noted that fiscal year 2014 net position of government activities was restated due to the requirements of GASB Statement No. 68. The above variances are calculated using the restated numbers.
- During the year, the Town had governmental program expenses that were \$12,575 less than the \$99,317 generated in tax and other revenues for governmental programs.
- In the Town's business-type activities, expenses were \$1,386 less than the \$4,712 generated in charges for services and other revenues.
- The total cost of all of the Town's programs increased by \$3,210, or 3.7% to \$90,068 with no new programs added this year. This compares to an increase of 6% in the prior year. General Government, Education, Public Safety and Interest on Long Term Debt are the main drivers, accounting for a majority of the increase. Some of the major drivers of these increases include costs associated with the major Berlin High School renovation project underway, including associated debt-related costs (Education); use of contingency funds related to the severe winter weather conditions; and addition of new personnel including a Purchasing Agent and an additional School Resource Officer.
- The General Fund reported a total fund balance this year of \$12,143, a decrease of \$560, or 4.4%, from the previous year. The decrease is due to the use of \$800 in assigned fund balance to make a double contribution to the defined benefit pension plan in fiscal year 2015. The unassigned portion of fund balance increased by a total of \$240, or 2.5% due to positive operating results mainly due to sound expense management.
- Expenditures were kept at or below spending limits.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (Exhibits I and II, respectively) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements are presented in Exhibits III through IX. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements

The analysis of the Town as a whole begins with Exhibits I and II. The statement of net position and the statement of activities report information about the Town as a whole and about its activities for the current period. These statements include all assets and liabilities 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 cash is received or paid.

These two statements report the Town's net position and changes in them. The Town's net position (i.e. the difference between assets and liabilities) is one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. The reader needs to consider other nonfinancial factors, however, such as changes in the Town's property tax base and the condition of the Town's capital assets, to assess the overall health of the Town.

In the statement of net position and the statement of activities, we divide the Town into two types of activities:

- *Governmental activities* - Most of the Town's basic services are reported here, including education, public safety, community development, physical services, parks, recreation and libraries, health and human services, and general administration. Property taxes, charges for services, and state and federal grants finance most of these activities.
- *Business-type activities* - The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's Water and Sewer Enterprise Fund is reported here.

Fund Financial Statements

The fund financial statements begin with Exhibit III and provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by Charter. However, the Town Council establishes many other funds to help control and manage financial activities for particular purposes (such as the Water and Sewer Enterprise Fund) or to show that it is meeting legal responsibilities for using grants and other money (such as grants received from the State of Connecticut or the federal government). The Town's funds are divided into three categories: governmental, proprietary and fiduciary.

- *Governmental funds (Exhibit III and IV)* - Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation at the bottom of the fund financial statements.
- *Proprietary funds (Exhibit V, VI and VII)* - When the Town charges customers for the services it provides, whether to outside customers or to other units of the Town, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the Town's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. Internal service funds (the other component of proprietary funds) are used to report activities that provide supplies and services for the Town's other programs and activities—such as the Town's General Insurance and Medical and Health Insurance internal service funds.
- *Fiduciary funds (Exhibit VIII and IX)* - The Town is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the Town's fiduciary activities are reported in separate statements of net position - fiduciary funds and changes in net position - fiduciary fund. These activities are excluded from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Town's combined net position increased from \$102,673 (as restated) to \$116,634. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town's governmental and business-type activities.

Table 1
Net Position
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 35,438	\$ 37,441	\$ 6,566	\$ 5,752	\$ 42,004	\$ 43,193
Capital assets, net of accumulated depreciation	140,183	114,534	12,935	12,116	153,118	126,650
Total assets	<u>175,621</u>	<u>151,975</u>	<u>19,501</u>	<u>17,868</u>	<u>195,122</u>	<u>169,843</u>
Deferred charge on refunding		16				16
Changes of pension actuarial assumptions actual	555				555	
earnings on pension plan investments	33				33	
Total deferred outflows of resources	<u>588</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>588</u>	<u>16</u>
Long-term debt outstanding	70,534	59,360	2,237		72,771	59,360
Other liabilities	5,637	5,508	137	2,127	5,774	7,635
Total liabilities	<u>76,171</u>	<u>64,868</u>	<u>2,374</u>	<u>2,127</u>	<u>78,545</u>	<u>66,995</u>
Differences between expected and actual pension plan actuarial experience	419				419	-
Advance property tax collections	112	191			112	191
Total deferred inflows of resources	<u>531</u>	<u>191</u>			<u>531</u>	<u>191</u>
Net Position:						
Net investment in capital assets	75,761	60,219	12,739	10,074	88,500	70,293
Restricted	147	147			147	147
Unrestricted	<u>23,599</u>	<u>26,566</u>	<u>4,388</u>	<u>5,667</u>	<u>27,987</u>	<u>32,233</u>
Total Net Position	<u>\$ 99,507</u>	<u>\$ 86,932</u>	<u>\$ 17,127</u>	<u>\$ 15,741</u>	<u>\$ 116,634</u>	<u>\$ 102,673</u>

Net position of the Town's governmental activities increased by 14.5%. Unrestricted governmental net position (i.e. the portion of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements) decreased from \$26,566 at June 30, 2014 to \$23,599 at the end of this year.

The increase in net position is driven by the increase in net investment in capital assets from \$60,219 (as restated) at June 30, 2014 to \$75,761 at June 30, 2015. This increase occurred because the value of capital assets added (including construction in progress on the \$84,950 renovate-as-new project at Berlin High School, major roadway and bridge improvements, school roof replacement projects, and major infrastructure improvements in the water/sewer systems) exceeded additional debt issued during the year. Please refer to Notes 5 and 6 in the Notes to Financial Statements for further detail. These increases were partially offset by the negative impacts to unrestricted net position due to the implementation of GASB Statement 68, which requires the Town to include the defined benefit pension liability in the financial statements.

Authorized General Fund budget appropriations for operating expenses of approximately \$2.1 million remained unspent at year end; this is the result of prioritizing needs and funding only the most critical of these needs throughout the fiscal year. In addition, expenses were lower than normal mainly due to salary and benefit reductions for positions that were either unfilled or were unexpectedly vacated and replaced with new staff at lower salary and benefit levels. The most significant example is the Police Department, where several positions were in process of being filled. In addition, savings were realized on refuse disposal, which is one of the Town's largest operating expenses, due to increased efficiencies in recycling. Finally, the Town continued several efforts to control expenses such as: minimizing use of overtime where possible; prohibiting most air travel for conferences; constantly rolling out efforts to reduce the cost of employee benefits through wellness initiatives, higher employee cost shares and increased participation in a high-deductible health savings account; and managing the financial effects of unexpected events such as the extreme winter season during 2014-15 through the use of internal resources and budgeted contingency. In addition, continued maintenance of historically low interest rates by the Federal Reserve has helped to keep debt service interest expenses under budget.

On the revenue side, results varied depending on type of revenue. Most notably, tax revenues, especially related to motor vehicle taxes and collection of delinquent taxes and related interest, have continued to be better than expected, despite the difficult economy. The Town completed tax sales during fiscal year 2015 and this resulted in collection of taxes that were delinquent for many years. During fiscal year 2015, \$215 in delinquent tax revenue was collected from the tax sales. The Town has been able to continue to maintain a very high tax collection ratio of 98.87% in the current fiscal year which is greater than the 98.5% collection assumption used in the budget.

The 2013 Grand List, which applies to fiscal year 2015, increased by 1.82% from the previous year. It should be noted that the prior year showed a large decrease in real estate values due to state-mandated property revaluation. In the 2013 Grand List, all segments showed increases: real estate values increased by .87%, personal property values increased by 9.13% and motor vehicle values increased by 3.83% over the previous year's Grand List.

In addition, due to the volatility of the information available from the State of Connecticut while the Governor's budget was being developed, the Town continued to budget very conservatively for all state grants. The Town was fortunate that the State maintained current levels of Education Cost Sharing funding with a slight increase from the prior year; these funds account for the vast majority of funds received from the State. Although many operational state grants (as reported in Schedule RSI-1) were at or above prior year levels, one notable exception is the municipal revenue sharing grant (no longer funded by the state). The Town had accrued a receivable for \$50 for the last portion of the grant that was to be paid in fiscal year 2015; subsequently, the state redirected these funds for other purposes which required the reversal of the receivable. Although Excess Cost and Police Overtime funds were lower than the prior year, these two items are budget neutral as only the amount received is spent. It should also be noted that the state shifted some of the operational grant funding to Local Capital Improvement projects and Public Works projects which are accounted for in the Capital Projects Fund. Finally, in the current fiscal year the Town was awarded Federal Emergency Management Agency funds for reimbursement of a long-term project related to Tropical Storm Irene back in 2011. Therefore, although operational grants are lower than in the prior year, total operational and capital grants are actually higher than in the prior year.

Total charges for services revenues increased from the prior year, most notably due to a large increase in sewer rates to cover capital improvement and an increase in water consumption. These changes were partially offset by the following: a reduction in public health nursing services revenue primarily due to reductions in Medicare reimbursements at the federal level as well as some internal billing issues; and a decline in golf course greens and cart fees due to an early closing and late opening related to a longer than average winter.

Finally, investment earnings have improved over the prior year although overall interest rates are still being held at historically low levels by the Federal Reserve. The Town's management continues to try to invest funds at various financial institutions offering the highest possible interest rates. The Town is somewhat limited in its investment choices by state statutes regarding investment of public funds. Please see the narrative following Table 2 for a more specific discussion of revenue variations by category.

Table 2
Changes in Net Position
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 4,221	\$ 4,359	\$ 4,680	\$ 3,597	\$ 8,901	\$ 7,956
Operating grants and contributions	14,784	16,091			14,784	16,091
Capital grants and contributions	15,726	12,066			15,726	12,066
General revenues:						
Property taxes	63,685	62,660			63,685	62,660
Grants and contributions not restricted to specific programs	158	279			158	279
Unrestricted investment earnings	165	81	32	31	197	112
Other general revenues	578	693			578	693
Total revenues	<u>99,317</u>	<u>96,229</u>	<u>4,712</u>	<u>3,628</u>	<u>104,029</u>	<u>99,857</u>
Program expenses:						
General government	5,416	4,192			5,416	4,192
Community development	1,135	850			1,135	850
Public safety	9,580	8,747			9,580	8,747
Physical services	8,670	9,778			8,670	9,778
Parks, recreation and libraries	4,205	4,172			4,205	4,172
Health and human services	2,440	2,617			2,440	2,617
Schools	53,394	52,398			53,394	52,398
Interest on long-term debt	1,907	1,257			1,907	1,257
Water			1,298	1,195	1,298	1,195
Sewers			2,023	1,652	2,023	1,652
Total program expenses	<u>86,747</u>	<u>84,011</u>	<u>3,321</u>	<u>2,847</u>	<u>90,068</u>	<u>86,858</u>
Excess before transfers	12,570	12,218	1,391	781	13,961	12,999
Transfers	<u>5</u>	<u>9</u>	<u>(5)</u>	<u>(9)</u>	<u>-</u>	<u>-</u>
Increase in Net Position	12,575	12,227	1,386	772	13,961	12,999
Net Position at Beginning of Year, as Restated	<u>86,932</u>	<u>74,705</u>	<u>15,741</u>	<u>14,969</u>	<u>102,673</u>	<u>89,674</u>
Net Position at End of Year	<u>\$ 99,507</u>	<u>\$ 86,932</u>	<u>\$ 17,127</u>	<u>\$ 15,741</u>	<u>\$ 116,634</u>	<u>\$ 102,673</u>

The Town's total revenues (governmental and business-type) were \$104,029. The total cost of all programs and services (governmental and business-type) was \$90,068. The analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The largest source of revenues was derived from property taxes at 64.13%, followed by 15.84% from capital grants and contributions, 14.88% from operating grants and contributions, and 4.25% from charges for services. Major revenue factors include:

- Property tax revenues recorded for fiscal year 2015 reflect a tax rate of 28.92 mills, an increase of .15 mill over the rate used in the previous fiscal year. The tax collection rate remained very strong at 98.87% especially considering the difficult economy; this is due in part to more aggressive collection procedures including the enforcement of an ordinance to collect taxes from Town vendors and the conducting of tax sales on very delinquent properties. The Grand List increased by 1.82% after declining in the prior year due to state-mandated property revaluation on the 2012 Grand List; as noted above, there were increases in all property categories on the 2013 Grand List.
- Unrestricted governmental investment earnings increased from \$81 in the prior fiscal year to \$165 in the current year. The increase in investment earnings is the result of slightly improved interest rates and to the recognition of investment earnings on short term CD's which was not accrued in the prior year.
- Combined revenue from capital and operating grants and contributions increased from the prior fiscal year by \$2,342, or 8.3%. The primary reasons for this increase are school construction grants received for the state's share of the Berlin High School Project and school roof projects as well as grants for bridge improvements and a reimbursement grant from the Federal Emergency Management Agency related to a long term culvert project required due to damage from Tropical Storm Irene back in 2011. In addition the State of Connecticut on-behalf contribution to the State Teachers' Retirement Fund decreased by \$1,068 (note that this affects both revenues and expenditures, so it has no net impact).

Major expense factors include:

- The Town continued to employ various cost control methods to keep expenditures as low as possible. These involve regular monthly review of all town expenditures as compared to budget; Town Manager review of all purchase order requests valued at \$2,500 and above; active review and reevaluation of positions as people retire or leave town employment and; purchasing used or discounted supplies and furniture where possible. Although the winter of 2014-15 was extremely difficult and the Town received excessive rain during the spring of 2015, all expenses related to these events were paid from budgeted contingency or covered by insurance and, therefore, did not have a major impact on financial results. In addition, the Police Department continued to experience turnover and have unfilled positions during the fiscal year which resulted in lower than normal expenses in that department which were partially offset by additional overtime costs. Finally, through renegotiation of the pension consortium with all unions other than Police, the 200% defined contribution match by the Town was reduced to a 100% match for all employees hired after January 1, 2015; this change will have a positive impact on future expenses.
- In the Capital Projects Fund, \$30,222 was expended for asset acquisition and improvements, most notably for major renovations to Berlin High School; roadway and bridge improvements; business continuity and disaster recovery initiatives; purchase of open space; and a roof replacement at Griswold School. These capital expenses were funded through a combination of intergovernmental grants and bond and bond anticipation note proceeds (including \$13,720 bond and \$1,180 note issuance in May 2015 and a \$1,900 note issuance in September 2014).
- For governmental activities, 61.6% of the Town's expenses are for education, 11.1% for public safety, 10% for physical services, 6.3% for general government, 4.9% for parks and recreation and libraries, 2.8% for health and human services, 2.2% for interest on long-term debt and 1.1% for Community Development. These percentages are fairly consistent with the prior year; however, interest on long-term debt has increased in the current year due to the increase in debt levels related to the Berlin High School renovation project.

