

**TOWN OF BERLIN, MARYLAND**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2018**

# **TOWN OF BERLIN, MARYLAND**

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ANDREW M. HAYNIE, CPA  
SUSAN P. KEEN, CPA  
MICHAEL C. KLEGER, CPA  
E. LEE MCCABE, CPA  
JEFFREY A. MICHALIK, CPA  
ROBERT L. MOORE, CPA  
DANIEL M. O'CONNELL II, CPA  
JOHN M. STERN, JR., CPA

PKS CPA.com

Salisbury  
1801 SWEETBAY DRIVE  
P.O. BOX 72  
SALISBURY, MD 21803  
TEL: 410.546.5600

Ocean City  
12216 OCEAN GATEWAY  
SUITE 800  
OCEAN CITY, MD 21842  
TEL: 410.213.7185

Lewes  
1143 SAVANNAH ROAD  
SUITE 1  
LEWES, DE 19958  
TEL: 302.645.5757

MEMBERS OF:

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## INDEPENDENT AUDITORS' REPORT

To the Mayor and Council  
Town of Berlin, Maryland

### 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, Maryland as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Berlin, Maryland'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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

## **Auditors' Responsibility (continued)**

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, Maryland, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and pension plan information on pages 4 through 11 and pages 45 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018 on our consideration of the Town of Berlin, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

**Other Reporting Required by *Government Auditing Standards* (continued)**

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, Maryland's internal control over financial reporting and compliance.

**CERTIFIED PUBLIC ACCOUNTANTS**

Salisbury, Maryland  
November 16, 2018

**TOWN OF BERLIN, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

This section of the Town of Berlin, Maryland's (the "Town") annual report presents our discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the Town's financial statements, which follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four financial parts – *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents schedules of revenues and expenditures/expenses. The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Town's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Town, reporting the Town's operations in more detail than the Government-wide financial statements.
  - The *governmental funds* statements tell how general government services like general government, public safety, public works, parks, recreation, culture, and planning and economic development were financed in the *short term* as well as what remains for future spending.
  - *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as the electric department, the water and sewer system, and the stormwater system.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. In addition to these required elements, we have included schedules of selected revenues and expenditures/expenses.

## Government-wide financial statements

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's *net position* and how it has changed. Net position – the difference between the Town's assets and liabilities – is one way to measure the Town's financial health, or position. Over time, increases or decreases in the Town's net position are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Town you need to consider additional nonfinancial factors such as changes in the property tax base and the condition of the Town's roads and electric, water, and sewer systems.

The government-wide financial statements are divided into two categories:

- *Governmental activities* – Most of the Town's basic services are included here, such as the legislative and executive government, finance administration, police, fire, public works, parks, and planning and economic development. Property taxes and state and federal grants finance most of these activities.
- *Business-type activities* – The Town charges fees to customers to help it cover the costs of certain services it provides. The Town's electric, water, sewer, and stormwater departments are included here.

## Fund financial statements

The fund financial statements provide more detailed information about the Town's most significant *funds* – not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending for particular purposes. The Town has two kinds of funds:

- *Governmental funds* – Most of the Town's basic services are included in governmental funds which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.



- *Proprietary funds* – Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide financial statements, provide both long- and short-term financial information. In fact, the Town's *enterprise funds* are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

## FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position at June 30, 2018 was \$32,620,000. Of this total, \$30,544,000 was invested in capital assets and \$1,530,000 was restricted which leaves an unrestricted balance of \$546,000. The Town's net position increased \$1,106,000 from last year. The tables below show key financial information in a condensed format for the current year.

Table 1  
Town of Berlin, Maryland's Net Position  
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 5,826	\$ 7,550	\$ 2,841	\$ 2,841	\$ 8,667	\$ 10,391
Capital assets	11,334	9,418	35,611	36,034	46,945	45,452
Total assets	17,160	16,968	38,452	38,875	55,612	55,843
Deferred outflows of resources	518	617	321	381	839	998
Long-term liabilities	5,688	6,155	15,329	16,756	21,017	22,911
Other liabilities	625	510	1,776	1,687	2,401	2,197
Total liabilities	6,313	6,665	17,105	18,443	23,418	25,108
Deferred inflows of resources	253	130	159	84	412	214
Net position						
Net investment in capital assets	7,536	5,432	23,008	22,064	30,544	27,496
Restricted	752	691	778	1,130	1,530	1,821
Unrestricted	2,824	4,667	(2,277)	(2,465)	547	2,202
Total net position	\$ 11,112	\$ 10,790	\$ 21,509	\$ 20,729	\$ 32,621	\$ 31,519

Table 2 and the narrative that follows consider the operations of governmental and business-type activities separately.

Charges for services	\$ 588	\$ 640	\$ 8,524	\$ 8,160	\$ 9,112	\$ 8,800
Operating grants and contributions	234	228			234	228
Capital grants and contributions	213	346	1,751	2,916	1,964	3,262
General revenues						
Property taxes	3,128	3,036			3,128	3,036
Other taxes and fees	496	680			496	680
Unrestricted grants	455	450			455	450
Overhead allocation	798	770	(798)	(770)		
Other	42	51	13	(7)	55	44
Total revenues	<u>5,954</u>	<u>6,201</u>	<u>9,490</u>	<u>10,299</u>	<u>15,444</u>	<u>16,500</u>
<b>EXPENSES</b>						
General government	1,430	1,475			1,430	1,475
Public safety	2,173	2,069			2,173	2,069
Public works	1,216	1,201			1,216	1,201
Planning and economic development	516	520			516	520
Recreation and parks	98	100			98	100
Interest on long-term debt	149	152			149	152
Electric			4,846	4,959	4,846	4,959
Water			931	822	931	822
Sewer			2,715	2,704	2,715	2,704
Stormwater			268	257	268	257
Total expenses	<u>5,582</u>	<u>5,517</u>	<u>8,760</u>	<u>8,742</u>	<u>14,342</u>	<u>14,259</u>
Change before transfers	372	684	730	1,557	1,102	2,241
Transfers	<u>(50)</u>	<u>(50)</u>	<u>50</u>	<u>50</u>		
Change in net position	<u>\$ 322</u>	<u>\$ 634</u>	<u>\$ 780</u>	<u>\$ 1,607</u>	<u>\$ 1,102</u>	<u>\$ 2,241</u>

### Governmental activities

Net position for the Town's governmental activities increased \$322,000 during the fiscal year. The primary reasons for this increase mirror those highlighted in the following analysis of the Governmental Funds.

### Business-type activities

During the fiscal year, the Town's net position for business-type activities increased \$780,000. Because the change in net position for the Enterprise Funds is an aggregate, for purposes of this management discussion and analysis, Electric, Water, Sewer, and Stormwater funds will be addressed individually below.

The Electric Fund had an operating income of \$776,000 and a total increase in net position of \$608,000 compared to a net increase of \$130,000 last year.

Service charges were up 6% from last year. It should be noted that revenues in a given fiscal year are not a true representation of kilowatts sold in that same fiscal year because you are always recovering power costs from prior years. Operating expenses were down from last year by \$123,000 or 2%

The Water Fund had an operating loss of \$350,000 and a total decrease in net position of \$140,000 compared to a net increase last year of \$341,000. Special connection fees were \$207,000 which is a substantial decrease compared to last year's fees of \$531,000. Operating revenues decreased \$55,000 or 7% from last year with a \$118,000 increase in expenses due mainly to increases in supplies and operating costs, and contracted services. Included in contracted services are the costs to repair flood damage sustained by the Town.

The Sewer Fund had an operating loss of \$916,000 and a total decrease in net position of \$568,000 compared to a increase in net position last year of \$305,000. Special connection fees of \$572,000 were received in the current year which is a substantial decrease compared to last year's fees of \$1,468,000. Operating revenues increased \$81,000. Operating expenses increased \$158,000 due to increases in supplies and operating costs, contracted services, and repairs and maintenance.

The Stormwater Fund had an operating loss of \$142,000 prior to capital grants of \$972,000 and a transfer from the general fund of \$50,000 resulting in an increase in net position of \$879,000 compared to an increase in net position last year of \$830,000.

Grant reimbursements of \$972,000 were received from the Maryland Department of Natural Resources and the Federal Emergency Management Agency for flood and drainage projects in process during the fiscal year.

## FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of June 30, 2018, the Town's governmental funds reported a combined fund balance of \$5,256,000. This is a \$1,844,000 decrease in fund balance for the year.

Revenues decreased from the prior year by \$243,000 or 4%. The Town experienced an increase in expenditures of \$317,000. Expenses increased in general government, public safety and public works.

## BUDGETARY HIGHLIGHTS

There were no amendments to the Town's budget throughout the year.

Significant budget variances include:

- Intergovernmental revenues were greater than the amount budgeted by \$63,000.
- Impact fees and earnings on investments were less than the amount budgeted by \$74,000 and \$16,000, respectively.
- Capital outlay expense was less than the amount budgeted by \$229,000.
- Public works expenses were greater than the amount budgeted by \$104,000.

