

TOWN OF BERLIN, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

TOWN OF BERLIN, MARYLAND

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 9
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements	
Statement of net assets	10
Statement of activities	11
Fund financial statements	
Governmental funds	
Balance sheet	12
Reconciliation of the governmental funds balance sheet to the statement of net assets	13
Statement of revenues, expenditures and changes in fund balances	14
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	15
Proprietary funds	
Statement of net assets	16
Statement of revenues, expenses and changes in net assets	17
Statement of cash flows	18
Notes to financial statements	19 - 39
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule - general fund	40

SUPPLEMENTARY INFORMATION

Independent auditors' report on supplementary information	41
Schedules of revenues and expenditures - Budget and Actual - General Fund	42
Schedules of revenues and expenditures - Special Revenue Fund	43
Schedules of revenues and expenses - Electric Fund	44
Schedules of revenues and expenses - Water Fund	45
Schedules of revenues and expenses - Sewer Fund	46

GOVERNMENT AUDITING STANDARDS REPORT

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 <i>Government Auditing Standards</i>	47 - 48
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SINGLE AUDIT REPORTS AND SCHEDULES

Independent auditors' report on schedule of expenditures of federal awards	49
Schedule of expenditures of federal awards	50
Notes to schedule of expenditures of federal awards	51
Independent auditors' report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133	52 - 53
Summary schedule of prior audit findings	54
Schedule of findings and questioned costs	55 - 56



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council
Town of Berlin, Maryland

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, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Berlin, Maryland management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and page 40 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.

PKS + Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

October 19, 2012

TOWN OF BERLIN, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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, 2012. 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 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 community 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 and the water and sewer 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.

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 assets 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 assets* and how they have changed. Net assets – 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 assets 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 community 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 and sewer departments are included here.

TOWN OF BERLIN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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 assets at June 30, 2012 were \$29,557,000. Of this total, \$20,184,000 is invested in capital assets and \$1,702,000 is restricted which leaves an unrestricted balance of \$7,671,000. The Town's net assets increased \$3,681,000 or 14% over 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 Assets
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 7,893	\$ 7,805	\$ 4,671	\$ 1,999	\$ 12,564	\$ 9,804
Capital assets	4,631	4,822	35,660	33,415	40,291	38,237
Total assets	12,524	12,627	40,331	35,414	52,855	48,041
Long-term liabilities	2,221	2,146	19,216	17,075	21,437	19,221
Other liabilities	224	242	1,637	2,214	1,861	2,456
Total liabilities	2,445	2,388	20,853	19,289	23,298	21,677
Net assets						
Invested in capital assets, net of related debt	2,538	2,825	17,646	15,935	20,184	18,760
Restricted	383	423	1,319	901	1,702	1,324
Unrestricted	7,158	6,991	513	(711)	7,671	6,280
Total net assets	\$ 10,079	\$ 10,239	\$ 19,478	\$ 16,125	\$ 29,557	\$ 26,364

TOWN OF BERLIN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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

Table 2
Changes in Town of Berlin, Maryland's Net Assets
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program services						
Charges for services	\$ 533	\$ 367	\$ 7,656	\$ 8,563	\$ 8,189	\$ 8,930
Operating grants and contributions	166	93			166	93
Capital grants and contributions	83	330	4,172	4,478	4,255	4,808
General revenues						
Property taxes	3,340	3,272			3,340	3,272
Other taxes and fees	360	364			360	364
Unrestricted grants	400	400			400	400
Overhead allocation	538	511	(538)	(511)	-	-
Other	19		(403)	1	(384)	1
Total revenues	<u>5,439</u>	<u>5,337</u>	<u>10,887</u>	<u>12,531</u>	<u>16,326</u>	<u>17,868</u>
Expenses						
General government	1,216	1,171			1,216	1,171
Public Safety	1,890	1,934			1,890	1,934
Public Works	1,072	989			1,072	989
Planning and community developmt	347	327			347	327
Recreation and parks	92	84			92	84
Interest on long-term debt	91	74			91	74
Electric			5,155	6,141	5,155	6,141
Water			631	610	631	610
Sewer			2,151	1,786	2,151	1,786
Total expenses	<u>4,708</u>	<u>4,579</u>	<u>7,937</u>	<u>8,537</u>	<u>12,645</u>	<u>13,116</u>
Excess (deficiency) before transfers	731	758	2,950	3,994	3,681	4,752
Transfers	(892)		892			
Change in net assets	<u>\$ (161)</u>	<u>\$ 758</u>	<u>\$ 3,842</u>	<u>\$ 3,994</u>	<u>\$ 3,681</u>	<u>\$ 4,752</u>