- There were increases in employee wages as a result of negotiated step and general wage increases; however, contractual increases were limited to a maximum of 2% for the Town and 2.5% for the Board of Education. Only one Town union contract was renegotiated at the beginning of fiscal year 2015 and received a two-year agreement with 2% increases in each year. All unions have taken a zero percent increase at some point over the past five years. Four Town union contracts expired on June 30, 2015, so there will be significant negotiations next year. On the Board of Education side, two contracts expired on June 30, 2015; one is settled the other is in process of final settlement. Any increases as a result of these contract negotiations will be budgeted starting in fiscal year 2016 or 2017, as applicable.
- One new full time Town position was added during fiscal year 2015. This position is a Purchasing Agent who reports through the Finance Department; adding this position has already saved the Town time and money through having the bid process coordinated by one person; this allows other managers to focus on their core areas and also allows for bids to be done more regularly. For the Board of Education, there was a net gain of 3 certified positions.
- Town employee benefit costs were well-managed due to benefits that continue to be realized from the consolidation of the separate insurance plans previously offered to each bargaining unit into one standard plan and also having insurance and pension benefits negotiated as coalition agreements separate from the main bargaining unit contracts. The Town continues to take measures to control the level of medical insurance costs through the following: implementation of wellness incentives; the hiring of a new insurance broker to assist the Town and Board of Education in performing a competitive review of major insurance companies in order to obtain the lowest possible cost; and the offering a high-deductible HSA plan which is currently voluntary for both the Town and Board of Education. In addition, the employee share of medical insurance costs has been increasing over the past several years.
- The cost of education services increased over the prior year, due mainly to contractual wage obligations, employee health benefits and the provision of state and federal mandated services. Capital expenditures related to education also increased due to school construction projects (specifically, the high school renovation and Griswold School roof projects.)
- The policy of budgeting for contingencies continues to have a favorable impact to the Town's financial results as the Town is not forced to use general fund balance to cover unanticipated expenses. During fiscal year 2015, nearly all of the Town's \$350 budgeted contingency funds were used to cover expenses associated with the difficult winter of 2014-15 as well as other contingencies that arose during the year.
- Cost of issuing new debt continues to be low due to the Federal Reserve's policy of maintaining low interest rates. Debt service expenses will continue to increase in the coming years (starting in fiscal year 2016) due to principal payments on debt related to the Berlin High School renovation project beginning to come due as well as potential future bond issuances for the building of a new police station (this project, with an estimated cost of \$21 million was defeated at referendum in November 2014 and is being revisited). As of June 30, 2015, about 75% of the Town's \$47 million share of the Berlin High School project has been bonded. The first impact of the debt service principal payments on this project will be felt in fiscal year 2016. These increases will be partially offset by debt service payments expiring in fiscal year 2016.

Table 3 presents the cost of each of the Town's five largest programs - general government; public safety; physical services; parks, recreation and library; and schools - as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.

Table 3
Governmental Activities
(in thousands)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
General government	\$ 5,416	\$ 4,192	\$ 4,170	\$ 3,393
Public safety	9,580	8,747	8,888	8,265
Physical services	8,670	9,778	5,704	8,196
Parks, recreation and library	4,205	4,172	2,790	2,400
Schools	53,394	52,398	26,067	26,065

Business-Type Activities

Revenues of the Town's business-type activities (see Table 2) increased by 30% and expenses (including transfers) increased by 16.6%.

The major factors contributing to the increase in revenues are: an increase in charges for services due to a 29% sewer rate increase in October 2014. This rate increase is the first in a series to fund major capital improvements as outlined below and in the Notes to the Financial Statements. The next rate increase will be implemented in October 2015 and is approximately 23%.

The increase in expenses and transfers of the Town's business-type activities is mainly due to the following major capital project:

Currently, the Mattabassett District (presently including the towns of Berlin, Cromwell and the Cities of New Britain and Middletown) is performing a major upgrade for nitrogen removal, increased capacity to accommodate increased flows and related required improvements to meet federal Environmental Protection Agency and state Department of Energy and Environmental Protection nitrogen removal requirements as well as the EPA's sewage sludge incinerator emissions requirements. This is a three year construction project that began during fiscal year 2013 and is about 99% complete as of June 30, 2015. The Town will be annually assessed for a 14.35% share of the associated debt.

Please refer to the Notes to Financial Statements for further information on these projects.

TOWN FUNDS FINANCIAL ANALYSIS

Governmental Funds

As the Town completed the year, its governmental funds (as presented in the balance sheet - Exhibit III) reported a combined fund balance of \$22,416, which is a 4.3% decrease from last year's total of \$23,425. This decrease is due in part to the use of \$800 in general fund balance to make an additional defined benefit contribution as well as a lower bond issuance in 2015 than in 2014.

Included in this year's total change in governmental fund balance is a decrease of \$561 in the Town's General Fund, compared to a decrease of \$88 in the prior year. The primary reason for the General Fund balance's decrease is the use of \$800 of the \$2,600 assigned fund balance during fiscal year 2015. This \$800 was specifically used to make an additional defined benefit pension contribution of \$700 (in addition to the \$700 budgeted) in order to begin to address the long-term liability; the

additional \$100 was used to partially offset the pension expenditure so as to reduce the mill rate. This reduction was partially offset by favorable general fund results due to expenditures coming in below budget for fiscal year 2015 mainly due to savings achieved in refuse disposal and in salaries and benefits due to open positions or positions filled with new staff at lower salary levels.

Proprietary Funds

As the Town completed the year, its business-type proprietary funds (as presented in the balance sheet - Exhibit V) reported combined net position of \$17,127 which is an increase of \$1,385 or 8.8% from the previous year's total of \$15,741. As mentioned previously, there was a 29% rate increase implemented during fiscal year 2015 to help offset the cost of large capital projects that are in process.

Internal Service Funds

In the internal service funds, the insurance funds experienced a combined decrease in net position of \$800, or 14.6% as compared to the prior year. The major driver of the decrease in net position is a large increase in claims in the Medical and Health Insurance fund, due to unfavorable experience as well as administrative costs increases related to the Affordable Care Act. In addition, the General Insurance Fund also experienced a reduction in net position due mainly to increasing Heart & Hypertension claims for police officers who were grandfathered under this now repealed state mandate as well as an increase in workers' compensation rates due to unfavorable experience. It should be noted that medical claim experience would have been more unfavorable if the Town did not maintain a \$150,000 stop-loss plan, so that any claims above this amount are paid by the insurer. The Town is taking numerous initiatives to reverse this negative medical claim experience including: introduction and promotion of a High-Deductible Health Savings Account plan for both Town and Board of Education employees; a change in the Town's insurance broker who is aggressively pursuing a competitive analysis on the remaining health insurance companies; the pursuit of wellness initiatives and promotion of preventative care; and the pursuit of a regional stop-loss insurance program that may reduce costs through a pooling arrangement.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the Town had \$153,118 invested in a broad range of capital assets, including land, buildings, park facilities, vehicles and equipment, roads, bridges, and water and sewer lines (see Table 4). This amount represents a net increase (including additions and deductions) of \$26,468 or 20.9%, over last year.

Table 4
Capital Assets at Year-End (Net of Depreciation)
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 23,195	\$ 21,944	\$ 993	\$ 993	\$ 24,188	\$ 22,937
Land improvements	1,541	1,642			1,541	1,642
Buildings and improvements	31,869	33,243	833	501	32,702	33,744
Equipment	6,331	5,709	218	242	6,549	5,951
Construction in progress	56,870	32,029	3,771	4,073	60,641	36,102
Infrastructure	20,377	19,967	7,120	6,307	27,497	26,274
Totals	\$ 140,183	\$ 114,534	\$ 12,935	\$ 12,116	\$ 153,118	\$ 126,650

This year's major additions included (in thousands):

Berlin High School Renovation	\$ 23,646
Chamberlain Highway Land Purchase	1,200
Street Resurfacing	1,037
Griswold Roof	499
Park Drive Bridge	480

The Town's fiscal-year 2015-16 approved capital budget calls for it to spend another \$1,049 for capital projects funded in the General Fund operating budget, principally for building renovations, various tools and equipment (including technology equipment), trucks, vans, police and highway vehicles and equipment, playground improvements, school building improvements, and golf equipment leases. Bond anticipation notes of \$1,180 were outstanding at June 30, 2015 for the following projects: General Bridge Repair and Disaster Recovery/Business Continuity Initiatives. More detailed information about the Town's capital assets is presented in Note 1 and Note 5 to the financial statements.

Long-Term Debt

At June 30, 2015, the Town had \$60,905 in bonds outstanding versus \$49,450 last year, an increase of \$11,455. The increase was the result of a bond issuance of \$13,720 in May 2015 to fund Berlin High School renovations and purchase of open space. This issuance was partially offset by repayment of existing debt per the Town's debt repayment schedule. The Town maintains a five-year Capital Improvement Plan as well as a Debt Issuance Plan to track projects that need to be completed and the funding for such projects.

Debt service expenditures will continue to increase over the next several years as the Town moves forward on the \$84,950 renovation of Berlin High School, anticipated construction of the new police station and other improvements to the Town's infrastructure. The Berlin High School renovation project is now in the construction phase and is anticipated to be completed in 2016, so additional bonds and notes will need to be issued to fund the expenditures according to the cash flow statement for the project. As of June 30, 2015, approximately 25% of the Town's obligation still needs to be bonded.

Standard & Poor's Rating Services reaffirmed its general obligation bond rating of AA+ in fiscal year 2015 due mainly to sound financial management. The Town's Bond Anticipation Notes are rated SP-1+ with Standard & Poor's Rating Services. In order to reduce bond issuance costs, the Town did not request a rating by Moody's during fiscal year 2015.

The State of Connecticut limits the amount of general obligation debt that towns can issue based on a formula determined under State Statutes which considers the type of debt and tax base. The Town's outstanding general obligation debt is significantly below the state-imposed limit of \$461,531.

Other long-term obligations include accrued compensated absences (vacation pay and sick leave), a net pension obligation, capital lease obligations and a liability for other post-employment benefits. More detailed information about these long-term liabilities is presented in Note 7 to the financial statements.

Finally, on April 9, 2013, the Town entered into a twenty-year 2% loan with the State of Connecticut Department of Energy and Environmental Protection's Clean Water Fund in order to fund the inflow and infiltration project described under the "Business-Type Activities" section above. This project was completed during fiscal year 2015 and, on March 30, 2015, the interim funding obligation ("IFO") was converted to a Project Loan Obligation ("PLO") of \$2,236 which will be repaid in equal installments over twenty years. Per state requirement, the Town Council authorized \$4,500 for this project; however, no bonds have been issued nor are any expected to be issued for this project. This project is accounted for in the water and sewer enterprise fund.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the fiscal year budget 2015-2016, General Fund appropriations total \$80,595. This is an increase of approximately 2.83% over 2014-2015 and resulted in a tax mill rate increase of 1.43 to 30.35 mills. This mill rate increase is higher than that in recent years mainly due to a large increase in debt service generated by the Berlin High School renovation project. The 2014 Grand List decreased .29% compared to the 2013 Grand List; the decrease was driven by the personal property category and was due to the correction of an error by a large taxpayer in their personal property declaration. The 2015-16 General Fund budget includes \$1,800 (a decrease of \$800 over the previous year when an extra contribution to the defined benefit pension plan was included) of assigned General Fund fund balance in order to mitigate the tax increase needed.

For the business-type activities, the Town, in conjunction with the Water Control Commission, has set related fees to offset the cost of operations. As described in detail in Note 12 as well as in the "Business-Type Activities" section above, the Mattabassett District, of which the Town is a member, is performing a major upgrade for nitrogen removal, increased capacity and improvements required by state and federal regulation. The district has borrowed approximately \$82 million to fund the cost of this project. This cost will be shared among the member cities and towns with Berlin's share currently estimated at 14.35%. Future sewer rate increases will continue to be impacted by these projects; there will be a 23% increase implemented in October 2015. Also, as noted in the previous section, the Town has entered into a clean water fund loan agreement with the state to fund an inflow and infiltration (i.e. clean water) project; this loan will be repaid over twenty years and the loan repayments will also impact future rates.

The Town's elected and appointed officials considered many factors when establishing the tax mill rate and business-type fees for the 2015-16 fiscal year. The Town desires a stable level of service delivery and adopted a mill rate that reflects stable service delivery. The adverse economic conditions at the state and federal level continue to have a significant impact on the budget process. Like most surrounding towns, Berlin experienced a decrease in real estate property values as a result of its most recent state-mandated property revaluation which reflected the impacts of the adverse real estate market over the past several years. The Town will be continually challenged in the future to match growing expenses with limited Grand List growth.

In addition, the Town faces the challenge of dealing with the continued budget instability occurring at the state and federal levels. To date, the Town has been fortunate overall in avoiding major reductions in state aid; however, with the State of Connecticut facing large projected budget deficits over the next several years, it will be increasingly difficult for the State to maintain municipal aid at its current levels. In September 2015, state budget rescissions were issued related to the fiscal year 2016 budget and this resulted in the Town losing approximately \$24 in budgeted state aid. Since approximately 10% of 2016 budgeted General Fund revenues are anticipated to be generated from operational intergovernmental grants, the sustainability of this revenue stream is a significant concern for the Town. The Town has so far been spared a major reduction in Education Cost Sharing ("ECS") funds, which represent approximately 78.6% of the 2016 grant revenue budget and 7.9% of the total revenue budget. In the Governor's biennial budget for fiscal years 2016-17, ECS is flat-funded through fiscal year 2017. Therefore, although education costs are increasing, there will be no increases in state aid. Most other state grants are either held constant or have slight increases through fiscal year 2017. The state is also continuing its initiative to make substantial changes to the motor vehicle tax; the Town will continue to monitor this situation as major changes could have a significant budgetary impact to the Town. Finally, continued budgetary issues at the Federal level and the slow economic recovery from the 2008 recession will continue to impact the Town.

Overall, financial results were better than planned for fiscal year 2015 due to successful expense management efforts as well as positive results in tax revenues; the Town did not have to use any of the \$1.8 million assigned fund balance. Over the previous years, the Town has maintained a relatively strong level of General Fund fund balance, which has assisted the Town in dealing with the unfavorable economic climate as well as addressing contingencies such as large weather events while keeping tax increases relatively low compared to surrounding communities. Over the next few years, the Town will face continued growth in debt service due to large capital projects. The Town will be challenged to come up with creative ways to save money to offset these expenses. One such initiative is currently underway involving an energy audit that the Town has completed; this audit has made recommendations for updating infrastructure to significantly reduce energy costs. In the early years of the project, the savings will be used to pay for the infrastructure and then the Town will recognize long-term savings on energy costs. It will be necessary to continue to identify projects such as these with sustained savings.

The growth in General Fund fund balance over the last few years allowed the Town to make an additional contribution to its defined benefit plan in fiscal year 2015 to strategically address the long-term liability. The Town's defined benefit plan has been completely closed for 15 years and is a very unique type of plan that offers the higher of the defined benefit or defined contribution calculation. As many of the remaining active participants are starting to retire and choose lump sum contributions, the Town made the strategic decision to use assigned fund balance to make a supplemental contribution in 2015, while still maintaining a strong unassigned fund balance. The Town will continue to evaluate ways to lower the long-term liability.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, 240 Kensington Road, Town of Berlin, Connecticut 06037.