During the year, the general fund budgeted financing sources of \$1,300,000 of prior year surplus funds and \$650,000 of accumulated slots revenue. These financing sources were used to cover the \$1,844,000 decrease in the fund balance.

## CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

### Capital assets

At the end of the fiscal year, the Town had \$46,944,000, net of accumulated depreciation, invested in a broad range of capital assets.

Table 3  
Town of Berlin, Maryland's Net Capital Assets  
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 4,143	\$ 4,143	5,934	\$ 4,091	\$ 10,077	\$ 8,234
Infrastructure	4,538	4,498	58,492	58,348	63,030	62,846
Buildings and improvements	4,390	1,047	780	771	5,170	1,818
Equipment	981	963	3,448	3,384	4,429	4,347
Vehicles	1,502	1,477	1,556	1,513	3,058	2,990
Construction in progress	844	2,129	728	1,469	1,572	3,598
Less: accumulated depreciation	(5,065)	(4,839)	(35,327)	(33,542)	(40,392)	(38,381)
Total	<u>\$ 11,333</u>	<u>\$ 9,418</u>	<u>\$ 35,611</u>	<u>\$ 36,034</u>	<u>46,944</u>	<u>45,452</u>

This year's major capital asset additions included:

Governmental activities

- Completion of the Berlin police department facility and new furniture
- Completion of the Henry park bathroom building
- 2017 Chevy Tahoe
- 2018 Chevy Tahoe
- Baker Street Improvement

Business-type activities

- Ford F450 4x4
- Power plant air compressor system
- Skidloader RT 165 track
- William Street Culvert
- Nelson, Grice, Franklin Area stormwater conveyance

Long-term debt

At the end of the fiscal year, the Town had \$18,521,000 in general obligation bonds payable.

Table 4  
Town of Berlin, Maryland's Outstanding Debt  
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2018	2017	2018	2017	2018	2017	
General obligation bonds	\$ 3,798	\$ 3,985	\$ 14,723	\$ 16,091	\$ 18,521	\$ 20,076	-8%
Total	<u>\$ 3,798</u>	<u>\$ 3,985</u>	<u>\$ 14,723</u>	<u>\$ 16,091</u>	<u>\$ 18,521</u>	<u>\$ 20,076</u>	-8%

The Town did not incur any new debt during the year.

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The Town established a Stormwater Utility in 2013 and is committed to improving surface water quality, enhance surface water drainage, and reduce pollutants. The Town recently completed several projects using approximately \$1.9 million in grant funding from various federal and state agencies.

The Town's new Police Department was placed into service in June 2018.

The Town is taking all reasonable measures to monitor and control expenditures.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Town of Berlin, Maryland, 10 William Street, Berlin, Maryland 21811.

# TOWN OF BERLIN, MARYLAND

## STATEMENT OF NET POSITION

**JUNE 30, 2018**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 1,056,215	\$	\$ 1,056,215
Pooled cash and investments	19,387	3,395,862	3,415,249
Taxes receivable	157,387		157,387
Accounts receivable, net	42,981	1,525,155	1,568,136
Internal balances	3,703,395	(3,703,395)	
Due from other governments	93,908	693,364	787,272
Inventories		152,860	152,860
Total current assets	<u>5,073,273</u>	<u>2,063,846</u>	<u>7,137,119</u>
Noncurrent assets			
Restricted cash	752,821	777,344	1,530,165
Capital assets, net of accumulated depreciation	11,333,532	35,610,522	46,944,054
Total noncurrent assets	<u>12,086,353</u>	<u>36,387,866</u>	<u>48,474,219</u>
Total assets	<u>17,159,626</u>	<u>38,451,712</u>	<u>55,611,338</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred financing outflows - retirement	517,733	320,766	838,499
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	300,147	736,807	1,036,954
Current portion of accrued compensated absences	128,754	89,636	218,390
Accrued interest payable	14,542	104,882	119,424
Customer deposits		116,172	116,172
Current portion of long-term debt	181,538	728,628	910,166
Total current liabilities	<u>624,981</u>	<u>1,776,125</u>	<u>2,401,106</u>
Noncurrent liabilities			
Bonds payable	3,616,368	13,994,820	17,611,188
Net pension liability	1,947,309	1,227,926	3,175,235
Accrued compensated absences	124,006	106,308	230,314
Total noncurrent liabilities	<u>5,687,683</u>	<u>15,329,054</u>	<u>21,016,737</u>
Total liabilities	<u>6,312,664</u>	<u>17,105,179</u>	<u>23,417,843</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred financing inflows - retirement	253,144	158,632	411,776
<b>NET POSITION</b>			
Net investment in capital assets	7,535,626	23,008,074	30,543,700
Restricted	752,821	777,344	1,530,165
Unrestricted (deficit)	2,823,104	(2,276,751)	546,353
Total net position	<u>\$ 11,111,551</u>	<u>\$ 21,508,667</u>	<u>\$ 32,620,218</u>

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

**TOWN OF BERLIN, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

	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
<b>FUNCTIONS/PROGRAMS</b>							
<b>GOVERNMENTAL ACTIVITIES</b>							
General government	\$ 1,430,866	\$ 483,285	\$	\$ 96,070	\$ (851,511)	\$	\$ (851,511)
Public safety	2,172,856	17,537	68,163		(2,087,156)		(2,087,156)
Public works	1,216,483	20,853	153,066		(1,042,564)		(1,042,564)
Planning and economic development	516,040	65,902	13,200		(436,938)		(436,938)
Recreation and parks	97,850			117,395	19,545		19,545
Interest on long-term debt	148,554				(148,554)		(148,554)
Total governmental activities	<u>5,582,649</u>	<u>587,577</u>	<u>234,429</u>	<u>213,465</u>	<u>(4,547,178)</u>		<u>(4,547,178)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Electric	4,846,331	5,781,253				934,922	934,922
Water	930,846	707,906		207,150	(15,790)		(15,790)
Sewer	2,714,918	1,865,710		572,006	(277,202)		(277,202)
Stormwater	267,586	168,835		971,556	872,805		872,805
Total business-type activities	<u>8,759,681</u>	<u>8,523,704</u>		<u>1,750,712</u>		<u>1,514,735</u>	<u>1,514,735</u>
Total	<u>\$ 14,342,330</u>	<u>\$ 9,111,281</u>	<u>\$ 234,429</u>	<u>\$ 1,964,177</u>	<u>(4,547,178)</u>	<u>1,514,735</u>	<u>(3,032,443)</u>
<b>GENERAL REVENUES</b>							
Taxes							
Property taxes					3,127,998		3,127,998
Public service taxes					40,269		40,269
State income taxes					365,721		365,721
Franchise fees					90,453		90,453
Grants and contributions not restricted to specific programs					455,000		455,000
Unrestricted investment earnings					35,768	8,499	44,267
Overhead allocation					798,057	(798,057)	
Gain on disposal of assets					5,744	4,727	10,471
Transfers					(50,000)	50,000	
Total general revenues and transfers					<u>4,869,010</u>	<u>(734,831)</u>	<u>4,134,179</u>
Change in net position					321,832	779,904	1,101,736
<b>NET POSITION, BEGINNING OF YEAR</b>					10,789,719	20,728,763	31,518,482
<b>NET POSITION, END OF YEAR</b>					<u>\$ 11,111,551</u>	<u>\$ 21,508,667</u>	<u>\$ 32,620,218</u>

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



**TOWN OF BERLIN, MARYLAND**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**JUNE 30, 2018**

**ASSETS**

	General Fund	Special Revenue Fund	Total Governmental Funds
Cash and cash equivalents	\$ 1,056,215	\$	\$ 1,056,215
Pooled cash and investments		19,387	19,387
Taxes receivable	157,387		157,387
Accounts and notes receivable, net	42,981		42,981
Due from other governments	92,602	1,306	93,908
Due from other funds	3,918,630		3,918,630
Restricted cash	752,821		752,821
Total assets	<u>\$ 6,020,636</u>	<u>\$ 20,693</u>	<u>\$ 6,041,329</u>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES,  
AND FUND BALANCES**

**LIABILITIES**

Accounts payable and accrued expenses	\$ 280,701	\$ 19,447	\$ 300,148
Accrued compensated absences	128,754		128,754
Due to other funds	215,234		215,234
Total liabilities	<u>624,689</u>	<u>19,447</u>	<u>644,136</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred property taxes	<u>140,602</u>		<u>140,602</u>
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**FUND BALANCES**

Restricted	2,407		2,407
Committed	750,414		750,414
Assigned	777,201		777,201
Unassigned	3,725,323	1,246	3,726,569
Total fund balance	<u>5,255,345</u>	<u>1,246</u>	<u>5,256,591</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 6,020,636</u>	<u>\$ 20,693</u>	<u>\$ 6,041,329</u>

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

**TOWN OF BERLIN, MARYLAND**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

**JUNE 30, 2018**

Total fund balances, governmental funds	\$ 5,256,591
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Amounts reported for governmental activities in the statement of net position  
are different because:

Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	11,333,532
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Certain expenditures that reduce current financial resources are reported as expenditures in the fund financial statements, but are reported as deferred outflows of resources in the governmental activities of the Statement of Net Position: Deferred financing outflows - retirement.	517,733
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Certain expenditures that reduce current financial resources are reported as expenditures in the fund financial statements, but are reported as deferred outflows of resources in the governmental activities of the Statement of Net Position: Deferred property taxes.	140,602
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Some liabilities and deferred inflows of resources are not due and payable in the  
current period and therefore are not reported in the fund financial statements, but  
are included in the governmental activities in the Statement of Net Position.