TOWN OF BERLIN, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Governmental activities

Net assets for the Town's governmental activities increased \$731,000 during the fiscal year (prior to transfers of \$892,000). 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 assets for business-type activities increased \$3,842,000. Because the change in net assets for the Enterprise Funds is an aggregate, for purposes of this management discussion and analysis, Electric, Water, and Sewer funds will be addressed individually below.

The Electric Fund had an operating income of \$457,000 and a total increase in net assets of \$54,000 (prior to transfers of \$751,000) compared to net increase of \$157,000 last year.

In August 2009 and continuing through June 30, 2012, the Town retained Booth & Associates to assist in evaluating the needs at the electric department, both operationally and financially. Operation recommendations covered the power plant and distribution system facilities, equipment, vehicles, and staffing. The financial recommendations addressed three major areas: base rates, power cost adjustment, and power use management.

Revenues were down 16% from last year primarily from the Town entering into a new purchase power agreement effective June 1, 2011. This new agreement helped to reduce the PCA Rate. 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 decreased from last year by \$955,762 or 16% primarily due to a decrease in Purchased Power of \$865,802. Purchased power is the wholesale price of electric power that is resold to ratepayers through a Power Cost Adjustment (PCA) factor. Wholesale power is forecast for a twelve month period and then adjusted to the actual number in December of each year known as the Actual Cost Adjustment ("ACA").

The Water Fund had operating income of \$4,700 and a total increase in net assets of \$144,000 (prior to transfers of \$33,000) compared to a net decrease last year of \$3,600. Revenues increased \$50,000 over last year with a \$9,600 increase in expenses due mainly to an increase in repairs and maintenance.

Water rates have been increased 2% starting January 1, 2012.

The Sewer fund had an operating loss of \$618,000 and a total increase in net assets of \$2,751,000 (prior to transfers of \$108,000) compared to an increase in net assets last year of \$3,841,000. Total revenues increased \$88,000 due to increases in sales and materials for new services and hauler fees. Capital grants of \$3,634,000 were received in 2012 compared to \$4,319,100 received in 2011.

Operating expenses increased \$305,000 due to increases in supplies and operating expenses, professional services, insurance and depreciation related to the wastewater treatment plant upgrade and lagoon liner projects.

TOWN OF BERLIN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of June 30, 2012, the Town's governmental funds reported a combined fund balance of \$7,513,000. This is a \$189,000 increase in fund balance compared to an \$251,000 increase last year. The primary reasons for the increase include:

Revenues increased from the prior year by \$273,051 or 5%. The primary reason for the increase was increases in property taxes, licenses and permits, impact fees and earnings on investments.

Town expenditures decreased from the prior year by \$940,988 or 16%. The most significant changes occurred in capital outlay expense.