Basic Financial Statements

TOWN OF BERLIN, CONNECTICUT
STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 30,934,340	\$ 4,867,595	\$ 35,801,935
Receivables, net	4,467,724	1,633,006	6,100,730
Internal balances	605	(605)	-
Inventory	35,060		35,060
Capital assets not subject to depreciation	80,064,598	4,764,358	84,828,956
Capital assets - depreciable, net of accumulated depreciation	60,118,337	8,170,673	68,289,010
Other		65,828	65,828
Total assets	<u>175,620,664</u>	<u>19,500,855</u>	<u>195,121,519</u>
Deferred Outflows of Resources:			
Changes of pension actuarial assumptions	555,354		555,354
Net difference between projected and actual earnings on pension plan investments	<u>33,432</u>		<u>33,432</u>
Total deferred outflows of resources	<u>588,786</u>	<u>-</u>	<u>588,786</u>
Liabilities:			
Accounts and other payables	4,237,686	137,690	4,375,376
Unearned revenue	219,695		219,695
Bond anticipation and clean water notes	1,180,000		1,180,000
Noncurrent liabilities:			
Due within one year	4,593,916	195,695	4,789,611
Due in more than one year	<u>65,939,986</u>	<u>2,040,819</u>	<u>67,980,805</u>
Total liabilities	<u>76,171,283</u>	<u>2,374,204</u>	<u>78,545,487</u>
Deferred Inflows of Resources:			
Differences between expected and actual pension plan actuarial experience	418,739		418,739
Advance property tax collections	<u>112,385</u>		<u>112,385</u>
Total deferred inflows of resources	<u>531,124</u>	<u>-</u>	<u>531,124</u>
Net Position:			
Net investment in capital assets	75,761,406	12,739,336	88,500,742
Restricted for:			
Trust purposes:			
Expendable	32,693		32,693
Nonexpendable	114,691		114,691
Unrestricted	<u>23,598,253</u>	<u>4,387,315</u>	<u>27,985,568</u>
Total Net Position	<u>\$ 99,507,043</u>	<u>\$ 17,126,651</u>	<u>\$ 116,633,694</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF BERLIN, CONNECTICUT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 5,415,509	\$ 714,730	\$ 72,630	\$ 458,100	\$ (4,170,049)	\$	\$ (4,170,049)
Community development	1,134,822	4,765			(1,130,057)		(1,130,057)
Public safety	9,579,660	445,831	137,110	108,539	(8,888,180)		(8,888,180)
Physical services	8,670,289	100,089	739,604	2,126,577	(5,704,019)		(5,704,019)
Parks, recreation and libraries	4,205,001	1,372,237	43,027		(2,789,737)		(2,789,737)
Health and human services	2,440,168	953,990	128,186		(1,357,992)		(1,357,992)
Schools	53,393,569	629,809	13,663,362	13,033,017	(26,067,381)		(26,067,381)
Interest on long-term debt	1,907,325				(1,907,325)		(1,907,325)
Total governmental activities	<u>86,746,343</u>	<u>4,221,451</u>	<u>14,783,919</u>	<u>15,726,233</u>	<u>(52,014,740)</u>	<u>-</u>	<u>(52,014,740)</u>
Business-type activities:							
Water services	1,298,066	1,679,265				381,199	381,199
Sewer services	2,022,760	3,000,452				977,692	977,692
Total business-type activities	<u>3,320,826</u>	<u>4,679,717</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,358,891</u>	<u>1,358,891</u>
Total	<u>\$ 90,067,169</u>	<u>\$ 8,901,168</u>	<u>\$ 14,783,919</u>	<u>\$ 15,726,233</u>	<u>(52,014,740)</u>	<u>1,358,891</u>	<u>(50,655,849)</u>
General revenues:							
Property taxes					63,684,396	1,491	63,685,887
Grants and contributions not restricted to specific programs					157,991		157,991
Unrestricted investment earnings					164,724	29,356	194,080
Other					578,442		578,442
Transfers					4,500	(4,500)	-
Total general revenues and transfers					<u>64,590,053</u>	<u>26,347</u>	<u>64,616,400</u>
Change in net position					12,575,313	1,385,238	13,960,551
Net Position at Beginning of Year, as Restated					<u>86,931,730</u>	<u>15,741,413</u>	<u>102,673,143</u>
Net Position at End of Year					<u>\$ 99,507,043</u>	<u>\$ 17,126,651</u>	<u>\$ 116,633,694</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF BERLIN, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015**

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 13,515,626	\$ 11,797,930	\$ 704,200	\$ 26,017,756
Receivables, net	3,212,321	1,200,258	55,145	4,467,724
Due from other funds	605			605
Inventories			35,060	35,060
Total Assets	<u>\$ 16,728,552</u>	<u>\$ 12,998,188</u>	<u>\$ 794,405</u>	<u>\$ 30,521,145</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts and other payables	\$ 1,133,534	\$ 2,201,147	\$ 14,257	\$ 3,348,938
Due to other funds	377,543			377,543
Unearned revenue	95,317	40,265	84,113	219,695
Bond anticipation notes		1,180,000		1,180,000
Total liabilities	<u>1,606,394</u>	<u>3,421,412</u>	<u>98,370</u>	<u>5,126,176</u>
Deferred inflows of resources:				
Unavailable revenue - property taxes	2,867,013			2,867,013
Advance property tax collections	112,385			112,385
Total deferred inflows of resources	<u>2,979,398</u>	<u>-</u>	<u>-</u>	<u>2,979,398</u>
Fund balances:				
Nonspendable			149,751	149,751
Restricted		9,576,776	342,531	9,919,307
Committed	327,968		203,753	531,721
Assigned	1,800,000			1,800,000
Unassigned	10,014,792			10,014,792
Total fund balances	<u>12,142,760</u>	<u>9,576,776</u>	<u>696,035</u>	<u>22,415,571</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 16,728,552</u>	<u>\$ 12,998,188</u>	<u>\$ 794,405</u>	<u>\$ 30,521,145</u>

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TOWN OF BERLIN, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2015

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position:

Amounts reported for governmental activities in the statement of net position
(Exhibit I) are different because of the following:

Fund balances - total governmental funds (Exhibit III)	\$ 22,415,571
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Governmental capital assets	\$ 218,094,682
Less accumulated depreciation	<u>(77,911,747)</u>
Net capital assets	140,182,935
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not recorded in the funds:	
Property tax receivables greater than 60 days	1,584,467
Interest receivable on property taxes	1,282,546
Deferred outflows related to pension actuarial experience	588,786
Internal service funds are used by management to charge the costs of risk management to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the statement of net position.	
	4,665,195
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Net OPEB obligation	(1,221,116)
Net pension liability	(4,541,463)
Bonds payable	(60,905,000)
Interest payable on bonds and notes	(259,816)
Compensated absences	(415,280)
Capital lease	(447,429)
Bond premium	(3,003,614)
Deferred inflows related to changes in projected investments earnings	<u>(418,739)</u>
Net Position of Governmental Activities (Exhibit I)	<u>\$ 99,507,043</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF BERLIN, CONNECTICUT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 63,867,121	\$	\$	\$ 63,867,121
Intergovernmental	12,386,029	14,964,223	2,495,224	29,845,476
Charges for services	3,386,663	69,230	716,127	4,172,020
Income on investments	163,694		1,035	164,729
Miscellaneous	496,733	78,858	116,685	692,276
Total revenues	<u>80,300,240</u>	<u>15,112,311</u>	<u>3,329,071</u>	<u>98,741,622</u>
Expenditures:				
Current:				
General government	4,730,669		5,000	4,735,669
Community development	726,617		6,943	733,560
Public safety	8,497,146		25,143	8,522,289
Physical services	7,893,401			7,893,401
Parks, recreation and libraries	3,961,074		101,943	4,063,017
Health and human services	2,256,886		141,326	2,398,212
Schools	47,885,291		3,020,106	50,905,397
Debt service:				
Principal retirement	2,314,620			2,314,620
Interest and fiscal charges	1,876,775	105,996		1,982,771
Capital outlay	442,615	30,222,033		30,664,648
Total expenditures	<u>80,585,094</u>	<u>30,328,029</u>	<u>3,300,461</u>	<u>114,213,584</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(284,854)</u>	<u>(15,215,718)</u>	<u>28,610</u>	<u>(15,471,962)</u>
Other Financing Sources (Uses):				
Transfers in	272,540	990,900		1,263,440
Transfers out	(990,900)	(265,000)	(3,040)	(1,258,940)
Issuance of capital leases	442,615			442,615
Bond premiums		295,446		295,446
Issuance of bonds		13,720,000		13,720,000
Total other financing sources (uses)	<u>(275,745)</u>	<u>14,741,346</u>	<u>(3,040)</u>	<u>14,462,561</u>
Net Change in Fund Balances	(560,599)	(474,372)	25,570	(1,009,401)
Fund Balances at Beginning of Year	<u>12,703,359</u>	<u>10,051,148</u>	<u>670,465</u>	<u>23,424,972</u>
Fund Balances at End of Year	<u>\$ 12,142,760</u>	<u>\$ 9,576,776</u>	<u>\$ 696,035</u>	<u>\$ 22,415,571</u>

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TOWN OF BERLIN, CONNECTICUT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because:

Net change in fund balances - total governmental funds (Exhibit IV) \$ (1,009,401)

Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay 29,720,954
 Depreciation expense (4,187,059)

Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources. 762,010

The statement of activities reports losses arising from the trade-in of existing capital assets to acquire new capital assets. Conversely, governmental funds do not report any gain or loss on a trade-in of capital assets. (646,981)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, and revenues recognized in the funds are not reported in the statement of activities:

Property tax receivable - accrual basis change 62,092
 Property tax interest and lien revenue - accrual basis change (244,817)
 Change in deferred outflows related to pension actuarial experience 588,786

Change in pension and OPEB assets and liabilities:

Net OPEB expense (304,705)
 Change in net pension liability 785,629

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized and deferred in the statement of activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Bond principal payments 2,265,000
 Issuance of bonds and notes (13,720,000)
 Issuance of capital leases (442,615)
 Capital lease principal payments 463,354
 Premium on debt issuance (295,446)
 Amortization of premiums on debt issuance 202,300

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated absences (127,470)
 Accrued interest (61,403)
 Amortization of deferred charge on refunding (15,834)
 Change in deferred inflows related to changes in projected investments earnings (418,739)

Internal service funds are used by management to charge costs to individual funds. The net revenue of certain activities of internal services funds is reported with governmental activities.

(800,342)

Change in Net Position of Governmental Activities (Exhibit II) \$ 12,575,313

The accompanying notes are an integral part of the financial statements

TOWN OF BERLIN, CONNECTICUT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2015

	Business-Type Activities	Governmental Activities
	Water and Sewer Enterprise Fund	Internal Service Fund
Assets:		
Current:		
Cash and cash equivalents	\$ 4,867,595	\$ 4,916,584
Accounts receivable	1,633,006	
Due from other funds		377,543
Total current assets	<u>6,500,601</u>	<u>5,294,127</u>
Noncurrent:		
Capital assets, net	12,935,031	
Other	65,828	
Total noncurrent assets	<u>13,000,859</u>	<u>-</u>
Total assets	<u>19,501,460</u>	<u>5,294,127</u>
Liabilities:		
Current:		
Accounts and other payables	137,690	628,932
Due to other funds	605	
Clean water fund note payable	195,695	
Total current liabilities	<u>333,990</u>	<u>628,932</u>
Noncurrent:		
Clean water fund note payable	<u>2,040,819</u>	<u>-</u>
Total liabilities	<u>2,374,809</u>	<u>628,932</u>
Net Position:		
Net investment in capital assets	12,739,336	
Unrestricted	<u>4,387,315</u>	<u>4,665,195</u>
Total Net Position	<u>\$ 17,126,651</u>	<u>\$ 4,665,195</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF BERLIN, CONNECTICUT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	Business-Type Activities	Governmental Activities
	Water and Sewer Enterprise Fund	Internal Service Fund
Operating Revenues:		
Insurance proceeds	\$	\$ 84,317
Employee contributions		1,813,983
Charges for services	4,662,842	7,851,717
Other	16,875	
Total operating revenues	<u>4,679,717</u>	<u>9,750,017</u>
Operating Expenses:		
Administrative expense	73,349	1,004,242
Employee benefits	160,239	8,276,582
Insurance and benefits		1,286,832
Purchase of water	633,870	
Source of supply	1,553,567	
Pumping expense	128,793	
Transmission and distribution	20,375	
Salaries - administrative and general	151,802	
Salaries - operating and maintenance	254,796	
Depreciation	276,321	
Total operating expenses	<u>3,253,112</u>	<u>10,567,656</u>
Operating Income (Loss)	<u>1,426,605</u>	<u>(817,639)</u>
Nonoperating Revenue:		
Income on investments	29,356	17,297
Interest expense	(67,714)	
Taxes	1,491	
Total nonoperating revenue	<u>(36,867)</u>	<u>17,297</u>
Income Before Transfers	1,389,738	(800,342)
Transfers Out	<u>(4,500)</u>	
Change in Net Position	1,385,238	(800,342)
Net Position at Beginning of Year	<u>15,741,413</u>	<u>5,465,537</u>
Net Position at End of Year	<u>\$ 17,126,651</u>	<u>\$ 4,665,195</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF BERLIN, CONNECTICUT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Business-Type Activities</u> <u>Water and Sewer Enterprise Fund</u>	<u>Governmental Activities</u> <u>Internal Service Fund</u>
Cash Flows from Operating Activities:		
Cash received from users	\$ 4,002,081	\$ 9,665,700
Cash received from customers	(406,598)	
Cash payments to employees for services		(10,508,419)
Cash payments to providers of benefits	(2,517,772)	
Cash payments to suppliers for goods and services	16,875	84,317
Cash received from others	<u>1,094,586</u>	<u>(758,402)</u>
Net cash provided by (used in) operating activities		
Cash Flows from Noncapital Financing Activities:		
Transfers out	(4,500)	
Cash received from tax collections	<u>1,491</u>	
Net cash used in noncapital financing activities	<u>(3,009)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from clean water fund notes	126,912	
Acquisition of capital assets	<u>(1,094,868)</u>	
Net cash used in capital and related financing activities	<u>(967,956)</u>	<u>-</u>
Cash Flows from Investing Activities:		
Income on investments	<u>29,356</u>	<u>17,297</u>
Net Increase (Decrease) in Cash and Cash Equivalents	152,977	(741,105)
Cash and Cash Equivalents at Beginning of Year	<u>4,714,618</u>	<u>5,657,689</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,867,595</u>	<u>\$ 4,916,584</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating income (loss)	\$ 1,426,605	\$ (817,639)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	276,321	
Change in assets and liabilities:		
Increase in accounts receivable	(660,761)	
Decrease in due to MIRMA		(56,173)
Increase in accounts payable	<u>52,421</u>	<u>115,410</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,094,586</u>	<u>\$ (758,402)</u>

The accompanying notes are an integral part of the financial statements

TOWN OF BERLIN, CONNECTICUT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2015

	Pension Trust Fund	Agency Funds
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	\$	\$ 2,291,525
Mutual funds - equity securities	44,005,738	
Accounts receivable	10,000	
	<u> </u>	<u> </u>
Total assets	<u>44,015,738</u>	<u>\$ 2,291,525</u>
Liabilities:		
Accounts payable	119,954	\$
Due to other		2,291,525
	<u> </u>	<u> </u>
Total liabilities	<u>119,954</u>	<u>\$ 2,291,525</u>
Net Position:		
Held in Trust for Pension Benefits	<u>\$ 43,895,784</u>	

The accompanying notes are an integral part of the financial statements

**TOWN OF BERLIN, CONNECTICUT
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	Pension Trust Fund
Additions:	
Contributions:	
Employer	\$ 3,050,888
Plan members	1,040,435
Total contributions	<u>4,091,323</u>
Investment income:	
Net appreciation in fair value of investments	877,001
Interest and dividends	212,639
Investment expense	(39,155)
Net investment income	<u>1,050,485</u>
Total additions	<u>5,141,808</u>
Deductions:	
Benefits	4,412,897
Administration	78,638
Total deductions	<u>4,491,535</u>
Change in Net Position	650,273
Net Position at Beginning of Year	<u>43,245,511</u>
Net Position at End of Year	<u>\$ 43,895,784</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Berlin (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the Town are described below.