Bonds payable and accrued interest	(3,812,448)
Compensated absences	(124,006)
Deferred financing inflows - retirement	(253,144)
Net pension liability	<u>(1,947,309)</u>

Net position, governmental activities	<u><u>\$ 11,111,551</u></u>
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The accompanying notes are an integral part of these financial statements.

**TOWN OF BERLIN, MARYLAND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**YEAR ENDED JUNE 30, 2018**

	General Fund	Special Revenue Fund	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Taxes	\$ 3,532,017	\$	\$ 3,532,017
Licenses and permits	227,844		227,844
Intergovernmental revenues	1,191,074	5,305	1,196,379
Service charges	855,015		855,015
Impact fees	96,070		96,070
Earnings on investments	35,768		35,768
Miscellaneous	17,091		17,091
Total revenues	<u>5,954,879</u>	<u>5,305</u>	<u>5,960,184</u>
<b>EXPENDITURES</b>			
Current			
General government	1,421,404		1,421,404
Public safety	2,111,513	4,230	2,115,743
Public works	1,048,370		1,048,370
Planning and economic development	470,596		470,596
Recreation and parks	68,675		68,675
Debt service	333,311		333,311
Capital outlay	2,301,994		2,301,994
Total expenditures	<u>7,755,863</u>	<u>4,230</u>	<u>7,760,093</u>
Excess of expenditures (over) under revenues	<u>(1,800,984)</u>	<u>1,075</u>	<u>(1,799,909)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(50,000)		(50,000)
Proceeds from sale of assets	5,744		5,744
Net other financing uses	<u>(44,256)</u>		<u>(44,256)</u>
Net change in fund balance	(1,845,240)	1,075	(1,844,165)
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>7,100,585</u>	<u>171</u>	<u>7,100,756</u>
<b>FUND BALANCE, END OF YEAR</b>	<u><u>\$ 5,255,345</u></u>	<u><u>\$ 1,246</u></u>	<u><u>\$ 5,256,591</u></u>

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

**TOWN OF BERLIN, MARYLAND**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT  
OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2018**

Net change in fund balances, governmental funds \$ (1,844,165)

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the  
Statement of Activities, the cost of those assets is allocated over their estimated  
useful lives and reported as depreciation expense. This is the amount by which  
capital outlay expense (\$2,301,994) exceeded depreciation (\$386,002) in the  
current period. 1,915,992

Changes in deferred outflows of resources presented in the governmental activities  
of the Statement of Activities. (99,345)

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

Change in accrued interest payable	(2,761)
Change in long-term compensated absences	(9,882)
Change in net pension liability	295,256
Change in deferred financing inflows	(122,750)

Governmental funds do not present revenues that are not available to pay current  
obligations. In contrast, such revenues are reported in the Statement of Activities  
when earned:

Change in deferred property taxes	1,970
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Governmental funds report repayment of debt principal as an expenditure. In  
contrast, the Statement of Activities treats such repayments as a reduction in  
long-term liabilities. 187,517

Change in net position, governmental activities	<u>\$ 321,832</u>
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The accompanying notes are an integral part of these financial statements.

**TOWN OF BERLIN, MARYLAND**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**JUNE 30, 2018**

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
<b>ASSETS</b>					
Current assets					
Pooled cash and investments	\$ 2,587,840	\$ 808,022	\$	\$	\$ 3,395,862
Accounts receivable, net of allowance	797,297	179,692	522,494	25,672	1,525,155
Due from other funds	215,234				215,234
Due from other governments				693,364	693,364
Inventory	145,609	5,836	1,415		152,860
Total current assets	<u>3,745,980</u>	<u>993,550</u>	<u>523,909</u>	<u>719,036</u>	<u>5,982,475</u>
Noncurrent assets					
Restricted cash		141,896	635,448		777,344
Capital assets, net of accumulated depreciation	4,383,473	2,180,356	26,338,258	2,708,435	35,610,522
Total noncurrent assets	<u>4,383,473</u>	<u>2,322,252</u>	<u>26,973,706</u>	<u>2,708,435</u>	<u>36,387,866</u>
Total assets	<u>8,129,453</u>	<u>3,315,802</u>	<u>27,497,615</u>	<u>3,427,471</u>	<u>42,370,341</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred financing outflows - retirement	131,810	52,052	112,677	24,227	320,766
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and accrued expenses	198,147	73,687	112,723	352,250	736,807
Accrued compensated absences	41,535	15,420	30,270	2,411	89,636
Accrued interest payable	22,500		82,382		104,882
Customer deposits	116,172				116,172
Current portion of long-term debt	318,500		410,128		728,628
Total current liabilities	<u>696,854</u>	<u>89,107</u>	<u>635,503</u>	<u>354,661</u>	<u>1,776,125</u>
Noncurrent liabilities					
Bonds payable	4,205,600		9,789,220		13,994,820
Due to other funds			3,383,561	535,068	3,918,629
Net pension liability	504,968	197,972	444,276	80,710	1,227,926
Accrued compensated absences	58,691	17,031	29,676	910	106,308
Total noncurrent liabilities	<u>4,769,259</u>	<u>215,003</u>	<u>13,646,733</u>	<u>616,688</u>	<u>19,247,683</u>
Total liabilities	<u>5,466,113</u>	<u>304,110</u>	<u>14,282,236</u>	<u>971,349</u>	<u>21,023,808</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred financing inflows - retirement	65,217	25,634	56,802	10,979	158,632
<b>NET POSITION</b>					
Net investment in capital assets	1,980,373	2,180,356	16,138,910	2,708,435	23,008,074
Restricted for capital projects		141,896	635,448		777,344
Unrestricted (deficit)	749,560	715,858	(3,503,104)	(239,065)	(2,276,751)
Total net position	<u>\$ 2,729,933</u>	<u>\$ 3,038,110</u>	<u>\$ 13,271,254</u>	<u>\$ 2,469,370</u>	<u>\$ 21,508,667</u>

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

**TOWN OF BERLIN, MARYLAND**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2018**

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
<b>REVENUES</b>					
Service charges	\$ 5,634,411	\$ 599,577	\$ 1,677,257	\$ 167,404	\$ 8,078,649
Sales and services	113,024	38,096			151,120
Hauler fees			164,221		164,221
Interest on delinquent accounts	33,469	8,141	24,127	1,326	67,063
Miscellaneous	349	62,092	105	105	62,651
Total revenues	<u>5,781,253</u>	<u>707,906</u>	<u>1,865,710</u>	<u>168,835</u>	<u>8,523,704</u>
<b>EXPENSES</b>					
Purchased power	2,752,339				2,752,339
Personnel expenses	813,119	357,105	760,085	151,289	2,081,598
Supplies and operating	333,913	188,468	452,319	19,260	993,960
Professional services	92,468	7,105	16,832	24,208	140,613
Contracted services	97,972	100,103	41,196	29,446	268,717
Insurance	22,615	8,638	18,902	1,245	51,400
Repairs and maintenance	48,407	82,237	114,762		245,406
Depreciation	512,659	187,190	1,082,233	42,138	1,824,220
General overhead	331,399	126,703	296,257	43,698	798,057
Total expenses	<u>5,004,891</u>	<u>1,057,549</u>	<u>2,782,586</u>	<u>311,284</u>	<u>9,156,310</u>
Operating income (loss)	<u>776,362</u>	<u>(349,643)</u>	<u>(916,876)</u>	<u>(142,449)</u>	<u>(632,606)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Capital grants				971,556	971,556
Interest income		2,900	5,599		8,499
Interest expense	(172,839)		(228,589)		(401,428)
Gain on disposal of assets	4,727				4,727
Net nonoperating revenues (expenses)	<u>(168,112)</u>	<u>2,900</u>	<u>(222,990)</u>	<u>971,556</u>	<u>583,354</u>
Income (loss) before contributions and transfers	608,250	(346,743)	(1,139,866)	829,107	(49,252)
Transfers in				50,000	50,000
Capital contributions - special connection fees		207,150	572,006		779,156
Change in net position	608,250	(139,593)	(567,860)	879,107	779,904
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>2,121,683</u>	<u>3,177,703</u>	<u>13,839,114</u>	<u>1,590,263</u>	<u>20,728,763</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 2,729,933</u>	<u>\$ 3,038,110</u>	<u>\$ 13,271,254</u>	<u>\$ 2,469,370</u>	<u>\$ 21,508,667</u>