A. Reporting Entity

The Town was incorporated in 1785 from parts of Farmington, Middletown and Wethersfield. Under the Town Charter, adopted November 4, 1973, and most recently amended November 5, 2002, the Town Council is the legislative body for specific purposes. The Town Manager serves as the Chief Executive Officer of the Town and acts as the liaison to the Town Council. The Town Council is responsible for establishing policy. Charter revision on November 8, 1994 replaced an Executive Board, Board of Finance/Town Meeting form of government with a Town Manager/Council form of government, which took effect November 15, 1995.

The Town provides the following services as authorized by its Charter: general government, community development, public safety, water and sewer, physical services, parks, recreation and libraries, health and human services, and schools.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds use the accrual basis of accounting but have no measurement focus since they report only assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes 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.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, charges for services, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

The Town reports the following major governmental funds:

The General Fund is the Town's primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities. The major sources of revenues for this fund are capital grants and the proceeds from the issuance of general obligation bonds.

The Town reports the following major proprietary funds:

The Water and Sewer Enterprise Fund is used to account for the operations of the Water Control Commission, which oversees the water and sewer services to a portion of the Town. The major source of revenues for this fund is charges for services.

Additionally, the Town reports the following fund types:

The Internal Service Funds account for insured activities of the Town, including medical and health (self-insured) and liability (fully insured).

The Pension Trust Fund accounts for the activities of the Town of Berlin Retirement System, which accumulates resources for pension benefit payments to qualified Town employees.

The Agency Funds account for monies held on behalf of outside groups and agencies and do not involve measurements of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between certain Town's functions because the elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include property taxes.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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 water and sewer enterprise fund and of the Town's internal service funds are charges to customers for sales, services and benefits. Operating expenses for enterprise funds and internal service funds include the cost of benefits, 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.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. Unrestricted resources are used in the following order: committed, assigned then unassigned.

D. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and certain other investments as described in Note 3.

Investments are reported at fair value.

E. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown net of an allowance for uncollectibles. Allowances for uncollectibles are computed based on historical data.

Property taxes (receivable - taxes) are assessed as of October 1, levied after the adoption of the Town budget by referendum and become legally due and payable on July 1. Taxes are overdue on August 1 (or the closest business day thereafter), and interest is levied at a rate of 1-1/2% per month. Liens are placed on delinquent real estate taxes owed on June 30th. Liens will be placed sooner in cases where the Tax Collector deems the taxes to be in jeopardy.

An amount of \$112,967 has been established as an allowance for uncollectible taxes. At June 30, 2015, this represents 6.2% of all property taxes receivable.

F. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

G. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Public domain infrastructure	25-50
System infrastructure	25-50
Vehicles	5-15
Office equipment	5-20
Computer equipment	5

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period or periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports deferred outflows related to pension in the government-wide statement of net position. A deferred outflow of resources related to pension results from differences between expected and actual experience and the net difference between projected and actual earnings on pension plan investments. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports a deferred inflow related to differences between expected and actual pension plan actuarial experience and for advance property tax collections. A deferred inflow of resources related to pension earnings results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

employees that are provided with benefits through the pension plan (active employees and inactive employees). Advance tax collections represent taxes inherently associated with a future period. This amount is recognized during the period in which the revenue is associated. Also, for governmental funds, the Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. The governmental funds report unavailable revenues from property taxes and advance property tax collections. These amounts are deferred and recognized as an inflow of resources (revenue) in the period in which the amounts become available.

I. Compensated Absences

Accumulated unpaid vacation time is accrued by the Town. Town employees are required to use vacation time by June 30 of each year; however, employees may request to have their time extended by the Town Manager past June 30 to October 31.

The liability is recorded in the government-wide statement of net position. The General Fund and the Water and Sewer Enterprise Fund are used to liquidate compensated absence liabilities.

J. Net Pension Liability

The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

K. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any significant applicable bond premium or discount. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Net Position/Fund Equity

Equity in the government-wide financial statements is defined as "net position" and is classified in the following categories:

Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Restricted Net Position

Net position restrictions are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

This component consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The equity of the fund financial statements is defined as “fund balance” and is classified in the following categories:

Nonspendable Fund Balance

This represents amounts that cannot be spent due to form (e.g., inventories and prepaid amounts).

Restricted Fund Balance

This represents amounts constrained for a specific purpose by external parties, such as grantors, creditors, contributors or laws and regulations of their governments.

Committed Fund Balance

This represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority (Town of Berlin, Town Council). The Town Council would pass a formal resolution to commit fund balance.

Assigned Fund Balance

For all governmental funds other than the General Fund, this represents any remaining positive amounts not classified as nonspendable, restricted or committed. On May 3, 2011, the Town Council adopted a fund balance policy. This policy, combined with legislative authority granted to the Council by the Town Charter, specifies that the authority to assign fund balance rests with the Town Council in most cases. The policy grants the Town Manager authority to assign fund balance for the sole purpose of carrying over encumbrances in the Capital Projects Fund. At June 30, 2015, General Fund assigned fund balance also includes an amount set aside by the Town Council to offset the mill rate increase in the subsequent year’s budget.

Unassigned Fund Balance

This represents fund balance in the General Fund in excess of nonspendable, restricted, committed and assigned fund balance. If another governmental fund has a fund balance deficit, it is reported as a negative amount in unassigned fund balance.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is legally adopted for the General Fund. The budget is prepared on a modified accrual basis. The Town does not budget for revenue or expenditures related to the State of Connecticut pension contribution to the State Teachers’ Retirement Fund on behalf of the Town, which amounted to \$4,318,859. The contribution and expenditure, while not included in the budgetary reporting (RSI-1 and RSI-2), are included in Exhibit IV, which reports in accordance with GAAP.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

In accordance with Section 7-3 of the Town Charter, the Town Council shall prepare and recommend the total Town budget for the annual public budget hearing to be held no later than the second Tuesday in April.

Annual Town Budget Referendum - The Annual Town Budget Referendum for the purpose of voting on the budget shall be held on the last Tuesday of April each year. Should the budget not be adopted by referendum vote, the budget shall be returned to the Council, which shall further consider and adopt an annual Town budget for the ensuing fiscal year.

The Town Manager is authorized to make transfers within a department budget. However, the Town Manager is not able to hire additional staffing not authorized by Town Council. Also, transfers may not be made for major capital items specifically deleted by the Council. The Manager's authority is limited to \$5,000 for any single transfer.

The Town Council may, at any time, appropriate funds from contingency. Town meeting approval is required for nonbudgeted appropriations exceeding \$25,000 individually or exceeding \$250,000 cumulative annually. The Town Council may transfer funds from budget appropriations only in the last three months of the fiscal year. There was \$481,761 of supplemental appropriations during the year. All appropriations were approved in accordance with Charter provisions.

The revised annual Town budget, including amendments, is reported herein. At the end of the fiscal year, unexpended General Fund appropriations lapse.

Special revenue funds do not have a legally adopted annual budget. Appropriations for the Capital Projects Funds do not lapse at the end of the fiscal year, but continue until the completion of the project.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. To the extent possible, the Town's current practice is to close out purchase orders at June 30.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be made in a "qualified public depository" as defined by Statute or, in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit, in an "out of state bank" as defined by the Statutes, which is not a "qualified public depository."

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: 1) obligations of the United States and its agencies, 2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and 3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

**TOWN OF BERLIN, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015**

The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the State Short-Term Investment Fund (STIF). These investment pools are under the control of the State Treasurer, with oversight provided by the Treasurer’s Cash Management Advisory Board, and are regulated under the State Statutes and subject to annual audit by the Auditors of Public Accounts. Investment yields are accounted for on an amortized-cost basis with an investment portfolio that is designed to attain a market-average rate of return throughout budgetary and economic cycles. Investors accrue interest daily based on actual earnings, less expenses and transfers to the designated surplus reserve, and the fair value of the position in the pool is the same as the value of the pool shares.

A. Deposits

Deposit Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Town’s deposit will not be returned. The Town’s deposit policy for custodial credit risk requires pre-qualification of institutions with which the Town does business. The pre-qualification requirements include, but are not limited to, proof of creditworthiness, five years or more of operations, evidence of adequate insurance coverage, proof of state registration, and proof of compliance with state and federal capital adequacy guidelines. The deposit of public funds is controlled by the Connecticut General Statutes. Deposits may be placed with any qualified public depository that has its main place of business in the state of Connecticut or up to the FDIC limit in out-of-state banks.

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$37,222,657 of the Town’s bank balance of \$38,993,825 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 33,375,391
Collateralized, held by banks	<u>3,847,266</u>
Total Amount Subject to Custodial Credit Risk	<u>\$ 37,222,657</u>

Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository’s risk based capital ratio.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2015, the Town’s cash equivalents amounted to \$854,421. The following table provides a summary of the Town’s cash equivalents (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations. The pools all have maturities of less than one year.

	Standard & Poor’s
State Short-Term Investment Fund (STIF)	<u>AAAm</u>

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

B. Investments

Investments as of June 30, 2015 in all funds are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Pooled open-end mutual fund accounts:	
Pension trust funds	\$ 44,005,738

Interest Rate Risk

The Town limits their maximum final stated maturities to five years, unless specific authority is given to exceed. To the extent possible, the Town will attempt to match its investments with anticipated cash flow requirements.

Credit Risk Investments

As indicated above, State Statutes limit the investment options of cities and towns. The Town has an investment policy that allows the same type of investments as State Statutes.

Concentration of Credit Risk

The Town has no policy limiting an investment in any one issuer that is in excess of 5% of the Town's total investments.

Custodial Credit Risk

Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the Town or that sells investments to or buys them for the Town), the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk. At June 30, 2015, the Town did not have any uninsured and unregistered securities held by the counterparty, or by its trust department or agent that were not in the Town's name.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

4. RECEIVABLES

Receivables as of year end for the Town's individual major funds and nonmajor, internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Water and Sewer</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:					
Interest	\$ 1,282,546				\$ 1,282,546
Taxes	1,830,872				1,830,872
Accounts	193,564		1,633,006	16,211	1,842,781
Intergovernmental	18,306	1,200,258		38,934	1,257,498
Pension receivables				10,000	10,000
Gross receivables	<u>3,325,288</u>	<u>1,200,258</u>	<u>1,633,006</u>	<u>65,145</u>	<u>6,223,697</u>
Less allowance for uncollectibles	<u>(112,967)</u>				<u>(112,967)</u>
Net Total Receivables	<u>\$ 3,212,321</u>	<u>\$ 1,200,258</u>	<u>\$ 1,633,006</u>	<u>\$ 65,145</u>	<u>\$ 6,110,730</u>

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Transfers</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 21,944,064	\$ (245,148)	\$ 1,496,100		\$ 23,195,016
Construction in progress	32,028,808	(344,750)	25,185,524		56,869,582
Total capital assets not being depreciated	<u>53,972,872</u>	<u>(589,898)</u>	<u>26,681,624</u>	-	<u>80,064,598</u>
Capital assets being depreciated:					
Land improvements	4,264,836	245,148			4,509,984
Buildings	63,134,769		652,935	585,100	63,202,604
Machinery and equipment	15,387,425	344,750	1,659,374	688,372	16,703,177
Infrastructure	52,125,288		1,489,031		53,614,319
Total capital assets being depreciated	<u>134,912,318</u>	<u>589,898</u>	<u>3,801,340</u>	<u>1,273,472</u>	<u>138,030,084</u>
Less accumulated depreciation for:					
Land improvements	2,622,220		345,515		2,967,735
Buildings	29,892,043		1,500,388	59,061	31,333,370
Machinery and equipment	9,678,313		1,261,637	567,430	10,372,520
Infrastructure	32,158,603		1,079,519		33,238,122
Total accumulated depreciation	<u>74,351,179</u>	<u>-</u>	<u>4,187,059</u>	<u>626,491</u>	<u>77,911,747</u>
Total capital assets being depreciated, net	<u>60,561,139</u>	<u>589,898</u>	<u>(385,719)</u>	<u>646,981</u>	<u>60,118,337</u>
Governmental Activities Capital Assets, Net	<u>\$ 114,534,011</u>	<u>\$ -</u>	<u>\$ 26,295,905</u>	<u>\$ 646,981</u>	<u>\$ 140,182,935</u>

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 993,100	\$	\$	\$ 993,100
Construction in progress	<u>4,072,727</u>	<u>412,230</u>	<u>713,699</u>	<u>3,771,258</u>
Total capital assets not being depreciated	<u>5,065,827</u>	<u>412,230</u>	<u>713,699</u>	<u>4,764,358</u>
Capital assets being depreciated:				
Buildings	2,055,879	403,207		2,459,086
Machinery and equipment	792,989	750		793,739
Infrastructure	<u>11,790,990</u>	<u>992,380</u>		<u>12,783,370</u>
Total capital assets being depreciated	<u>14,639,858</u>	<u>1,396,337</u>	<u>-</u>	<u>16,036,195</u>
Less accumulated depreciation for:				
Buildings	1,554,903	71,138		1,626,041
Machinery and equipment	550,929	24,401		575,330
Infrastructure	<u>5,483,369</u>	<u>180,782</u>		<u>5,664,151</u>
Total accumulated depreciation	<u>7,589,201</u>	<u>276,321</u>	<u>-</u>	<u>7,865,522</u>
Total capital assets being depreciated, net	<u>7,050,657</u>	<u>1,120,016</u>	<u>-</u>	<u>8,170,673</u>
Business-Type Activities Capital Assets, Net	<u>\$ 12,116,484</u>	<u>\$ 1,532,246</u>	<u>\$ 713,699</u>	<u>\$ 12,935,031</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 316,199
Community development	6,180
Public safety	449,964
Physical services	1,283,576
Parks, recreation and libraries	797,086
Health and human services	34,494
Schools	<u>1,299,560</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 4,187,059</u>
Business-type activities:	
Water services	\$ 127,044
Sewer services	<u>149,277</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 276,321</u>

**TOWN OF BERLIN, CONNECTICUT
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Construction Commitments

The Town has active construction projects as of June 30, 2015. The projects include the following:

<u>Project</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Encumbrances</u>	<u>Balance</u>
Bonded Road Impvmts	\$ 7,109,449	\$ 6,803,526	\$	\$ 305,923
Veterans Memorial Park	1,844,500	1,368,949	11,358	464,193
Façade Program	500,000	178,491	9,965	311,544
Boulevard at Berlin Train Station	500,000		91,000	409,000
Streetscape Improvements*	464,020			464,020
Downtown Sidewalks	500,000	203		499,797
Berlin High School Renovations**	84,500,000	55,583,999	23,307,826	5,608,175
Berlin Police Station - New Construction***	2,000,000	1,971,881	24,679	3,440
Recycling Center Improvements****	469,485			469,485
Bridge Rehabilitation Program*****	412,000	145,146		266,854
889 Farmington Ave. Remediation*****	1,288,557	231,324	28,371	1,028,862
Griswold School Roof	1,530,000	499,344	575,571	455,085

* Additional \$204,300 appropriated in fiscal year 2015 due to receipt of new STEAP grant.

** The amount bonded as of June 30, 2015 is \$34,500,000. Part of the cost is paid for by state grants. In June 2013, the state legislature authorized exceptions to square footage requirements, which allowed the Town to obtain an additional \$15 million in state grants; this is included in the appropriation recorded.

*** Only \$2,000,000 was authorized to date to purchase land, perform demolition of existing structures and environmental remediation. During fiscal year 2015, the building of a new police station for \$21,000,000 was defeated at referendum; the project is in process of being evaluated.

**** Funds appropriated from payments received from TROC and BRRFOC reorganizations as well as surplus funds from other areas to make required improvements in recycling operations.

***** Program to borrow funds through notes to repair town bridges; \$200,000 note proceeds appropriated in fiscal year 2015.

***** Remediation is being funded by Municipal and Regional Brownfields Grants.

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The interfund receivables and payables are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Enterprise Fund	\$ 605
Internal Service Fund	General Fund	377,543
Total		<u>\$ 378,148</u>

Interfund receivables and payables generally represent temporary balances arising from reimbursement type transactions.

**TOWN OF BERLIN, CONNECTICUT
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Interfund transfers:

	Transfers In		
	General Fund	Capital Projects	Total
Transfers out:			
General Fund	\$	\$ 990,900	\$ 990,900
Capital Projects	265,000		265,000
Water and Sewer Enterprise Fund	4,500		4,500
Nonmajor Governmental Funds	3,040		3,040
Total Transfers In	\$ 272,540	\$ 990,900	\$ 1,263,440

Transfers are for regularly recurring operational transfers that are appropriated in the General Fund and paid to other funds during the year.

7. LONG-TERM DEBT

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and loans payable:					
General obligation bonds	\$ 49,450,000	\$ 13,720,000	\$ 2,265,000	\$ 60,905,000	\$ 3,950,000
Less deferred amounts:					
For issuance premiums	2,910,468	295,446	202,300	3,003,614	
	<u>52,360,468</u>	<u>14,015,446</u>	<u>2,467,300</u>	<u>63,908,614</u>	<u>3,950,000</u>
Other liabilities:					
Compensated absences	287,810	148,803	21,333	415,280	415,280
Capital leases	468,168	442,615	463,354	447,429	228,636
Net pension liability	5,327,092		785,629	4,541,463	
Net OPEB obligation	916,411	304,705		1,221,116	
Total Governmental Activities Long-Term Liabilities	\$ <u>59,359,949</u>	\$ <u>14,911,569</u>	\$ <u>3,737,616</u>	\$ <u>70,533,902</u>	\$ <u>4,593,916</u>

**TOWN OF BERLIN, CONNECTICUT
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The annual requirements to amortize all bonds outstanding as of June 30, 2015, including interest payments, are as follows:

<u>Year Ending June 30</u>	<u>Debt Service, Annual Requirements</u>		
	<u>Long-Term Debt</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 3,950,000	\$ 2,242,503	\$ 6,192,503
2017	4,400,000	2,072,156	6,472,156
2018	4,420,000	1,903,850	6,323,850
2019	4,420,000	1,717,219	6,137,219
2020	4,455,000	1,529,693	5,984,693
2021-2025	18,975,000	5,168,918	24,143,918
2026-2030	12,085,000	2,249,769	14,334,769
2031-2035	8,200,000	584,422	8,784,422
Total	<u>\$ 60,905,000</u>	<u>\$ 17,468,530</u>	<u>\$ 78,373,530</u>

Outstanding debt by issue is as follows:

<u>Issue</u>	<u>Original Amount</u>	<u>Year of Maturity</u>	<u>Interest Rate %</u>	<u>Balance June 30, 2015</u>
Sep-09	\$ 8,195,000	2025	2.0-3.625	\$ 5,795,000
Apr-10	4,645,000	2016	2.0-4.0	415,000
Jun-11	16,610,000	2026	3.0-5.0	14,125,000
May-13	8,495,000	2033	2.25-4.0	8,495,000
May-14	18,355,000	2034	3.0-5.0	18,355,000
May-15	13,720,000	2035	2.0-4.0	13,720,000
				<u>\$ 60,905,000</u>

The Town currently has authorized the issuance of \$110.5 million of bonds for various projects. Bond anticipation notes of \$1.18 million are outstanding on these authorizations.

A summary of overlapping debt is presented below:

<u>Debt Outstanding</u>	<u>Total</u>	<u>Considered Overlapping</u>
Kensington Fire District	\$ 825,000	\$ 825,000
Worthington Fire District	418,000	418,000
Mattabasset District	11,723,330	11,723,330
Total	<u>\$ 12,996,330</u>	<u>\$ 12,996,330</u>

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The Town's indebtedness does not exceed the legal debt limitations as required by the Connecticut General Statutes as reflected in the following schedule:

Category	(In Thousands)		
	Debt Limit	Net Indebtedness*	Balance
General purpose	\$ 148,349	\$ 22,277	\$ 126,072
Schools	296,699	55,922	240,777
Sewers	247,249	15,229	232,020
Urban renewal	214,282		214,282
Pension deficit	197,799		197,799

* Includes bonds authorized unissued and overlapping debt.

The total overall statutory debt limit for the Town is equal to seven times annual receipts from taxation, \$461,531.

Conduit Debt Obligations

To provide for the purpose of assisting the acquisition, development, redevelopment or productive reuse of real property and the construction of improvements within the municipality known as Legion Square, the Town has entered into an agreement with the Connecticut Development Authority. This agreement is an assignment of the incremental tax revenues of the Legion Square project for a period of time sufficient to retire a note issued by the Connecticut Development Authority for the purpose of making a grant to the project. This agreement represents a special obligation of the Town, payable solely from and secured by incremental tax revenues on the property. The agreement does not constitute a debt or pledge of the faith and credit of the Town and, accordingly, has not been reported in the accompanying financial statements.

On July 1, 2012, the Connecticut Development Authority merged with Connecticut Innovations, Inc. (CII). CII has now assumed the above-mentioned agreement.

At June 30, 2015, the aggregate principal amount payable pursuant to the agreement was \$308,930.

Clean Water Fund Loan

On February 4, 2013, the Town entered into a Project Loan and Project Grant Agreement with the State of Connecticut Department of Energy and Environmental Protection under the Clean Water Fund Program. The purpose of this agreement is to complete a project consisting of the rehabilitation of a major sewer interceptor to eliminate inflow and infiltration. This project is owned by the Town operating through the Water Control Commission.

As required by the rules of the program, the Town Council authorized bonds in the amount of \$4.5 million. This amount is reported in authorized, unissued debt. There are no plans for these bonds to be issued; rather, this project will be funded by a 20-year Clean Water Fund loan at 2% interest from the State of Connecticut Department of Energy and Environmental Protection. On April 9, 2013, the Town obtained an interim funding obligation of \$3,553,898 under the Clean Water Fund Program. While under the IFO, the Clean Water fund note payable was considered a current liability. The project

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was completed during fiscal year 2015. On March 30, 2015, the IFO was converted to a Project Loan Obligation in the amount of \$2,236,514, which represents the project loan advances paid throughout the project, \$2,168,800 plus accrued interest of \$67,714. Project expenses are accounted for in the Water and Sewer Enterprise Fund and the liability is properly classified between current and long-term categories.

The annual requirements to amortize the clean water fund loans outstanding as of June 30, 2015, including interest payments, are as follows:

<u>Year Ending June 30</u>	<u>Clean Water Fund Loan, Annual Requirements</u>		
	<u>Long-Term Debt</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 195,695	\$ 53,675	\$ 249,370
2017	111,826	39,792	151,618
2018	111,826	37,553	149,379
2019	111,826	35,317	147,143
2020	111,826	33,081	144,907
2021-2025	559,128	131,846	690,974
2026-2030	559,128	75,957	635,085
2031-2035	<u>475,259</u>	<u>20,606</u>	<u>495,865</u>
Total	\$ <u>2,236,514</u>	\$ <u>427,827</u>	\$ <u>2,664,341</u>

8. LEASES

Operating Leases

The Town leases a fiber optic communications network under a noncancelable operating lease. The future minimum lease payments for these leases amount to \$16,800 per year for the next 13 fiscal years, ending in 2028.

Capital Lease

The Town has entered into various lease agreements as lessee for financing the acquisition of heavy equipment and golf carts. The leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through the capital lease are as follows:

	<u>Governmental Activities</u>
Equipment	\$ 965,629
Less accumulated depreciation	<u>(143,051)</u>
Total	\$ <u>822,578</u>

**TOWN OF BERLIN, CONNECTICUT
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The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2015 were as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2016	\$ 239,175
2017	158,326
2018	67,370
Less amount representing interest	<u>(17,442)</u>
Total	<u>\$ 447,429</u>

9. BOND ANTICIPATION NOTES

The following is a schedule of changes in bond anticipation notes for the year ended June 30, 2015:

<u>Date Issued</u>	<u>Maturity Date</u>	<u>Interest Rate (%)</u>	<u>Balance July 1, 2014</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2015</u>
5/23/2014	9/26/2014	1	\$ 48,000	\$	\$ 48,000	\$ -
5/23/2014	9/26/2014	1	40,000		40,000	-
5/23/2014	9/26/2014	1	71,000		71,000	-
5/23/2014	9/26/2014	1	300,000		300,000	-
9/26/2014	5/21/2015	1		240,000	240,000	-
5/21/2015	9/21/2015	1		240,000		240,000
5/23/2014	9/26/2014	1	200,000		200,000	-
9/26/2014	5/21/2015	1		360,000	360,000	-
5/21/2015	9/21/2015	1		360,000		360,000
5/23/2014	9/23/2014	1	600,000		600,000	-
9/26/2014	5/21/2015	1		580,000	580,000	-
5/21/2015	9/21/2015	1		580,000		580,000
			<u>\$ 1,259,000</u>	<u>\$ 2,360,000</u>	<u>\$ 2,439,000</u>	<u>\$ 1,180,000</u>

The notes are reported in the Capital Projects Fund and will be retired or permanently financed.

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10. RISK MANAGEMENT

The Town maintains two insurance funds: the General Insurance Fund (fully insured) and the Medical and Health Insurance Fund (self-insured). Both of these funds are reported as Internal Service Funds.

The General Insurance Fund receives funds from various funds and departments. The fund purchases insurance and provides ancillary services for the administration of this fund and accumulates reserves. Claims have not exceeded insurance coverage in any of the past three years. Worker’s Compensation coverage, which makes up the largest component of the general insurance needs, is provided by insurance through the Connecticut Interlocal Risk Management Association. The Town examines the coverage and has an actuarial study conducted periodically.

The Medical and Health Insurance Fund also receives funds from various funds and departments. The funds are used to purchase medical and health insurance and provide ancillary services. This fund is used to pay claims and administrative fees directly to Anthem Blue Cross/Blue Shield. The Town does not have to pay the State insurance premium tax to the State, since a self-insurance fund is not subject to this tax. An actuarial study is made annually. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. These liabilities amounted to \$590,445 in the Medical and Health Insurance Fund at June 30, 2015. The following table reflects the activity of the past two years:

	<u>Claims Payable July 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>Claims Payable June 30</u>
2013-2014	\$ 505,049	\$ 7,288,615	\$ 7,284,760	\$ 508,904
2014-2015	508,904	8,276,581	8,195,040	590,445

Catastrophic claims are subject to the stop loss limitation.

The Town had previously been involved with the Municipal Interlocal Risk Management Association (MIRMA) for workers’ compensation coverage. During the year ended June 30, 2010, MIRMA filed for bankruptcy protection and levied an additional assessment on all member towns to fulfill the lookback requirements. Based on an initial MIRMA estimate, a liability of \$420,566 was recorded in the Internal Service Fund.

After further evaluation based on claim experience, MIRMA ultimately reduced the assessment to \$316,439. The Town paid \$70,094 in fiscal year 2010, \$87,672 in fiscal year 2011, and \$66,101 in each fiscal year 2012 and 2013. The final payment of \$26,471 was made in fiscal year 2014. However, in June of 2014, MIRMA once again assessed the Town for an additional \$56,173. This was also recorded as an expense and a liability for fiscal year 2014. MIRMA has stated that there is no additional liability for the Town of Berlin. No additional changes were made during fiscal year 2015. MIRMA has been dissolved.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
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11. FUND BALANCE

The components of fund balance for the governmental funds as of June 30, 2015 are as follows:

	<u>General Fund</u>	<u>Major Special Revenue Fund Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund balances:				
Nonspendable:				
Inventory	\$	\$	\$ 35,060	\$ 35,060
Permanent fund principal			114,691	114,691
Restricted for:				
Permanent funds			32,693	32,693
Unspent grant balances			118,567	118,567
Marjorie Moore donations			6,513	6,513
Capital projects		9,576,776		9,576,776
General government			13,519	13,519
Health and human services			2,905	2,905
Education			168,334	168,334
Committed to:				
Bargaining unit contracts to be settled during the subsequent fiscal year	132,304			132,304
Revaluation	195,664			195,664
Community development			18,503	18,503
Public safety			5,000	5,000
Parks, recreation and libraries			78,792	78,792
Health and human services			2,466	2,466
Education			98,992	98,992
Assigned to:				
Future year budgets	1,800,000			1,800,000
Unassigned	10,014,792			10,014,792
 Total Fund Balances	 \$ <u>12,142,760</u>	 \$ <u>9,576,776</u>	 \$ <u>696,035</u>	 \$ <u>22,415,571</u>

Significant encumbrances of \$24,048,770 are included in the above table in the restricted category of the Capital Projects Fund.

12. JOINTLY GOVERNED ORGANIZATION

The Mattabassett District

The Mattabassett District is a quasi-municipal district established in accordance with State Statutes to provide sewer treatment services for the Constituent Towns of Berlin and Cromwell and the Constituent Cities of New Britain and Middletown, and contractually to the Metropolitan District and the Town of Farmington. As a result of the 2010 census data released in February 2011 and the June 2011 amendment to the state statutes creating the Mattabassett District, the Mattabassett Board of Directors representation is as follows: New Britain - five members, Middletown - four members, Berlin - three members and Cromwell - three members.

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The Board of Directors is responsible for hiring, firing, purchasing, administration, budget adoption and fiscal operations. The District may issue bonds in its own name. The Mattabassett District levies its annual assessment, which the Town is obliged to pay. The Town is responsible for a pro-rata share of the debt, should the Mattabassett District default on its bonds and notes, although the obligation to pay these debts will remain with the Mattabassett District. The possibility of the Mattabassett District defaulting on its bond and note liabilities is remote. The Town has no direct interest in assets or liabilities of the District.

Currently, the Mattabassett District is nearing completion on a major upgrade for nitrogen removal, increased capacity to accommodate increased flows from the City of Middletown, and related required improvements to meet the EPA and DEEP nitrogen removal requirements as well as the EPA's sewage sludge incinerator emissions requirements and odor control enhancements. The three-year construction project began in the summer of 2012 and is approximately 99% complete as of June 30, 2015. As of June 30, 2015, the District has \$81,696 Clean Water Fund debt outstanding (net of grants received) to finance its sewage treatment plant and construction upgrade; this consists of an Interim Construction Funding Obligation of \$79,002 and a Project Design Loan Obligation of \$2,694. As the project is nearing completion, remaining costs are estimated to be less than 2% of the total contract value. It is estimated that, based on future treatment plant reserved capacity, the Town's annual assessment from the District will include 14.35% of Clean Water Fund Debt Service, which equals \$11,723. The District anticipates beginning loan payments for the Interim Construction Funding Obligation in January 2016; this will be factored into the Town's assessment due in fiscal year 2016.

13. JOINT VENTURES

The Town is a participant in two joint ventures as described below:

Tunxis Recycling Operating Committee

The Town was a participant with 13 other cities and towns in a joint venture, the Tunxis Recycling Operating Committee (TROC). On August 18, 2014, TROC voted to release and transfer monies remaining in the Special Revenue Fund for HHW services to the Bristol Resource Recovery Facility Operating Committee (BRRFOC), which will continue to serve the ten municipalities participating in the program, including the Town of Berlin. In April 2015, TROC voted along with BRRFOC to combine their respective financial statements, assets and liabilities. For purposes of financial reporting, the resulting entity follows guidelines as set forth in GASB Statement No. 69, whereby the combination of TROC and BRRFOC is considered a merger since TROC effectively ceased operations as a separate legal entity. The merge is considered as commencing with the start of BRRFOC's fiscal year (July 1, 2014). As part of the dissolution of TROC, remaining unassigned fund balance was distributed to member communities, with the Town receiving \$7,782 as a proportionate share based on historical amounts paid to the agency. These funds have been appropriated by the Town Council to fund various Town projects.