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

**TOWN OF BERLIN, MARYLAND**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2018**

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 5,618,075	\$ 707,680	\$ 1,906,802	\$ 171,486	\$ 8,404,043
Other receipts	349	62,092	105	105	62,651
Payments to suppliers	(3,350,698)	(479,749)	(657,482)	(146,774)	(4,634,703)
Payments to employees	(824,669)	(364,756)	(774,582)	(153,767)	(2,117,774)
Payments for interfund services	(331,399)	(126,703)	(296,257)	(43,698)	(798,057)
Net cash provided (used) by operating activities	1,111,658	(201,436)	178,586	(172,648)	916,160
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Interfund borrowings	(215,234)		612,241	453,012	850,019
Interfund transfers				50,000	50,000
Net cash provided (used) by noncapital financing activities	(215,234)		612,241	503,012	900,019
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest income		2,900	5,599		8,499
Net cash provided by investing activities		2,900	5,599		8,499
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchases of capital assets	(30,463)	(216,416)	(67,841)	(735,951)	(1,050,671)
Proceeds from capital grants				405,587	405,587
Principal paid on long-term debt	(468,688)		(898,488)		(1,367,176)
Interest paid on long-term debt	(170,339)		(243,044)		(413,383)
Capital contributions - special connection fees		207,150	572,006		779,156
Net cash used by capital and related financing activities	(669,490)	(9,266)	(637,367)	(330,364)	(1,646,487)
Net increase (decrease) in cash	226,934	(207,802)	159,059		178,191
<b>CASH, BEGINNING OF YEAR</b>	2,360,906	1,157,720	476,389		3,995,015
<b>CASH, END OF YEAR</b>	<u>\$ 2,587,840</u>	<u>\$ 949,918</u>	<u>\$ 635,448</u>	<u>\$</u>	<u>\$ 4,173,206</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 776,362	\$ (349,643)	\$ (916,876)	\$ (142,449)	\$ (632,606)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	512,659	187,190	1,082,233	42,138	1,824,220
Deferred financing outflows - retirement	24,697	9,846	20,296	5,322	60,161
Deferred financing inflows - retirement	30,517	12,166	25,079	6,578	74,340
(Increase) decrease in assets					
Accounts receivable	(163,656)	61,866	41,197	2,756	(57,837)
Inventory	(47,003)	(777)	360		(47,420)
Increase (decrease) in liabilities					
Accounts payable and accrued expenses	(22,745)	(122,084)	(73,703)	(86,993)	(305,525)
Customer deposits	827				827
Net cash provided (used) by operating activities	<u>\$ 1,111,658</u>	<u>\$ (201,436)</u>	<u>\$ 178,586</u>	<u>\$ (172,648)</u>	<u>\$ 916,160</u>

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

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**BASIS OF PRESENTATION AND  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Town of Berlin, Maryland, (the “Town”), have been prepared in conformity with generally accepted accounting principles (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.

Reporting Entity

The basic criteria for including component units in the Town’s financial statements are the exercise of oversight responsibility over such units by the Town’s elected officials and the scope of public services as it pertains to the activities benefiting the residents within the geographic boundaries of the Town. Oversight responsibility embraces such factors as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Based on the above criteria as set forth by the GASB, the Town of Berlin, Maryland has no component units.

Basis of Presentation

Government-wide financial statements - The statement of net position and the statement of activities display information about the Town. These statements include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and revenues for the different business-type activities of the Town and for each function of the Town’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.



**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**BASIS OF PRESENTATION AND  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Basis of Presentation (continued)

Fund financial statements - The fund financial statements provide information about the Town's funds. Separate statements for each fund category – governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. Any remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as grants and investment earnings, result from nonexchange transactions.

The Town reports the following major governmental fund: general fund. This is the primary operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

The Town reports the following major proprietary funds: electric, water, sewer, and stormwater. These funds account for the operation and management of the electric, water, sewer, and stormwater departments.

The Town reports the following non-major governmental fund: special revenue fund. This fund accounts for state and federal grants with specific compliance restrictions.

Measurement Focus, Basis of Accounting

The government-wide and proprietary fund statements are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all the eligibility requirements have been satisfied.

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**BASIS OF PRESENTATION AND  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Measurement Focus, Basis of Accounting (continued)

The governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes, charges for services, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Budgetary Data

The Town's budgetary year begins July 1 of each year. By Town Ordinance, the Council must approve a budget for the succeeding year by June 30 after holding at least two public hearings. Appropriations lapse at year-end unless obligated or encumbered. Expenditures in excess of amounts appropriated for or transferred to a general classification of expenditures in the budget are prohibited by the Town's charter. Budget amendments can be made during the year, but must be approved by the Mayor and Council. Appropriations from prior year fund balance are recorded as other financing sources for budgetary purposes.

The general fund budget is adopted on a basis consistent with generally accepted accounting principles for governmental funds. No budget is adopted or required for the special revenue fund.

Cash Equivalents

The Town treats certificates of deposit with original maturities of 90 days or less and investments in repurchase agreements with short-term maturities as cash equivalents for purposes of preparing the cash flow statement.

Restricted Cash

Restricted cash in the general fund consists of impact fees set aside for future capital projects and slots revenue restricted by the State of Maryland. Restricted cash in the enterprise funds consists of special connection charges restricted for water and sewer capital and related financing activities and EDU escrow deposits.

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**BASIS OF PRESENTATION AND  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Allowance for Uncollectible Accounts

Provision is made for estimated uncollectible electric, water, sewer, and stormwater charges and miscellaneous accounts receivable based upon the Town's determination of individual accounts not likely to be collected. At June 30, 2018, the allowance in the General Fund was \$18,462 and the Enterprise Fund was \$104,053.

Inventories

Inventories of supplies are stated at cost at year-end as determined by the first-in, first-out method. Inventories are charged to expense when consumed, rather than when purchased or donated.

Deferred Inflows and Outflows of Resources

The Town reports a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period. The Town has two types of items that qualify for reporting in this category: (a) deferred property taxes which are not recognized until available (collected not later than 60 days after the end of the Town's fiscal year), and (b) deferred financing inflows related to the retirement plan.

The Town may report decreases in net assets that relate to a future period as deferred outflows of resources in a separate section of its government-wide and proprietary statements of net position or the governmental funds balance sheet. The Town has one item that qualifies for reporting in this category: deferred financing outflows related to the retirement plan.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Maryland State Retirement and Pension System (MSRPS), and additions to/deductions from MSRPS's fiduciary net position have been determined on the same basis as they are reported by MSRPS.

Property Taxes

Real and personal property taxes are calculated based on the assessable basis of the property as of the January 1 preceding the fiscal year which begins July 1. The taxes are levied July 1 of each year and are due October 1 with penalties charged on payments not received by October 1.

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**BASIS OF PRESENTATION AND  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. General infrastructure assets, such as streets, curbs, gutters, storm drains, traffic lighting systems and similar assets, acquired after June 30, 2000 are capitalized in the government-wide financial statements. The Town has established a \$5,000 minimum threshold amount for capitalization. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	10 - 50 years
Buildings and improvements	10 - 40 years
Machinery and equipment	5 - 10 years
Transportation equipment	5 - 15 years

Accrued Compensated Absences

The Town accrues a liability in the government-wide, governmental and proprietary fund statements for certain compensated absences (vacation and compensatory time) that have been earned but not yet paid. Sick pay, which is earned but not payable at separation, is not included.

Capital Contributions - Enterprise Funds

Capital contributions in the water and sewer funds consist of special connection fees that were assessed for payment of debt service costs and capital improvements to the water and sewer plants. Interest earned that is attributable to the special connections fees is reported in the water and sewer funds.

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**BASIS OF PRESENTATION AND  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Government-Wide and Proprietary Fund Net Position

Government-wide and proprietary fund net positions are divided into three components as follows:

Net investment in capital assets - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted - consists of assets that are restricted by enabling legislation. In the governmental activities, this amount represents impact fees that are restricted for use on future capital projects and slots revenue that is restricted by the State of Maryland. In the business-type activities, this amount represents EDU escrow deposits.

Unrestricted - all other not reported in the above categories.

When an expense is incurred that can be paid using either restricted or unrestricted net position, the Town's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable fund balance - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.

Restricted fund balance - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.

Committed fund balance - amounts that can be spent only for specific purposes determined by a formal action of the Mayor and Council.

Assigned fund balance - amounts the Mayor and Council intend to use for specific purposes that do not meet the criteria to be classified as restricted or committed.

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**BASIS OF PRESENTATION AND  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Governmental Fund Balances (continued)

Unassigned fund balance - amounts that are available for any purpose; these amounts can be reported only in the Town's General Fund.

In governmental funds, the Town's policy is to first apply the expenditure toward restricted fund balance and then to other, less restrictive classifications (committed and then assigned fund balances) before using unassigned fund balances.

**DEPOSITS AND INVESTMENTS**

The Town follows the State of Maryland laws related to types of deposits and investments, selection of depositories, and collateral requirements. The Annotated Code of Maryland requires that deposits with financial institutions be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution.