Effective in July 2014, recycling services previously provided under the Town's agreement with TROC continue to be in place through an agreement with Murphy Road Recycling, LLC. Under this agreement, the Town receives \$9.05 per ton of acceptable recyclable material delivered.

**TOWN OF BERLIN, CONNECTICUT
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Bristol Resource Recovery Facility Operating Committee

The Town was a participant with 14 other cities and towns in a joint venture, the Bristol Resource Recovery Facility Operating Committee (BRRFOC). BRRFOC was created pursuant to an Inter-Community Agreement to exercise certain rights on behalf of Contracting Municipalities in dealing with the trash-to-energy plant built by Ogden Martin Systems of Bristol, Inc. (now Covanta Bristol, Inc.). The governing board consists of town officials appointed by each of the Contracting Municipalities, and assumes all the management decisions. The Town has an obligation to appropriate funds in amounts necessary to fulfill its obligations created pursuant to the Inter-Community Agreement dated as of August 15, 1985. These obligations deal with guarantees to meet certain tonnage requirements. These obligations ended on June 30, 2014 with the expiration of the amended and restated service agreement by and among BRRFOC, its fourteen member communities and Covanta Bristol, Inc. Waste disposal services previously provided under that agreement continue to be in place through the Municipal Solid Waste Disposal and Recycling Services Agreement with Covanta Bristol, Inc. commencing July 2014.

On December 21, 2012, the Bristol Facility Policy Board (Policy Board) was formed pursuant to a Municipal Solid Waste Disposal and Recycling Services Agreement (the Agreement) by and among the Cities of Bristol, New Britain and the Towns of Berlin, Burlington, Branford, Hartland, Plainville, Plymouth, Prospect, Seymour, Southington, Warren, Washington, and Wolcott and Covanta Bristol, Inc. The Policy Board is the successor entity to the BRRFOC. BRRFOC has been selected by resolution to serve as the Policy Board under the Agreement and continue in such capacity. The Town continues to participate as a member of BRRFOC and the newly formed Bristol Facility Policy Board, with limited obligations to fund activities of the combined agency. Tonnage commitments were revised under the new Agreement such that the overall minimum for the fourteen communities is aggregated and no shortfall will occur if these municipalities in total reach the required threshold.

In conjunction with the transition to the new service contract, BRRFOC's administrative functions were significantly reduced; therefore, the members of the Board elected to distribute some of the remaining funds to the municipalities. For the Town, those transactions included a return of \$6,530 in October 2014, \$46,311 in February 2015 and \$105,242 in April 2015, all of which derived from unassigned fund balance held by BRRFOC. This was in addition to the \$75,788 distributed in fiscal year 2014. These funds have been appropriated by the Town Council to fund various Town Projects.

The fund balance for fiscal year ended June 30, 2015 as reflected in BRRFOC's financial statements is \$7,298,154 (\$800 nonspendable, \$645,623 assigned and \$6,651,731 unassigned). A complete set of financial statements for BRRFOC can be obtained from the administrative office at 27 West Main Street, Bristol, Connecticut.

14. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Trust Fund

A. Plan Description

The Town sponsors and administers a single-employer Public Employee Retirement System (PERS). It covers all full-time employees who have elected to participate in the plan except certified teachers who are eligible to participate in the State Teachers' Retirement System. The PERS was authorized by vote of the Town Meeting held October 1, 1961. The PERS is considered to be part of the Town's financial reporting entity and is included in the Town's financial reports as a Pension Trust Fund. A separate stand-alone report is not issued.

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In 1987-88, the Town renegotiated the pension plan with all employee groups. All new participating employees are enrolled in a defined contribution retirement plan. Employees employed prior to March 17, 1987 will receive the higher of the defined contribution or the defined benefit plan (which was in force prior to this new plan). The Berlin Police Department remained in the defined benefit plan until July 1, 2000. After this date, new police officers are enrolled in the defined contribution plan. Police officers employed prior to July 1, 2000 receive the higher of the two plans. The Town of Berlin hybrid-type plan necessitates the presentation of the retirement program in two parts: defined contribution and defined benefit, each of which are described herein.

Management of the plans rests with the Pension Committee, which consists of ten members. The nine members are the Town Manager, Finance Director, Director of Human Resources, Town Accountant, BOE Business Manager and the presidents of each of the five bargaining units. The Committee is advised by Fiduciary Investment Associates, and convenes on a quarterly basis for detailed plan review.

Defined Contribution Segment

The Town provides benefits for all of its full-time employees through a defined contribution plan. Employees enrolled in the plan before March 17, 1987 and police officers enrolled before July 1, 2000 will receive the better of the defined benefit or defined contribution plan. The defined contribution is computed first and accounted for in the defined contribution section of the plan, which is fully funded. Any difference to which the employee is entitled is computed in the defined benefit component of the plan. Effective July 1, 2004 in the defined contribution component, the benefits depend upon the combination of the employee contributions (limited to 5% of base earnings, 6% of base earnings for police officers), which are matched by the employer contributions (200% of employee contribution), plus investment earnings. Employees are allowed to contribute additional funds, which are not matched by the Town. Employees enrolled in the plan prior to July 1, 2004 are fully vested from the date of employment. Effective July 1, 2004, all new participants in the Town's defined contribution plan shall not be vested as to the employer contribution until the fifth anniversary of his/her participation in the plan. Effective January 1, 2015, new employees (other than Police) must wait a year before receiving a match and the match is a 100% match up to 6%. Those employed prior to January 1, 2015 were grandfathered under the old rules.

The defined contribution plan became effective on April 1, 1988. The prior contributions were computed and matched by the Town and interest of 4% credited to the accounts. The total value of the plan is \$35,670,562 as of June 30, 2015. Employees contributed \$815,605, and covered payroll was \$15,145,681. The Town's matching share was \$1,501,224. Contribution requirements may be amended by the Town Council subject to various bargaining unit approvals and after the expiration dates specified in the collective bargaining agreements. Effective in fiscal year 2013, the Town has engaged Hooker and Holcombe, Inc., of West Hartford, Connecticut, as the defined benefit plan actuary. In addition, Fiduciary Investment Associates (FIA) serves as investment consultants for both the defined benefit and defined contribution plans. FIA meets with and advises the Pension Committee on a quarterly basis to ensure plan funds are invested prudently. The Town Council adopted the revised investment policy on September 19, 2012. The policy is being updated again in fiscal year 2016.

As of June 30, 2015, 28.3% of the investments are invested in the ICMA-RC Guaranteed Plus Mutual Fund. This fund invests in double A (AA) or better collateralized Guaranteed Investment Contracts. The remaining 71.7% of investments are held in ICMA-RC self-directed funds including bond funds, guaranteed life income funds, balanced/asset allocation funds, U.S. stock funds, specialty and international/global stock funds.

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During fiscal year 2012, a separate defined contribution plan, the Robert Wolf Plan, was created specifically for the Town’s volunteer firefighters. The firefighters have the option to contribute all or a portion of their paid-on-call earnings to the plan. There is no employer match; however, the Town annually contributes \$500 per qualifying firefighter. Contributions to this plan began in fiscal year 2013. The total value of this plan is \$142,237 as of June 30, 2015.

Defined Benefit Segment Plan Description and Benefits Provided

All full-time employees hired and participating in the plan prior to March 17, 1987 and all police officers hired and participating before July 1, 2000 will receive the higher of the defined contribution earnings (as described above) or the benefit due under the old defined benefit plan. The PERS provides retirement, disability and death benefits to plan members and their beneficiaries. Plan members are entitled to a monthly benefit equal to 2% and 2.125% for police officers of final earnings times years of employment, times the ratio of benefit service to years of employment. The plan provides for normal retirement at age 65 (55 for police officers); early retirements are allowable with reduced benefit.

At July 1, 2014, PERS membership consisted of:

	<u>Total</u>	<u>Defined Contribution Plan</u>	<u>Defined Benefit Plan</u>
Retirees, disabled and beneficiaries currently receiving benefits	28		28
Terminated employees entitled to benefits but not yet receiving them	3		3
Current employees:			
Police	60	41	19 *
Other	287	282	5 *
Total	<u>378</u>	<u>323</u>	<u>55</u>

* These participants are also included in the defined contribution plan but still qualify under the minimum benefit standard for the defined benefit plan.

The defined benefit segment plan is closed to new entrants.

B. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

PERS financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues when due pursuant to contractual requirements. Benefit payments and refunds are payable when due and payable in accordance with the terms of the PERS. Administrative costs are funded by the income of the fund.

Method Used to Value Investments

All funds are invested and administered through various portfolio management plans and are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income is recognized as earned.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

C. Funding Policy

The contribution requirements of plan members are established and may be amended by the Town Council, subject to union contract negotiation. Plan members are required to contribute up to 5% (6% for police officers) of covered wages. The Town is required to contribute at an actuarially determined rate for the defined benefit segment; for the defined contribution segment the current rate is 12% for police officers and 10% for all other employees of annual covered payroll. For non-police employees hired after January 1, 2015, there is a one-year waiting period to receive the matching contribution. After the one-year waiting period expires, the match will be a one-for-one match up to 6% contribution.

The General Fund is typically used to liquidate the net pension obligation.

D. Investments

Investment Policy

The investment policy for the defined benefit plan has historically been to protect the pension funds as much as possible from market volatility by investing them in a guaranteed deposit account. The current pension committee is working with its actuaries and investment advisors to revisit this plan to evaluate whether it is still reasonable.

<u>Asset Class</u>	<u>Target Allocation</u>
Guaranteed Deposit Account	<u><u>100%</u></u>

Rate of Return

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.167%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Net Pension Liability

The components of the net pension liability of the Town at June 30, 2015 were as follows:

Total pension liability	\$ 5,763,703
Plan fiduciary net position	<u>1,222,240</u>
Net Pension Liability	<u><u>\$ 4,541,463</u></u>
Plan fiduciary net position as a percentage of the total pension liability	21.21%

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75% per year for police and 3.0% for all others, including inflation
Investment rate of return	3.25%, including inflation

Mortality rates pre-retirement were based on the RP-2000 Mortality Table with separate male and female rates, with no collar adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale BB. Post-retirement the mortality rates were based on the IRS 417(e) mortality table.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Guaranteed Deposit Account	1.00%
Short Term Fixed Income	0.50%
Core Fixed Income	1.75%
Global Fixed Income	2.25%
Large Cap	5.00%
Small Cap	5.35%
International Equity	5.45%
Emerging Market Equity	6.55%
Commodities	2.65%

Discount Rate

The discount rate used to measure the total pension liability was 6.00%. 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 Town contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current 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.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Changes in the Net Pension Liability

	Retirement Income Plan		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of June 30, 2014	\$ 6,771,663	\$ 1,444,571	\$ 5,327,092
Changes for the year:			
Service cost	113,033		113,033
Interest on total pension liability	363,095		363,095
Differences between expected and actual experience	(558,319)		(558,319)
Changes in assumptions	740,472		740,472
Employer contributions		1,406,809	(1,406,809)
Net investment income		37,101	(37,101)
Benefit payments, including refund to employee contributions	(1,666,241)	(1,666,241)	-
Net changes	<u>(1,007,960)</u>	<u>(222,331)</u>	<u>(785,629)</u>
Balances as of June 30, 2015	<u>\$ 5,763,703</u>	<u>\$ 1,222,240</u>	<u>\$ 4,541,463</u>

Changes of Assumptions

For the year ended June 30, 2015 the expected rate of return (net of investment-related and administrative expenses) was reduced from 7.00% to 6.00% for pre-retirement, and increased from 2.70% to 3.42% for post-retirement.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Town, calculated using the discount rate of 6.00%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.00%) or 1 percentage point higher (7.00%) than the current rate:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
Net Pension Liability \$	5,457,185	\$ 4,541,463	\$ 3,781,879

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

For the year ended June 30, 2015, the Town recognized pension expense of \$451,133. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Retirement Income Plan</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$	\$ 418,739
Changes of assumptions		555,354
Net difference between projected and actual earning on pension plan investments		<u>33,432</u>
Total	<u>\$</u>	<u>\$ 418,739</u>

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

Year Ended June 30

2016	\$	53,896
2017		53,896
2018		53,897
2019		8,358

F. Summary of Plan Changes

During fiscal year 2013, the Town changed actuarial firms. The new firm's definition of the Annual Required Contribution (ARC) is the recommended contribution versus the minimum required contribution that was previously reported. Therefore, the ARC reported and used in the calculations in Sections E, F and G below for fiscal year 2013 is the recommended contribution, whereas the previous years are the minimum required contribution. In addition, though the assumed investment return for pre-retirement was maintained at 7%, the assumed investment return for post-retirement was reduced from 4.23% to 2.7%.

Effective with the July 1, 2014 valuation, the pre-retirement assumed investment returned was decreased to 6% and the post-retirement investment return was increased to 3.42%.

Teachers Retirement

A. Plan Description

Teachers, principals, superintendents or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement Board. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the Teachers Retirement Board. The Teachers Retirement Board issues a publicly available financial report that can be obtained at www.ct.gov.

B. Benefit Provisions

The plan provides retirement, disability and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

Normal Retirement

Retirement benefits for employees are calculated as 2% of the average annual salary times the years of credited service (maximum benefit is 75% of average annual salary during the 3 years of highest salary).

Early Retirement

Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

Disability Retirement

Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for nonservice-related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary.

C. Contributions

Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are approved, amended and certified by the State Teachers Retirement Board and appropriated by the General Assembly.

Employer (School Districts)

School District employers are not required to make contributions to the plan.

The statutes require the State of Connecticut to contribute 100% of each school districts' required contributions, which are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

Employees

Effective July 1, 1992, each teacher is required to contribute 6% of salary for the pension benefit.

**TOWN OF BERLIN, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015**

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

At June 30, 2015, the Town reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows, due to the statutory requirement that the State pay 100% of the required contribution. The amount recognized by the Town as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the Town were as follows:

Town's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the Town	<u>57,488,298</u>
Total	<u>\$ 57,488,298</u>

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. At June 30, 2015, the Town has no proportionate share of the net pension liability.

For the year ended June 30, 2015, the Town recognized pension expense and revenue of \$4,318,859 in Exhibit II for on-behalf amounts for the benefits provided by the State.

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increase	3.75-7.00%, including inflation
Investment rate of return	8.50%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected 19 years using scale AA, with a two-year setback for males and females for the period after service retirement and for dependent beneficiaries.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2010.

Future cost-of-living increases for members who retire on or after September 1, 1992 are assumed to be an annual cost-of-living adjustment of 2%.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. equities	21.0%	5.8%
Developed non-U.S. equities	18.0%	6.6%
Emerging markets (non-U.S.)	9.0%	8.3%
Core fixed income	8.0%	1.3%
Inflation linked bond fund	5.0%	1.0%
Emerging market bond	4.0%	3.7%
High yield bonds	5.0%	3.9%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Liquidity fund	4.0%	.4%
Total	100.0%	

F. Discount Rate

The discount rate used to measure the total pension liability was 8.50%. 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 State contributions will be made at the actuarially determined contribution rates in the future years. 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 total pension liability.

G. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The Town's proportionate share of the net pension liability is \$0 and, therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

H. Other Information

Additional information is included in the required supplementary information section of the financial statements. A schedule of contributions is not presented as the Town has no obligation to contribute to the plan.

15. OTHER POSTEMPLOYMENT BENEFITS

A. Plan Description

The Town, in accordance with various collective bargaining agreements, is committed to providing health and other benefits to certain eligible retirees and their spouses. The Post-Retirement Medical Program (RMP) covers Town, Board of Education and Police employees. Retired program members and beneficiaries currently receiving benefits are required to contribute 100% towards the cost of receiving those benefits under the Town’s self-insured medical benefits program. The Town does not issue a separate stand-alone financial statement for this program.

At July 1, 2014, plan membership consisted of the following:

	Post- Retirement Medical Program
Retired members	20
Spouses of retired members	11
Active plan members	<u>416</u>
Total Participants	<u><u>447</u></u>

B. Funding Policy

The Town funding and payment of postemployment benefits are accounted for in both the General Fund and in an internal service fund on a pay-as-you-go basis. Due to the fact that the Town’s liability is solely from the implicit rate subsidy calculation, the Town has not established a trust fund to irrevocably segregate assets to fund the liability associated with postemployment benefits in accordance with GASB guidelines. Although a trust fund may not be established in the future to exclusively control the funding and reporting of postemployment benefits, since a combination of trust fund and internal service fund control may be used, the Town anticipates a commitment to fund normal cost and a long-term approach to the amortization of the actuarial accrued liability. The goal is to absorb, within the budgetary process, the actual cost of benefits in the determination of the costs of providing services to taxpayers. The Town’s liability is solely from the implicit rate subsidy calculation.

The General Fund and the internal service funds are typically used to liquidate the net other postemployment benefit obligation.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

C. Annual OPEB Cost and Net OPEB Obligations

The Town's annual other postemployment benefit (OPEB) cost is calculated based on the 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 normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Town's net OPEB obligation:

Annual required contribution (ARC)	\$	579,000
Interest on net OPEB obligation		36,656
Adjustment to annual required contribution		<u>(41,951)</u>
Annual OPEB cost		573,705
Contributions made		<u>269,000</u>
Increase in net OPEB obligation		304,705
Net OPEB obligation at beginning of year		<u>916,411</u>
Net OPEB Obligation at End of Year	\$	<u><u>1,221,116</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the fiscal years ended June 30, 2013, 2014 and 2015, is presented below.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Actual Contribution</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/13	\$ 474,917	\$ 304,000	64.01%	\$ 611,889
6/30/14	543,522	239,000	43.97	916,411
6/30/15	573,705	269,000	46.89	1,221,116

As of July 1, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was approximately \$5.469 million, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$5.469 million. The covered payroll (annual payroll of active employees covered by the plan) is approximately \$29.46 million at June 30, 2015.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include 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 accrual results are compared with past expectations and new estimates are made about the future.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/10	\$ -	\$ 4,675,000	\$ (4,675,000)	0%	\$ 29,294,867	(23.04)%
7/1/12	-	5,682,000	(5,682,000)	0	29,701,000	(19.13)
7/1/14	-	5,468,687	(5,468,687)	0	29,445,000	(18.57)

Schedule of Employer Contributions

Fiscal Year	Annual Required Contribution	Percentage Contributed
6/30/13	\$ 476,000	64%
6/30/14	546,000	44
6/30/15	579,000	47

Projections for benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of 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, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0% investment rate of return assuming the benefits are not prefunded, which is the rate of the expected long-term investment returns of plan assets calculated based on the funding policy of the plan at the valuation date. The annual healthcare cost trend rate is 5.56% grading down to 4.4% over the next 69 years. Projected salary increases were 3.5%. The actuarial value of assets was determined using the closed group method. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at July 1, 2014 was 23 years.

16. CONTINGENT LIABILITIES

In the opinion of Town Counsel, there are no unpaid or pending judgments against the Town of Berlin and no legal proceedings that would adversely affect the financial position of the Town.

17. SUBSEQUENT EVENTS

On September 21, 2015, the Town issued \$2,900,000 of Bond Anticipation Notes, with a coupon rate of 1%, a net interest cost of .3340% and a maturity date of May 19, 2016. These notes were to reissue expiring notes as well as provide \$2,000,000 new money for Roadway Improvements.

**TOWN OF BERLIN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

18. PRIOR PERIOD ADJUSTMENT AND RESTATEMENT

The following restatements were recorded to the beginning of net position of the governmental activities as a result of implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27:

Net position balance at June 30, 2014, as previously reported	\$	91,397,673
Adjustments:		
Eliminate net pension obligation reported per GASB No. 27		861,149
Record starting net pension liability per GASB No. 68		<u>(5,327,092)</u>
Net Position Balance at July 1, 2014, as Restated	\$	<u><u>86,931,730</u></u>

**Required Supplementary
Information**

**TOWN OF BERLIN, CONNECTICUT
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2015**

	2015				
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual 2014
Taxes:					
Current tax collections	\$ 62,584,002	\$ 62,584,002	\$ 62,903,076	\$ 319,074	\$ 61,264,336
Back taxes	470,000	480,000	500,115	20,115	575,933
Interest from overdue taxes	300,000	300,000	364,969	64,969	336,914
Lien fees	2,542	2,542	2,598	56	3,415
Suspense taxes and interest	45,000	45,000	54,414	9,414	43,276
Elderly housing	41,500	41,500	41,949	449	41,534
Total	<u>63,443,044</u>	<u>63,453,044</u>	<u>63,867,121</u>	<u>414,077</u>	<u>62,265,408</u>
Licenses, Permits and Other Departments:					
Town clerk fees	300,000	300,000	365,591	65,591	357,575
Zoning Commission and Building Inspector	300,000	300,000	338,684	38,684	334,896
Zoning Board of Appeals	2,000	2,000	4,765	2,765	1,670
Animal control fees	12,400	12,400	12,135	(265)	12,165
Animal control rent	5,820	5,820	5,820	-	5,820
Police Department	40,000	40,000	58,770	18,770	43,981
Police services to other agencies	30,000	30,000	31,505	1,505	22,771
Outside police services	312,500	341,526	353,876	12,350	283,243
Engineering and public works	200,000	200,000	63,864	(136,136)	148,208
Scrap metal	35,000	35,000	29,349	(5,651)	21,614
Engineering road testing fee				-	3,000
Parks and recreation	120,000	120,000	138,589	18,589	149,918
Golf course revenues	779,500	779,500	711,044	(68,456)	735,542
Golf restaurant rent			3,747	3,747	
Golf cart revenue	320,000	320,000	297,660	(22,340)	310,122
Berlin-Peck Memorial Library	16,200	16,200	16,325	125	15,612
Library copy fees	900	900	949	49	700
Berlin Public Health Nursing Service	1,150,000	1,150,000	930,412	(219,588)	1,093,273
Summer/field trips	15,448	17,365	17,424	59	10,535
Senior citizen center	4,500	4,500	6,154	1,654	5,912
Total	<u>3,644,268</u>	<u>3,675,211</u>	<u>3,386,663</u>	<u>(288,548)</u>	<u>3,556,557</u>
Intergovernmental Revenues - Schools:					
Private schools	7,721	7,721	36,924	29,203	26,545
School transportation	87,005	87,005	87,417	412	85,507
Miscellaneous school grants	1	1		(1)	
Equalized cost sharing	6,311,512	6,311,512	6,332,782	21,270	6,308,120
Excess special education grant	650,000	650,000	554,475	(95,525)	492,133
Adult education	12,968	12,968		(12,968)	
Total	<u>7,069,207</u>	<u>7,069,207</u>	<u>7,011,598</u>	<u>(57,609)</u>	<u>6,912,305</u>
Intergovernmental Revenues - Other:					
In lieu of taxes	21,481	21,481	28,032	6,551	24,302
PILOT - New Britain Stadium	30,000	30,000		(30,000)	30,000
Elderly property tax relief	114,363	114,363	115,768	1,405	113,693
Municipal Revenue Sharing			(50,094)	(50,094)	50,094
Hold harmless grant	739,604	739,604	739,604	-	739,604
Disability, Social Security	2,589	2,589	2,728	139	2,611
Additional veteran exemption	11,508	11,508	11,536	28	12,486
Friends Against Drugs	3,300	3,300	3,300	-	3,300
Pequot grant	47,148	47,148	52,750	5,602	48,353
Child and youth services grant	14,000	20,172	20,172	-	20,172
State and federal grants	17,500	27,450	49,623	22,173	42,959
Police overtime grant	72,900	131,790	82,153	(49,637)	42,809
Total	<u>1,074,393</u>	<u>1,149,405</u>	<u>1,055,572</u>	<u>(93,833)</u>	<u>1,130,383</u>

(Continued on next page)

**TOWN OF BERLIN, CONNECTICUT
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

	2015				
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual 2014
Other Services and Earnings on Investments:					
Interest on investments	\$ 155,000	\$ 155,000	\$ 163,694	\$ 8,694	\$ 80,383
Refund of expenditures	70,000	70,000	81,148	11,148	49,803
Sale of land, labor and materials	25,000	25,000	12,092	(12,908)	13,046
Mobile home rent	57,600	57,600	58,815	1,215	58,470
Cell tower rental	112,797	112,797	120,700	7,903	111,315
Other receipts	10,000	175,806	172,020	(3,786)	222,967
Telephone access line share	40,000	40,000	51,958	11,958	53,617
Total	<u>470,397</u>	<u>636,203</u>	<u>660,427</u>	<u>24,224</u>	<u>589,601</u>
Total revenues	<u>75,701,309</u>	<u>75,983,070</u>	<u>75,981,381</u>	<u>(1,689)</u>	<u>74,454,254</u>
Other Financing Sources:					
Operating transfers from other funds:					
Water Control Commission - other	4,500	4,500	4,500	-	5,368
Water Control Commission - receivables	9,000	9,000		(9,000)	3,176
Capital Projects Funds		200,000	203,040	3,040	
Timberlin Reserve Fund	65,000	65,000	65,000	-	65,000
Total other financing sources	<u>78,500</u>	<u>278,500</u>	<u>272,540</u>	<u>(5,960)</u>	<u>73,544</u>
Total Revenues and Other Financing Sources	<u>\$ 75,779,809</u>	<u>\$ 76,261,570</u>	76,253,921	<u>\$ (7,649)</u>	<u>\$ 74,527,798</u>
Budgetary revenues are different than GAAP revenues because:					
State of Connecticut on-behalf contributions to the Connecticut State Teachers' Retirement System for Town teachers are not budgeted			4,318,859		
The Town does not budget for the proceeds from the issuance of capital leases			442,615		
Total Revenues and Other Financing Sources as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV			\$ 81,015,395		

**TOWN OF BERLIN, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2015**

	2015				
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual 2014
General Government:					
Manager's Office:					
Wages	\$ 175,616	\$ 179,092	\$ 179,092	\$ -	\$ 174,918
Fringe benefits	67,176	74,134	73,403	731	65,221
Operational	2,441	2,441	2,020	421	1,860
Total	<u>245,233</u>	<u>255,667</u>	<u>254,515</u>	<u>1,152</u>	<u>241,999</u>
Finance Department:					
Wages	482,569	488,721	467,072	21,649	419,962
Fringe benefits	198,888	199,613	185,774	13,839	163,827
Operational	57,161	57,161	53,494	3,667	54,046
Total	<u>738,618</u>	<u>745,495</u>	<u>706,340</u>	<u>39,155</u>	<u>637,835</u>
Technology Department:					
Wages	162,358	165,553	165,553	-	161,601
Fringe benefits	49,845	50,420	49,889	531	49,071
Operational	40,616	40,616	37,281	3,335	34,857
Capital	59,416	45,445	45,445	-	17,381
Total	<u>312,235</u>	<u>302,034</u>	<u>298,168</u>	<u>3,866</u>	<u>262,910</u>
Collector of Revenue:					
Wages	130,697	131,844	131,082	762	126,280
Fringe benefits	60,999	66,159	65,279	880	59,232
Operational	36,469	36,469	33,246	3,223	30,954
Total	<u>228,165</u>	<u>234,472</u>	<u>229,607</u>	<u>4,865</u>	<u>216,466</u>
Treasurer:					
Wages	50,070	51,043	51,042	1	50,068
Fringe benefits	25,044	25,219	16,871	8,348	23,079
Operational	215	215	205	10	170
Total	<u>75,329</u>	<u>76,477</u>	<u>68,118</u>	<u>8,359</u>	<u>73,317</u>
Corporation Counsel:					
Wages	110,000	110,000	110,000	-	110,350
Fringe benefits	40,658	40,658	40,430	228	40,181
Operational	97,960	107,960	93,646	14,314	65,193
Total	<u>248,618</u>	<u>258,618</u>	<u>244,076</u>	<u>14,542</u>	<u>215,724</u>
Townwide expenditures:					
Wages	80,251	3,679	121	3,558	1,851
Fringe benefits	1,449,330	1,457,554	1,445,175	12,379	735,106
Operational	973,550	640,424	608,663	31,761	597,777
Capital	500	500	450	50	-
Total	<u>2,503,631</u>	<u>2,102,157</u>	<u>2,054,409</u>	<u>47,748</u>	<u>1,334,734</u>
Assessor:					
Wages	262,466	261,024	250,453	10,571	246,141
Fringe benefits	109,849	110,479	94,937	15,542	101,212
Operational	26,040	30,359	26,855	3,504	19,670
Total	<u>398,355</u>	<u>401,862</u>	<u>372,245</u>	<u>29,617</u>	<u>367,023</u>

(Continued on next page)

**TOWN OF BERLIN, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

	2015				
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual 2014
Registrar of Voters:					
Wages	\$ 62,000	\$ 62,000	\$ 59,903	\$ 2,097	\$ 57,183
Fringe benefits	20,303	20,303	19,954	349	19,299
Operational	57,360	57,360	34,362	22,998	23,406
Total	<u>139,663</u>	<u>139,663</u>	<u>114,219</u>	<u>25,444</u>	<u>99,888</u>
Town Clerk:					
Wages	245,778	248,428	248,150	278	241,463
Fringe benefits	100,547	100,778	98,272	2,506	98,400
Operational	21,987	21,987	20,841	1,146	20,926
Capital	5,925	5,925	5,925	-	19,262
Total	<u>374,237</u>	<u>377,118</u>	<u>373,188</u>	<u>3,930</u>	<u>380,051</u>
Board of Assessment Appeals:					
Wages	925	925	550	375	550
Fringe benefits	74	74	42	32	40
Total	<u>999</u>	<u>999</u>	<u>592</u>	<u>407</u>	<u>590</u>
Town Council:					
Operational	<u>250</u>	<u>250</u>	<u>67</u>	<u>183</u>	<u>177</u>
Total general government	<u>5,265,333</u>	<u>4,894,812</u>	<u>4,715,544</u>	<u>179,268</u>	<u>3,830,714</u>
Community Development:					
Planning and building inspection:					
Wages	409,564	414,970	406,436	8,534	382,769
Fringe benefits	160,573	161,896	152,431	9,465	145,441
Operational	31,261	31,261	12,955	18,306	17,919
Total	<u>601,398</u>	<u>608,127</u>	<u>571,822</u>	<u>36,305</u>	<u>546,129</u>
Planning and Zoning Commission:					
Operational	<u>335</u>	<u>335</u>	<u>90</u>	<u>245</u>	<u>455</u>
Zoning Board of Appeals:					
Wages	1,300	1,300	900	400	800
Fringe benefits	104	104	71	33	63
Operational	340	340	176	164	369
Total	<u>1,744</u>	<u>1,744</u>	<u>1,147</u>	<u>597</u>	<u>1,232</u>
Economic Development:					
Wages	97,284	102,655	101,654	1,001	96,238
Fringe benefits	32,978	29,672	23,336	6,336	32,595
Operational	14,060	14,060	12,118	1,942	11,413
Total	<u>144,322</u>	<u>146,387</u>	<u>137,108</u>	<u>9,279</u>	<u>140,246</u>