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. As of June 30, 2018, \$2,873,314 of the Town's deposits were exposed to custodial credit risk. These amounts were not covered by the Federal Deposit Insurance Corporation (FDIC) but were collateralized with securities held by the pledging financial institution's trust department, not in the Town's name.

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 4,142,914	\$	\$	\$ 4,142,914
Construction in progress	2,128,845	463,020	1,747,149	844,716
Total capital assets not being depreciated	<u>6,271,759</u>	<u>463,020</u>	<u>1,747,149</u>	<u>4,987,630</u>
<i>Capital assets being depreciated</i>				
Infrastructure	4,497,877	40,000		4,537,877
Buildings and improvements	1,047,113	3,342,682		4,389,795
Equipment	963,099	115,925	97,183	981,841
Vehicles	1,477,381	87,516	63,299	1,501,598
Total capital assets being depreciated	<u>7,985,470</u>	<u>3,586,123</u>	<u>160,482</u>	<u>11,411,111</u>
Less accumulated depreciation for:				
Infrastructure	2,473,162	148,917		2,622,079
Buildings and improvements	718,188	36,338		754,526
Equipment	649,912	70,950	97,183	623,679
Vehicles	998,427	129,797	63,299	1,064,925
Total accumulated depreciation	<u>4,839,689</u>	<u>386,002</u>	<u>160,482</u>	<u>5,065,209</u>
Total capital assets being depreciated, net	<u>3,145,781</u>	<u>3,200,121</u>		<u>6,345,902</u>
Governmental activities capital assets, net	<u><u>\$ 9,417,540</u></u>	<u><u>\$ 3,663,141</u></u>	<u><u>\$ 1,747,149</u></u>	<u><u>\$ 11,333,532</u></u>

Construction in progress in the governmental activities includes Baker street construction, Berlin Falls Park, Berlin Bikeway, Gay Street water main upgrade, and the Stephen Decatur park tennis courts.

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**CAPITAL ASSETS (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
<b><u>Electric:</u></b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 304,510	\$	\$	\$ 304,510
Total capital assets not being being depreciated	304,510			304,510
<i>Capital assets being depreciated</i>				
Infrastructure	14,987,867			14,987,867
Buildings and improvements	755,076	11,380		766,456
Equipment	2,218,114	13,088		2,231,202
Vehicles	621,501	5,995	14,220	613,276
Total capital assets being depreciated	18,582,558	30,463	14,220	18,598,801
Less accumulated depreciation for:				
Infrastructure	11,583,901	359,763		11,943,664
Buildings and improvements	476,813	23,071		499,884
Equipment	1,523,444	85,117		1,608,561
Vehicles	437,241	44,708	14,220	467,729
Total accumulated depreciation	14,021,399	512,659	14,220	14,519,838
Total capital assets being depreciated, net	4,561,159	(482,196)		4,078,963
Electric activities, capital assets, net	4,865,669	(482,196)		4,383,473



**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**CAPITAL ASSETS (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Sewer:</u></b>				
<i>Capital assets not being depreciated</i>				
Land	3,495,233			3,495,233
Construction in progress		4,420		4,420
Total capital assets not being depreciated	3,495,233	4,420		3,499,653
<i>Capital assets being depreciated</i>				
Infrastructure	38,268,511		9,518	38,258,993
Buildings and improvements	1,510			1,510
Equipment	896,759	72,101	18,709	950,151
Vehicles	738,459		1,095	737,364
Total capital assets being depreciated	39,905,239	72,101	29,322	39,948,018
Less accumulated depreciation for:				
Infrastructure	14,769,294	999,160	2,864	15,765,590
Buildings and improvements	1,510			1,510
Equipment	717,131	34,386	18,709	732,808
Vehicles	559,887	50,713	1,095	609,505
Total accumulated depreciation	16,047,822	1,084,259	22,668	17,109,413
Total capital assets being depreciated, net	23,857,417	(1,012,158)	6,654	22,838,605
Sewer, capital assets, net	27,352,650	(1,007,738)	6,654	26,338,258

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**CAPITAL ASSETS (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Water:</u></b>				
<i>Capital assets not being depreciated</i>				
Land	82,039			82,039
Construction in progress		11,375		11,375
Total capital assets not being depreciated	82,039	11,375		93,414
<i>Capital assets being depreciated</i>				
Infrastructure	5,092,109	152,771		5,244,880
Buildings and improvements	14,206		2,425	11,781
Equipment	268,995		2,500	266,495
Vehicles	126,745	52,269		179,014
Total capital assets being depreciated	5,502,055	205,040	4,925	5,702,170
Less accumulated depreciation for:				
Infrastructure	3,211,935	149,482		3,361,417
Buildings and improvements	11,589	276	2,425	9,440
Equipment	136,774	11,309	2,500	145,583
Vehicles	74,692	24,096		98,788
Total accumulated depreciation	3,434,990	185,163	4,925	3,615,228
Total capital assets being depreciated, net	2,067,065	19,877		2,086,942
Water, capital assets, net	2,149,104	31,252		2,180,356

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**CAPITAL ASSETS (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Stormwater:</u></b>				
<i>Capital asset not being depreciated</i>				
Construction in progress	1,469,067	1,086,479	1,842,576	712,970
Total capital assets not being depreciated	1,469,067	1,086,479	1,842,576	712,970
<i>Capital assets being depreciated</i>				
Land improvements	208,633	1,842,576		2,051,209
Vehicles	26,352			26,352
Total capital assets being depreciated	234,985	1,842,576		2,077,561
Less accumulated depreciation for:				
Land improvements	36,884	36,868		73,752
Vehicles	3,074	5,270		8,344
Total accumulated depreciation	39,958	42,138		82,096
Total capital assets being depreciated, net	195,027	1,800,438		1,995,465
Stormwater, capital asset, net	1,664,094	2,886,917	1,842,576	2,708,435
Business-type activities				
Capital assets, net	\$ 36,033,543	\$ 1,426,210	\$ 1,849,231	\$ 35,610,522

Construction in progress in the Stormwater Fund includes flood and drainage projects at multiple locations. These projects are being funded with grants from the Maryland Department of Natural Resources of \$964,603, and the Federal Emergency Management Agency of \$124,048.

Depreciation expense for governmental activities was charged to functions as follows:

General government	\$ 36,613
Public safety	73,947
Public works	241,477
Planning and community development	4,790
Recreation and parks	29,175
	<u>\$ 386,002</u>

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**FUND BALANCES**

Restricted fund balances are state slots revenue that is restricted by the State of Maryland.

Committed fund balances are impact fees that are restricted for use on future capital projects.

Assigned fund balances are monies that the Mayor and Council have designed for the payment of employee insurance premiums and Community Center construction costs.

**INTERNAL BALANCES AND ACTIVITY**

Balances due to/from other funds at June 30, 2018 consist of the following:

	<u>June 30, 2017</u>	<u>Increase</u>	<u>June 30, 2018</u>
Due to the general fund from the sewer fund	<u>\$ 2,771,320</u>	<u>\$ 612,241</u>	<u>\$ 3,383,561</u>
Due to the general fund from the stormwater fund	<u>\$ 82,056</u>	<u>\$ 453,012</u>	<u>\$ 535,068</u>
Due to the electric fund from the general fund	<u>\$</u>	<u>\$ 215,234</u>	<u>\$ 215,234</u>

The balances due to the general fund are not expected to be repaid within one year.

In the current year, the general fund transferred \$50,000 to the stormwater fund. This transfer is treated as other financing sources or uses within the respective funds.

**LONG-TERM DEBT**

Changes in long-term obligations for the year June 30, 2018 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
General obligation bonds	<u>\$ 3,985,423</u>	<u>\$</u>	<u>\$ 187,517</u>	<u>\$ 3,797,906</u>

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**LONG-TERM DEBT (continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type Activities:</b>				
<b>Electric</b>				
General obligation bonds	\$ 4,992,788	\$	\$ 468,688	\$ 4,524,100
<b>Sewer</b>				
General obligation bonds	11,097,836		898,488	10,199,348
	<u>\$ 16,090,624</u>	<u>\$</u>	<u>\$ 1,367,176</u>	<u>\$ 14,723,448</u>

**Governmental Activities**

Notes payable and general obligation bonds consist of the following:

	<u>Principal Balance Outstanding at June 30, 2018</u>
Public improvement bonds of 2002 payable to the U.S. Department of Agriculture. The original obligations are dated September 26, 2002. Debt is amortized over 40 years at an interest rate of 4.75%. Interest and principal is due quarterly, with payments ranging from \$362 to \$1,026 through September 26, 2042.	\$ 507,906
Bond anticipation note payable to the bank for the street improvement project, not to exceed \$1,700,000. The original obligation is dated November 1, 2009. Interest at 4.07% is due quarterly. The maturity date is November 1, 2024.	490,000
Public improvement bonds of 2016 payable to the Bank of Ocean City for the purchase of property. The original obligations are dated January 22, 2016. Debt is amortized over 30 years at an interest rate of 3.50%. Interest and principal is due annually, with principal payments of \$100,000 through December 1, 2045.	<u>2,800,000</u>
Total Governmental Activities	<u>\$ 3,797,906</u>

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**LONG-TERM DEBT (continued)**

**Business-type Activities – Electric Fund**

	Principal Balance Outstanding at June 30, 2018
2015 bonds payable to the Maryland Department of Housing and Community Development dated August 27, 2015 for \$2,288,100. Proceeds were used to refinance 2004 bonds payable. Debt is amortized over 19 years at an interest rate averaging 3.24%. Interest and principal is due semi-annually, with total annual payments ranging from \$19,251 to \$165,546 through April 1, 2034.	\$ 2,024,500
Infrastructure financing bonds of 2007 payable to the Maryland Department of Community Development. This obligation was used to refinance general obligation bonds for 1995. The original obligation is dated November 14, 2007 in the amount of \$944,200. Debt is amortized from 8 to 20 years at an interest rate of 4.125%. Interest and principal is due semi-annually with total annual payments ranging from \$90,970 to \$97,980. Payment is shared by the electric, water, and sewer funds. The maturity dates range from May 1, 2015 to May 1, 2027.	283,900
Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1999. The original obligations are dated May 17, 2012 in the amount of \$1,431,232. Debt is amortized over 17 years. Interest rates range from 1.41% to 3.94%. Interest is due semi-annually with principal payments due annually, ranging from \$2,098 to \$106,500 through May 1, 2029.	994,400
Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1998. The original obligations are dated May 17, 2012 in the amount of \$1,820,652. Debt is amortized over 16 years. Interest rates range from 1.41% to 3.94%. Interest is due semi-annually with principal payments due annually, ranging from \$2,778 to \$141,000 through May 1, 2028.	1,221,300
Total Electric Fund	4,524,100

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**LONG-TERM DEBT (continued)**

**Business-type Activities – Sewer Fund**

Principal Balance  
Outstanding at  
June 30, 2018

Real property acquisition bond payable to an individual. This obligation is being used to finance the purchase of real property for use in the spray irrigation project. The original obligation is dated December 15, 2010 in the amount of \$500,000. Debt is amortized over 25 years at an interest rate of 8.422%. Interest and principal is due monthly with payments in the amount of \$4,045. The maturity date is January 2036.

433,076

Bond payable to the U.S. Department of Agriculture. This obligation was used to fund the lagoon liner and wastewater treatment plant projects. The original obligation is dated November 16, 2010 in the amount of \$5,988,000. Interest and principal is due in semi-annual payments of \$113,952 at an interest rate of 2.25%. The maturity date is November 2050.

5,231,373

Loan payable to the U.S. Department of Agriculture to fund construction of Phase I of the spray irrigation project. The original obligation is dated August 24, 2011 in the amount of \$2,462,000. Debt is amortized over 40 years at an interest rate of 2.5%. Interest payments are due semi-annually with principal payments being due semi-annually beginning February 2013. Payments range from \$30,775 to \$50,373, maturing August 2050.

1,756,612

Loan payable to Maryland Department of the Environment. This loan is being used to fund construction of Phase II of the spray irrigation project. Total amount available to draw is \$3,207,000. Interest payments at .80% are due in semi-annual payments. Principal payments begin annually February 2015. The maturity date is February 2033.

2,570,787

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**LONG-TERM DEBT (continued)**

**Business-type Activities – Sewer Fund (continued)**

	Principal Balance Outstanding at June 30, 2018
Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1991. The original obligations are dated May 17, 2012 in the amount of \$587,420. Debt is amortized over 16 years. Interest rates range from 1.41% to 3.94%. Interest is due semi-annually with principal payments due annually, ranging from \$980 to \$71,000 through May 2021.	207,500
Total Sewer Fund	10,199,348
Total long-term debt - Business-type Activities	<u>\$ 14,723,448</u>

**Debt Service Requirements**

Principal and interest requirements to amortize the note and the general obligation and public improvements bonds as of June 30, 2018 are as follows:

<b>Governmental Activities</b>			
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2019	\$ 181,538	\$ 138,695	\$ 320,233
2020	182,096	132,038	314,134
2021	182,681	124,854	307,535
2022	183,294	117,892	301,186
2023	183,937	110,900	294,837
2024 - 2028	720,469	461,686	1,182,155
2029 - 2033	601,898	346,811	948,709
2034 - 2038	629,033	232,137	861,170
2039 - 2043	632,956	110,676	743,632
2044 - 2046	300,004	15,884	315,888
	<u>\$ 3,797,906</u>	<u>\$ 1,791,574</u>	<u>\$ 5,589,480</u>



**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**LONG-TERM DEBT (continued)**

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of June 30, 2018 are as follows:

<b>Business-Type Activities</b>			
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2019	\$ 728,628	\$ 396,002	\$ 1,124,630
2020	745,478	379,677	1,125,155
2021	762,328	356,713	1,119,041
2022	710,489	333,889	1,044,378
2023	727,271	317,018	1,044,289
2024 - 2028	3,798,384	1,279,990	5,078,374
2029 - 2033	3,011,491	784,647	3,796,138
2034 - 2038	1,482,875	406,448	1,889,323
2039 - 2043	1,196,169	244,472	1,440,641
2044 - 2048	1,014,271	125,249	1,139,520
2049 - 2051	546,064	18,473	564,537
	<u>\$ 14,723,448</u>	<u>\$ 4,642,578</u>	<u>\$ 19,366,026</u>

**INTEREST COST - ENTERPRISE FUND**

Where applicable, the Town follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. During the year ended June 30, 2018, total interest incurred and paid in the Enterprise Fund was \$401,167 all of which was charged to operations.

**CONDUIT DEBT**

The Town has issued tax exempt conduit Hospital Revenue Bond 2017 Series in the principal amount of \$10,000,000. The proceeds were loaned to Atlantic General Hospital Corporation (AGH) for certain capital projects pursuant to a financing agreement dated September 1, 2017. The bond is secured by a pledge of specific revenues and a lien on the financed property. The Town is not obligated in any manner for the repayment of the bond. Accordingly, the bond is not a liability to the Town and not reported in the accompanying financial statements.

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**INTERNAL CHARGES AND SERVICES**

The Town provides administrative services to the proprietary funds for certain services paid in the general fund. Also, a payment in lieu of taxes of \$157,000 is charged to the Electric Fund. The total services billed for the year ended June 30, 2018 were as follows:

<u>Service Type</u>	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Stormwater Fund</u>	<u>Total</u>
Administrative services	<u>\$ 331,399</u>	<u>\$ 126,703</u>	<u>\$ 296,257</u>	<u>\$ 43,698</u>	<u>\$ 798,057</u>

**LEASE AGREEMENTS**

The Town has entered into lease agreements expiring in 2027 and 2026 with AT&T Wireless and T-mobile for the use of the Town's water tower for wireless antennas and transmission lines. Total lease payments billed for the year ended June 30, 2018 were \$61,942.

Future lease payment terms to be received are:

<u>Year Ending June 30,</u>	<u>Total Payment</u>
2019	\$ 63,666
2020	64,814
2021	65,996
2022	69,754
2023	71,008
All subsequent years	<u>515,743</u>
Total minimum lease payments to be received	<u>\$ 850,981</u>

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**RETIREMENT AND PENSION PLANS**

General information about the pension plan

*Plan description.* Employees of the Town are covered by the Pension System for Employees of the State of Maryland or the Employees' Retirement System of the State of Maryland. These systems are part of the Maryland State Retirement and Pension System (MSRPS), and are cost-sharing multiple-employer public employee retirement systems. The plan is administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the MSRPS is vested in a 15-member Board of Trustees. The MSRPS was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issued a publicly available financial report that includes basic financial statements and required supplementary information for the MSRPS. This report can be found at [www.sra.state.md.us/Agency/Downloads/CAFR/CAFR\\_FullReport.pdf](http://www.sra.state.md.us/Agency/Downloads/CAFR/CAFR_FullReport.pdf).

*Benefits provided.* The MSRPS provides retirement, disability and death benefits. Retirement allowances for members of the Town are based on the highest five consecutive years average Annual Compensation (AFC) and the actual years of accumulated credited services. Employees of the Town may retire with reduced benefits after attaining age 60 with at least 15 years of eligible service. Permanent disability benefits are available after five years of service and approximate 25% of AFC. Death benefits are equal to employee salary at the time of death plus all member contributions and interest.

*Contributions.* The State Personnel and Pensions Article requires active members to contribute to the MSRPS at the rate of 4%, 5% or 7% of their covered salary depending upon the retirement option selected. The Town is required to contribute at an actuarially determined rate. Contributions to the plan from the Town for the past three years were as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage Funded</u>
6/30/2016	\$ 301,310	100%
6/30/2017	\$ 298,871	100%
6/30/2018	\$ 320,331	100%

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**RETIREMENT AND PENSION PLANS (Continued)**

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2018, the Town reported a liability of \$3,175,235 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. At June 30, 2017, the Town's proportion was .0147%.