(Continued on next page)

**TOWN OF BERLIN, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

	2015				Actual 2014
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	
Conservation Commission:					
Wages	\$ 1,300	\$ 1,300	\$ 1,100	\$ 200	\$ 1,000
Fringe benefits	104	104	85	19	78
Operational	3,790	3,790	3,440	350	3,454
Total	<u>5,194</u>	<u>5,194</u>	<u>4,625</u>	<u>569</u>	<u>4,532</u>
Inland Wetlands Commission:					
Wages	1,400	1,400	1,100	300	1,275
Fringe benefits	113	113	80	33	102
Operational	2,450	2,450	2,211	239	2,211
Total	<u>3,963</u>	<u>3,963</u>	<u>3,391</u>	<u>572</u>	<u>3,588</u>
Veterans Commission:					
Operational	<u>3,970</u>	<u>3,970</u>	<u>3,871</u>	<u>99</u>	<u>3,254</u>
Aquifer Protection Commission:					
Wages	600	600		600	
Fringe benefits	48	48		48	
Operational	150	150		150	
Total	<u>798</u>	<u>798</u>	<u>-</u>	<u>798</u>	<u>-</u>
Berlin Historic District:					
Wages	1,275	1,275	900	375	800
Fringe benefits	102	102	71	31	63
Operational	300	300	104	196	82
Total	<u>1,677</u>	<u>1,677</u>	<u>1,075</u>	<u>602</u>	<u>945</u>
Commission for Disabled:					
Wages	600	600	500	100	300
Fringe benefits	48	48	37	11	22
Operational	25	25		25	
Total	<u>673</u>	<u>673</u>	<u>537</u>	<u>136</u>	<u>322</u>
Public Building Commission:					
Wages	3,200	3,200	2,325	875	2,350
Fringe benefits	255	255	171	84	190
Operational	550	550	455	95	399
Total	<u>4,005</u>	<u>4,005</u>	<u>2,951</u>	<u>1,054</u>	<u>2,939</u>
Total community development	<u>768,079</u>	<u>776,873</u>	<u>726,617</u>	<u>50,256</u>	<u>703,642</u>

(Continued on next page)

**TOWN OF BERLIN, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

	2015				
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual 2014
Public Safety:					
Ambulance contract:					
Operational	\$ 329,605	\$ 329,605	\$ 325,840	\$ 3,765	\$ 318,825
Animal Control:					
Wages	94,920	94,920	90,455	4,465	96,738
Fringe benefits	26,221	26,345	24,250	2,095	32,509
Operational	16,289	16,165	14,489	1,676	13,666
Total	137,430	137,430	129,194	8,236	142,913
Fire Department:					
Wages	266,436	271,760	244,999	26,761	239,525
Fringe benefits	143,388	135,888	129,520	6,368	126,479
Operational	342,039	344,215	331,031	13,184	340,240
Capital				-	23,295
Total	751,863	751,863	705,550	46,313	729,539
Police:					
Wages	4,963,388	5,035,945	4,847,685	188,260	4,654,409
Fringe benefits	1,888,356	1,854,741	1,760,961	93,780	1,714,374
Operational	251,633	256,523	237,383	19,140	207,092
Capital	245,700	204,467	204,338	129	191,906
Total	7,349,077	7,351,676	7,050,367	301,309	6,767,781
Emergency Management					
Capital		9,950	9,950	-	
Fire Marshal:					
Wages	179,235	182,727	182,390	337	173,993
Fringe benefits	83,336	84,210	83,865	345	79,747
Operational	12,340	12,340	9,990	2,350	9,769
Total	274,911	279,277	276,245	3,032	263,509
Total public safety	8,842,886	8,859,801	8,497,146	362,655	8,222,567
Physical Services:					
Municipal garage:					
Wages	478,062	487,084	467,977	19,107	441,333
Fringe benefits	217,944	215,689	176,302	39,387	202,119
Operational	517,500	536,275	518,503	17,772	536,668
Capital	46,000	28,480	28,480	-	15,344
Total	1,259,506	1,267,528	1,191,262	76,266	1,195,464
Public Works:					
Wages	324,324	341,439	340,023	1,416	347,015
Fringe benefits	122,477	131,558	129,664	1,894	129,830
Operational	2,294,210	2,203,346	1,887,431	315,915	2,015,078
Capital		8,000	7,035	965	
Total	2,741,011	2,684,343	2,364,153	320,190	2,491,923

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**TOWN OF BERLIN, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

	2015				
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual 2014
Highway:					
Wages	\$ 943,755	\$ 1,002,294	\$ 991,328	\$ 10,966	\$ 945,390
Fringe benefits	498,905	501,662	454,931	46,731	450,036
Operational	288,200	366,144	331,274	34,870	288,265
Capital	297,497	287,427	283,123	4,304	112,049
Total	<u>2,028,357</u>	<u>2,157,527</u>	<u>2,060,656</u>	<u>96,871</u>	<u>1,795,740</u>
Public building:					
Wages	1,101,312	1,094,429	1,029,961	64,468	1,050,899
Fringe benefits	497,230	466,752	430,276	36,476	456,386
Operational	714,640	764,640	681,822	82,818	657,234
Capital	70,112	135,271	135,271	-	22,835
Total	<u>2,383,294</u>	<u>2,461,092</u>	<u>2,277,330</u>	<u>183,762</u>	<u>2,187,354</u>
Total physical services	<u>8,412,168</u>	<u>8,570,490</u>	<u>7,893,401</u>	<u>677,089</u>	<u>7,670,481</u>
Parks, Recreation and Libraries:					
Mobile home park:					
Operational	<u>8,250</u>	<u>8,250</u>	<u>6,945</u>	<u>1,305</u>	<u>6,578</u>
Recreation:					
Wages	284,442	286,477	268,579	17,898	236,404
Fringe benefits	67,320	67,894	63,999	3,895	57,665
Operational	50,162	50,172	42,836	7,336	43,958
Total	<u>401,924</u>	<u>404,543</u>	<u>375,414</u>	<u>29,129</u>	<u>338,027</u>
Golf course:					
Wages	441,062	442,089	438,634	3,455	432,276
Fringe benefits	178,619	180,158	176,301	3,857	170,106
Operational	482,730	482,301	474,416	7,885	457,135
Capital	46,080	80,842	80,842	-	46,842
Total	<u>1,148,491</u>	<u>1,185,390</u>	<u>1,170,193</u>	<u>15,197</u>	<u>1,106,359</u>
Libraries:					
Wages	626,779	634,544	610,678	23,866	585,293
Fringe benefits	214,994	216,383	187,719	28,664	188,254
Operational	172,100	172,110	168,924	3,186	180,664
Capital	11,000	975	975	-	-
Total	<u>1,024,873</u>	<u>1,024,012</u>	<u>968,296</u>	<u>55,716</u>	<u>954,211</u>
Public grounds:					
Wages	714,430	740,141	700,255	39,886	701,608
Fringe benefits	323,070	336,486	318,633	17,853	310,167
Operational	313,300	318,425	287,250	31,175	252,829
Capital	223,000	141,245	134,088	7,157	22,414
Total	<u>1,573,800</u>	<u>1,536,297</u>	<u>1,440,226</u>	<u>96,071</u>	<u>1,287,018</u>
Total parks, recreation and libraries	<u>4,157,338</u>	<u>4,158,492</u>	<u>3,961,074</u>	<u>197,418</u>	<u>3,692,193</u>

(Continued on next page)

**TOWN OF BERLIN, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

	2015				
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual 2014
Health and Human Services:					
Health Department:					
Operational	\$ 98,928	\$ 101,863	\$ 101,863	\$ -	\$ 94,632
Nursing services:					
Wages	1,087,256	1,092,264	1,015,244	77,020	957,654
Fringe benefits	431,018	430,742	380,903	49,839	385,088
Operational	306,896	341,396	217,924	123,472	304,375
Capital	51,029	41,413	41,413	-	4,748
Total	1,876,199	1,905,815	1,655,484	250,331	1,651,865
Community services:					
Wages	333,280	339,524	321,662	17,862	275,801
Fringe benefits	149,659	148,990	144,118	4,872	133,148
Operational	28,246	34,618	33,759	859	30,555
Total	511,185	523,132	499,539	23,593	439,504
Total health and human services	2,486,312	2,530,810	2,256,886	273,924	2,186,001
Schools:					
Private schools:					
Wages	78,683	78,683	69,436	9,247	70,165
Fringe benefits	35,916	35,916	32,537	3,379	31,414
Operational	1,313	1,313	1,005	308	1,024
Total	115,912	115,912	102,978	12,934	102,603
Board of Education	40,840,160	40,840,160	40,824,456	15,704	40,134,869
School expenditures:					
Wages	620,748	621,733	559,633	62,100	539,200
Fringe benefits	1,066,848	1,047,780	993,977	53,803	914,315
Operational	1,112,288	1,113,640	970,879	142,761	902,772
Capital	292,200	114,509	114,509	-	194,460
Total	3,092,084	2,897,662	2,638,998	258,664	2,550,747
Total schools	44,048,156	43,853,734	43,566,432	287,302	42,788,219
Debt Principal:					
Town Government	1,672,780	1,672,780	1,672,780	-	2,364,572
Schools	641,840	641,840	641,840	-	607,462
Total debt principal	2,314,620	2,314,620	2,314,620	-	2,972,034
Interest and Fiscal Charges:					
Town Government	630,892	636,013	616,750	19,263	629,499
Schools	1,060,025	1,260,025	1,260,025	-	632,165
Total interest and fiscal charges	1,690,917	1,896,038	1,876,775	19,263	1,261,664
Total Expenditures	77,985,809	77,855,670	75,808,495	2,047,175	73,327,515

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**TOWN OF BERLIN, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

	2015				Actual 2014
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	
Other Financing Uses:					
Transfers to Other Funds:					
Capital Projects fund	\$ 379,000	\$ 379,000	\$ 379,000	\$ -	\$ 366,000
Revaluation fund				-	39,000
Capital and Nonrecurring fund		611,900	611,900	-	911,311
Pension fund	15,000	15,000	15,000	-	10,000
Total other financing uses	<u>394,000</u>	<u>1,005,900</u>	<u>1,005,900</u>	<u>-</u>	<u>1,326,311</u>
Total Expenditures and Other Financing Uses	<u>\$ 78,379,809</u>	<u>\$ 78,861,570</u>	76,814,395	<u>\$ 2,047,175</u>	<u>\$ 74,653,826</u>
Budgetary expenditures are different than GAAP expenditures because:					
State of Connecticut on-behalf payments to the Connecticut State Teachers' Retirement System for Town teachers are not budgeted			4,318,859		
The Town does not budget for capital outlay relating to capital leases			442,615		
The Town does not budget for revaluation fund expenditures			<u>125</u>		
Total Expenditures and Other Financing Uses as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds - Exhibit IV					<u>\$ 81,575,994</u>

TOWN OF BERLIN, CONNECTICUT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TWO FISCAL YEARS

	<u>2015</u>	<u>2014</u>
Total pension liability:		
Service cost	\$ 113,033	\$ 104,337
Interest	363,095	450,167
Changes of benefit terms		
Differences between expected and actual experience	(558,319)	
Changes of assumptions	740,472	
Benefit payments, including refunds of member contributions	<u>(1,666,241)</u>	<u>(215,290)</u>
Net change in total pension liability	(1,007,960)	339,214
Total pension liability - beginning	<u>6,771,663</u>	<u>6,432,449</u>
Total pension liability - ending	<u>5,763,703</u>	<u>6,771,663</u>
Plan fiduciary net position:		
Contributions - employer	1,406,809	700,000
Contributions - member		290,417
Net investment income	37,101	24,338
Benefit payments, including refunds of member contributions	<u>(1,666,241)</u>	<u>(215,290)</u>
Net change in plan fiduciary net position	(222,331)	799,465
Plan fiduciary net position - beginning	<u>1,444,571</u>	<u>645,106</u>
Plan fiduciary net position - ending	<u>1,222,240</u>	<u>1,444,571</u>
Net Pension Liability - Ending	<u>\$ 4,541,463</u>	<u>\$ 5,327,092</u>
Plan fiduciary net position as a percentage of the total pension liability	21.21%	21.33%
Covered-employee payroll	\$ 1,882,367	\$ 1,958,991
Net pension liability as a percentage of covered-employee payroll	241.26%	271.93%

**TOWN OF BERLIN, CONNECTICUT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST TEN FISCAL YEARS**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 1,001,122	\$ 935,628	\$ 1,005,393	\$ 493,732	\$ 473,550	\$ 355,088	\$ 254,732	\$ 260,595	\$ 251,783	\$ 241,623
Contributions in relation to the actuarial determined contribution	1,406,809	700,000	700,000	350,000	200,000	175,000	150,000		258,402	150,000
Contribution Deficiency (Excess)	\$ (405,687)	\$ 235,628	\$ 305,393	\$ 143,732	\$ 273,550	\$ 180,088	\$ 104,732	\$ 260,595	\$ (6,619)	\$ 91,623
Covered-employee payroll	\$ 1,882,367	\$ 1,958,991	\$ 2,073,539	\$ 1,907,671	\$ 1,993,876	\$ 1,986,110	\$ 2,251,842	\$ 2,233,448	\$ 2,146,118	\$ 2,287,001
Contributions as a percentage of covered-employee payroll	74.74%	35.73%	33.76%	18.35%	10.03%	8.81%	6.66%	0.00%	12.04%	6.56%

Notes to Schedule

Valuation Date: July 1, 2014
Measurement Date: June 30, 2015
Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of salary - open
Remaining amortization period	10 Years
Asset valuation method	Fair value
Inflation	3.00%
Salary increases	3.75% per year for Police and 3.0% for all others.
Investment rate of return	6.00%
Retirement age	Police: 100% at 30 years of active service. All others: 100% at age 65.
Mortality	Pre-retirement: RP-2000 Mortality Table with separate male and female rates, with no collar adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale BB. Post-retirement: IRS 417(e) mortality table.

**TOWN OF BERLIN, CONNECTICUT
SCHEDULE OF INVESTMENT RETURNS
LAST TWO FISCAL YEARS**

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	2.17%	2.02%

**TOWN OF BERLIN, CONNECTICUT
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHERS RETIREMENT PLAN
LAST FISCAL YEAR***

	<u>2015</u>
Town's proportion of the net pension liability (asset)	0.00%
Town's proportionate share of the net pension liability (asset)	\$ -
State's proportionate share of the net pension liability (asset) associated with the Town	<u>57,488,298</u>
Total	<u>\$ 57,488,298</u>
Town's covered-employee payroll	\$ 15,145,681
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.00%
Plan fiduciary net position as a percentage of the total pension liability (asset)	61.51%

* The amounts presented for each fiscal year were determined as of December 31.

Changes in benefit terms	None
Changes of assumptions	During 2011, rates of withdrawal, retirement and assumed rates of salary increases were adjusted to reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five-year period ended June 30, 2010.
Actuarial cost method	Entry age
Amortization method	Level percent of salary, closed
Remaining amortization period	22.4 years
Asset valuation method	4-year smoothed market