For the year ended June 30, 2018, the Town recognized pension expense of \$367. At June 30, 2018, the Town reported deferred outflows of resources or deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows Resources
Changes of assumptions	\$ 113,410	\$
Net difference between projected and actual earnings on pension plan investments	404,758	411,776
Contributions subsequent to measurement date	320,331	
	<u>\$ 838,499</u>	<u>\$ 411,776</u>

The Town's contribution subsequent to the measurement date of \$320,331, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Deferred financial inflows and outflows are made up of changes in actuarial assumptions, differences in actual and expected experience, and net difference in the project and actual investment earnings. The deferred outflows and inflows related to non-investment activity are being amortized over the remaining service life ranging from 5.54 to 5.87 years. The net difference in investment earnings for 2017, 2016, and 2015 are being amortized over a closed five-year period. For each of the years presented the following table shows the amortization of these balances:

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**RETIREMENT AND PENSION PLANS (Continued)**

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

Year Ending June 30	Deferred Inflows	Deferred Outflows
2019	\$ 147,641	\$ 200,096
2020	84,879	191,448
2021	83,138	120,737
2022	71,008	3,307
2023	25,110	2,580
Total	<u>\$ 411,776</u>	<u>\$ 518,168</u>

*Actuarial assumptions.* The actuarial assumption for the Pension Plan as a whole and based on the June 30, 2017 annual actuarial valuation report for Maryland Municipal Corporation are as follows:

Inflation	2.65% general, 3.15% wage
Salary increases	3.15% to 9.15%, including inflation
Investment rate of return	7.5%

Mortality rates were based on the RP-2014 Combined Healthy Mortality table projected to the year 2025.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statements No. 25 and 67 of the Governmental Accounting Standards Board (GASB).

*Discount rate.* The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contribution from the municipalities will be made at contractually required rates, actuarially determined.

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**RETIREMENT AND PENSION PLANS (Continued)**

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

*Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate.* The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

1% Decrease (6.5%)	\$ 4,758,888
Current discount rate (7.5%)	\$ 3,175,235
1% Increase (8.5%)	\$ 2,387,504

*Pension plan fiduciary net position.* Detailed information about the plan's fiduciary net position is available in the System's separately issued financial report.

**DEFERRED COMPENSATION PLAN**

The Town offers certain employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The deferred amounts are invested in various annuity contracts. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the deferred compensation plan participants. The Town has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. In accordance with GASB Statement No. 32, the plan's assets are not reported on the statement of net assets of the Town.

**RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Town maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this coverage in any of the past three fiscal years.

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**COMMITMENTS AND CONTINGENCIES**

The Town is the recipient of various federal and state grants. The Town may be under obligation to repay these grant funds if, upon final review by the respective granting agencies, the funds expended did not meet the established program objectives. The Town is not aware of any repayment requests.

**NEW GASB PRONOUNCEMENTS**

GASB issued Statement No. 87, *Leases*, in June 2017. It is effective for reporting periods beginning after December 15, 2019. The new guidance requires recognition of certain lease assets and liabilities that were previously classified as operating leases. It also recognizes inflows of resources or outflows of resources based on the payment provisions of the contract.

## **REQUIRED SUPPLEMENTARY INFORMATION**



**TOWN OF BERLIN, MARYLAND**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

**YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes	\$ 3,457,141	\$ 3,457,141	\$ 3,532,017	\$ 74,876
Licenses and permits	196,000	196,000	227,844	31,844
Intergovernmental revenues	1,128,429	1,128,429	1,191,074	62,645
Service charges	854,557	854,557	855,015	458
Impact fees	170,000	170,000	96,070	(73,930)
Earnings on investments	52,000	52,000	35,768	(16,232)
Miscellaneous	7,500	7,500	17,091	9,591
Total revenues	<u>5,865,627</u>	<u>5,865,627</u>	<u>5,954,879</u>	<u>89,252</u>
<b>EXPENDITURES</b>				
Current				
General government	1,422,954	1,422,954	1,421,404	1,550
Public safety	2,091,090	2,091,090	2,111,513	(20,423)
Public works	943,890	943,890	1,048,370	(104,480)
Planning and economic development	508,718	508,718	470,596	38,122
Recreation and parks	80,400	80,400	68,675	11,725
Debt service	334,000	334,000	333,311	689
Capital outlay	2,530,998	2,530,998	2,301,994	229,004
Total expenditures	<u>7,912,050</u>	<u>7,912,050</u>	<u>7,755,863</u>	<u>156,187</u>
Excess of expenditures (over) under revenues	(2,046,423)	(2,046,423)	(1,800,984)	245,439
<b>OTHER FINANCING SOURCES (USES)</b>				
Prior year surplus	1,296,423	1,296,423		(1,296,423)
Slots revenue carryforward	650,000	650,000		(650,000)
Transfers out	(50,000)	(50,000)	(50,000)	
Proceeds from sale of assets			5,744	5,744
Proceeds from issuance of long-term debt	150,000	150,000		(150,000)
Net other financing sources (uses)	<u>2,046,423</u>	<u>2,046,423</u>	<u>(44,256)</u>	<u>(2,090,679)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ (1,845,240)</u>	<u>\$ (1,845,240)</u>

**TOWN OF BERLIN, MARYLAND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE TOWN'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY**

**MARYLAND STATE RETIREMENT AND PENSION SYSTEM  
(UNAUDITED)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	0.1470%	0.1550%	0.1460%	0.1290%
Town's proportionate share of the net pension liability	\$ 3,175,235	\$ 3,649,291	\$ 3,030,119	\$ 2,290,390
Town's covered-employee payroll	\$ 3,390,716	\$ 3,069,300	\$ 3,212,440	\$ 2,984,932
Town's proportionate share of the net pension liability as a percentage of its covered payroll	93.64%	118.90%	94.32%	76.73%
Plan fiduciary net position as a percentage of the total pension liability	69.38%	65.79%	68.78%	71.87%

**TOWN OF BERLIN, MARYLAND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS**

**MARYLAND STATE RETIREMENT AND PENSION SYSTEM  
(UNAUDITED)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 298,871	\$ 301,310	\$ 307,322	\$ 300,756
Contributions in relation to the contractually required contribution	<u>(298,871)</u>	<u>(301,310)</u>	<u>(307,322)</u>	<u>(300,756)</u>
Contribution deficiency (excess)	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>
Town's covered-employee payroll	\$ 3,390,716	\$ 3,069,300	\$ 3,212,440	\$ 2,984,932
Contributions as a percentage of covered-employee payroll	8.81%	9.82%	9.57%	10.08%

## **SUPPLEMENTARY INFORMATION**



ANDREW M. HAYNIE, CPA  
SUSAN P. KEEN, CPA  
MICHAEL C. KLEGER, CPA  
E. LEE MCCABE, CPA  
JEFFREY A. MICHALIK, CPA  
ROBERT L. MOORE, CPA  
DANIEL M. O'CONNELL II, CPA  
JOHN M. STERN, JR., CPA

PKScpa.com

**Salisbury**

1801 SWEETBAY DRIVE  
P.O. Box 72  
SALISBURY, MD 21803  
TEL: 410.546.5600

**Ocean City**

12216 OCEAN GATEWAY  
SUITE 800  
OCEAN CITY, MD 21842  
TEL: 410.213.7185

**Lewes**

1143 SAVANNAH ROAD  
SUITE 1  
LEWES, DE 19958  
TEL: 302.645.5757

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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Mayor and Council  
Town of Berlin, Maryland

### ***Report on Supplementary Information***

Our report on our audit of the financial statements that collectively comprise the Town of Berlin, Maryland's basic financial statements as of June 30, 2018, appears on pages one through three. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Berlin, Maryland's basic financial statements. The supplementary information presented on pages 49 through 54 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### ***Other Matter***

The prior year comparative information has been derived from the Town's 2017 and 2016 financial statements and, in our reports dated November 16, 2017 and October 14, 2016, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

**CERTIFIED PUBLIC ACCOUNTANTS**

Salisbury, Maryland  
November 16, 2018

**TOWN OF BERLIN, MARYLAND**

**SCHEDULES OF REVENUES AND EXPENDITURES  
GENERAL FUND**

**YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017 AND 2016)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>			
Taxes			
Berlin property	\$ 3,098,412	\$ 2,984,070	\$ 3,050,896
County shared	40,269	64,911	74,404
State shared	365,721	526,039	431,856
Penalties and interest	27,615	41,339	32,439
Licenses and permits	227,844	303,245	247,925
Intergovernmental			
State	736,074	669,357	513,012
County	455,000	450,000	450,000
Service charges to other funds	798,057	769,744	710,279
Service charges, other	56,958	61,779	73,195
Impact fees	96,070	265,742	56,659
Earnings on investments	35,768	51,944	57,079
Miscellaneous	17,091	9,386	17,403
Total revenues	<u>5,954,879</u>	<u>6,197,556</u>	<u>5,715,147</u>
<b>EXPENDITURES</b>			
Current			
General government	1,421,404	1,366,065	1,447,207
Public safety	2,111,513	1,911,504	1,927,569
Public works	1,048,370	961,242	954,089
Planning and economic development	470,596	477,093	463,123
Recreation and parks	68,675	71,421	56,057
Debt service	333,311	339,483	176,842
Capital outlay	2,301,994	2,312,531	3,149,134
Total expenditures	<u>7,755,863</u>	<u>7,439,339</u>	<u>8,174,021</u>
Revenues under expenditures	(1,800,984)	(1,241,783)	(2,458,874)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(50,000)	(50,000)	(100,000)
Proceeds from sale of assets	5,744		434,185
Proceeds from issuance of long term debt			3,000,000
Net other financing sources (uses)	<u>(44,256)</u>	<u>(50,000)</u>	<u>3,334,185</u>
Net change in fund balance	<u>\$ (1,845,240)</u>	<u>\$ (1,291,783)</u>	<u>\$ 875,311</u>

**TOWN OF BERLIN, MARYLAND**

**SCHEDULES OF REVENUES AND EXPENDITURES  
SPECIAL REVENUE FUND**

**YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017 AND 2016)**

	2018	2017	2016
<b>REVENUES</b>			
Intergovernmental revenues	\$ 5,305	\$ 4,856	\$ 6,449
Total revenues	<u>5,305</u>	<u>4,856</u>	<u>6,449</u>
<b>EXPENDITURES</b>			
Salaries and related	<u>4,230</u>	<u>1,640</u>	<u>9,182</u>
Total expenditures	<u>4,230</u>	<u>1,640</u>	<u>9,182</u>
Net change in fund balance	<u>\$ 1,075</u>	<u>\$ 3,216</u>	<u>\$ (2,733)</u>

**TOWN OF BERLIN, MARYLAND**

**SCHEDULES OF REVENUES AND EXPENSES  
ELECTRIC FUND**

**YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017 AND 2016)**

	2018	2017	2016
<b>REVENUES</b>			
Service charges	\$ 5,634,411	\$ 5,310,718	\$ 5,007,025
Sales and services	113,024	70,726	81,998
Interest on delinquent accounts	33,469	33,558	34,495
Miscellaneous	349	25,045	1,327
Total revenues	<u>5,781,253</u>	<u>5,440,047</u>	<u>5,124,845</u>
<b>EXPENSES</b>			
Purchased power	2,752,339	2,685,862	2,624,837
Personnel expenses	813,119	850,068	813,426
Supplies and operating	333,913	439,063	370,049
Professional services	92,468	99,766	88,360
Contracted services	97,972	124,403	129,519
Insurance	22,615	19,819	19,526
Repairs and maintenance	48,407	32,442	45,118
Depreciation	512,659	526,752	515,640
General overhead	331,399	349,710	313,771
Total expenses	<u>5,004,891</u>	<u>5,127,885</u>	<u>4,920,246</u>
Operating income	<u>776,362</u>	<u>312,162</u>	<u>204,599</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest expense	(172,839)	(180,684)	(218,336)
Gain (loss) on disposal of assets	4,727	(1,106)	13,662
Net nonoperating expenses	<u>(168,112)</u>	<u>(181,790)</u>	<u>(204,674)</u>
Change in net position	<u>\$ 608,250</u>	<u>\$ 130,372</u>	<u>\$ (75)</u>



**TOWN OF BERLIN, MARYLAND**

**SCHEDULES OF REVENUES AND EXPENSES  
WATER FUND**

**YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017 AND 2016)**

	2018	2017	2016
<b>REVENUES</b>			
Service charges	\$ 599,577	\$ 674,940	\$ 639,979
Sales and services	38,096	30,453	10,745
Interest on delinquent accounts	8,141	7,369	9,001
Miscellaneous	62,092	50,398	58,264
Total revenues	<u>707,906</u>	<u>763,160</u>	<u>717,989</u>
<b>EXPENSES</b>			
Personnel expenses	357,105	364,316	315,195
Supplies and operating	188,468	173,127	126,601
Professional services	7,105		
Contracted services	100,103	10,464	12,014
Insurance	8,638	8,712	8,275
Repairs and maintenance	82,237	80,496	39,477
Depreciation	187,190	177,982	134,897
General overhead	126,703	124,259	115,950
Total expenses	<u>1,057,549</u>	<u>939,356</u>	<u>752,409</u>
Operating loss	<u>(349,643)</u>	<u>(176,196)</u>	<u>(34,420)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Capital grants			35,993
Interest income	2,900	958	397
Interest expense		(6,563)	(1,791)
Loss on disposal of assets		(8,184)	
Net nonoperating revenues (expenses)	<u>2,900</u>	<u>(13,789)</u>	<u>34,599</u>
Income (loss) before contributions	(346,743)	(189,985)	179
Capital contribution - special connection fees	<u>207,150</u>	<u>531,300</u>	<u>48,150</u>
Change in net position	<u><u>\$ (139,593)</u></u>	<u><u>\$ 341,315</u></u>	<u><u>\$ 48,329</u></u>

**TOWN OF BERLIN, MARYLAND**

**SCHEDULES OF REVENUES AND EXPENSES  
SEWER FUND**

**YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017 AND 2016)**

	2018	2017	2016
<b>REVENUES</b>			
Service charges	\$ 1,677,257	\$ 1,651,884	\$ 1,642,275
Sales and services		1,902	
Hauler fees	164,221	107,328	107,632
Interest on delinquent accounts	24,127	21,610	19,284
Miscellaneous	105	1,592	2,104
Total revenues	<u>1,865,710</u>	<u>1,784,316</u>	<u>1,771,295</u>
<b>EXPENSES</b>			
Personnel expenses	760,085	771,857	733,255
Supplies and operating	452,319	382,039	391,983
Professional services	16,832	2,234	2,674
Contracted services	41,196	23,925	16,593
Insurance	18,902	18,695	17,919
Repairs and maintenance	114,762	78,808	70,529
Depreciation	1,082,233	1,101,826	1,140,775
General overhead	296,257	244,251	233,429
Total expenses	<u>2,782,586</u>	<u>2,623,635</u>	<u>2,607,157</u>
Operating loss	<u>(916,876)</u>	<u>(839,319)</u>	<u>(835,862)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	5,599	930	391
Interest expense	(228,589)	(324,577)	(325,786)
Gain on disposal of assets			1,564
Net nonoperating expenses	<u>(222,990)</u>	<u>(323,647)</u>	<u>(323,831)</u>
Loss before contributions	(1,139,866)	(1,162,966)	(1,159,693)
Capital contributions - special connection fees	<u>572,006</u>	<u>1,468,176</u>	<u>127,466</u>
Change in net position	<u>\$ (567,860)</u>	<u>\$ 305,210</u>	<u>\$ (1,032,227)</u>

**TOWN OF BERLIN, MARYLAND**

**SCHEDULES OF REVENUES AND EXPENSES  
STORMWATER FUND**

**YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017 AND 2016)**

	2018	2017	2016
<b>REVENUES</b>			
Service charges	\$ 167,404	\$ 171,356	\$ 173,245
Interest on delinquent accounts	1,326	1,126	933
Miscellaneous	105	119	334
Total revenues	<u>168,835</u>	<u>172,601</u>	<u>174,512</u>
<b>EXPENSES</b>			
Personnel expenses	151,289	170,253	160,237
Supplies and operating	19,260	36,036	19,825
Professional services	24,208	10,882	13,845
Contracted services	29,446	26,141	1,169
Insurance	1,245	1,186	1,106
Depreciation	42,138	12,553	9,161
General overhead	43,698	51,523	47,128
Total expenses	<u>311,284</u>	<u>308,574</u>	<u>252,471</u>
Operating loss	<u>(142,449)</u>	<u>(135,973)</u>	<u>(77,959)</u>
<b>NONOPERATING REVENUES</b>			
Capital grants	971,556	916,249	11,145
Net nonoperating revenues	<u>971,556</u>	<u>916,249</u>	<u>11,145</u>
Gain (loss) before transfers	829,107	780,276	(66,814)
Transfers in	<u>50,000</u>	<u>50,000</u>	<u>100,000</u>
Change in net position	<u>\$ 879,107</u>	<u>\$ 830,276</u>	<u>\$ 33,186</u>

***GOVERNMENT AUDITING STANDARDS* REPORT**



ANDREW M. HAYNIE, CPA  
SUSAN P. KEEN, CPA  
MICHAEL C. KLEGER, CPA  
E. LEE McCABE, CPA  
JEFFREY A. MICHALIK, CPA  
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PKScpa.com

**Salisbury**

1801 SWEETBAY DRIVE  
P.O. BOX 72  
SALISBURY, MD 21803  
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TEL: 302.645.5757

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Mayor and Council  
Town of Berlin, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Berlin, Maryland's basic financial statements and have issued our report thereon dated November 16, 2018.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

Salisbury, Maryland  
November 16, 2018