Last year, other financing sources (uses) included proceeds from long term debt of \$829,000 and this year included transfers out of \$488,000.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council did not revise the budget.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets

At the end of the fiscal year, The Town had \$40,291,000, 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	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,783	\$ 1,783	\$ 3,881	\$ 3,882	\$ 5,664	\$ 5,665
Infrastructure	3,435	3,248	48,759	36,214	52,194	39,462
Buildings and improvements	883	865	652	650	1,535	1,515
Equipment	863	862	2,882	3,094	3,745	3,956
Vehicles	1,215	1,252	1,232	997	2,447	2,249
Construction in progress	20	-	3,267	13,331	3,287	13,331
Less: accumulated depreciation	(3,568)	(3,188)	(25,013)	(24,753)	(28,581)	(27,941)
Total	\$ 4,631	\$ 4,822	\$ 35,660	\$ 33,415	\$ 40,291	\$ 38,237

TOWN OF BERLIN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

This year's major capital asset additions included:

Governmental activities

- Energy efficient windows, doors, and new gutters
- Various computer equipment
- Tactical armor for police department
- Sidewalks and street paving
- Two new vehicles

Business-type activities

- Street light fixtures
- Storage shed and overhead garage doors
- Four pickup trucks, two utility vehicles, Bobcat skid loader, and dump truck
- Various maintenance and computer equipment
- Completion of wastewater treatment plant
- Construction in progress for phase I and II of spray irrigation project

Long-term debt

At the end of the fiscal year, the Town had \$22,010,000 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
	2012	2011	2012	2011	2012	2011	
General obligation bonds	\$ 2,093	\$ 1,997	\$ 19,917	\$ 17,650	\$ 22,010	\$ 19,647	12%
Total	\$ 2,093	\$ 1,997	\$ 19,917	\$ 17,650	\$ 22,010	\$ 19,647	12%

New debt was issued during the fiscal year for phases I and II of the spray irrigation project and for water and sewer lines on Route 818. In addition, several general obligations bonds were refinanced during the year.

TOWN OF BERLIN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Town is currently constructing a new spray site and storage facility to comply with environmental regulations and to ensure that the Town is prepared for expected growth and development. The project is estimated to cost \$5.5 million and is being funded by a \$3.5 million loan and \$1.5 million loan forgiveness from the Maryland Department of the Environment and a \$600,000 CDBG grant. At June 30, 2012, approximately 25% of the project was complete.

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

Also, the Town has filed a case with the Maryland Public Service Commission to reduce the Town Non-residential electric rates on average by 10%. The Town expects this rate reduction to take effect in December 2012.

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 ASSETS

JUNE 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 439,935	\$ 57,971	\$ 497,906
Pooled cash and investments	6,161,269	1,214,781	7,376,050
Taxes receivable	326,866		326,866
Accounts receivable, net	162,500	1,425,587	1,588,087
Internal balances	219,451	(219,451)	
Due from other governments	197,684	552,250	749,934
Inventories		137,427	137,427
Total current assets	<u>7,507,705</u>	<u>3,168,565</u>	<u>10,676,270</u>
Noncurrent assets			
Restricted cash	382,694	1,319,193	1,701,887
Deferred charges, net of accumulated amortization	2,299	182,957	185,256
Capital assets, net of accumulated depreciation	4,630,838	35,660,248	40,291,086
Total noncurrent assets	<u>5,015,831</u>	<u>37,162,398</u>	<u>42,178,229</u>
Total assets	<u>12,523,536</u>	<u>40,330,963</u>	<u>52,854,499</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	163,486	524,064	687,550
Accrued compensated absences	18,646	16,562	35,208
Accrued interest payable	6,141	115,094	121,235
Customer deposits		102,582	102,582
Current portion of long-term debt	14,716	756,271	770,987
Deferred revenue	20,815	122,500	143,315
Total current liabilities	<u>223,804</u>	<u>1,637,073</u>	<u>1,860,877</u>
Noncurrent liabilities			
Bonds payable	2,078,074	19,161,052	21,239,126
Accrued compensated absences	143,147	54,849	197,996
Total noncurrent liabilities	<u>2,221,221</u>	<u>19,215,901</u>	<u>21,437,122</u>
Total liabilities	<u>2,445,025</u>	<u>20,852,974</u>	<u>23,297,999</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,538,048	17,646,001	20,184,049
Restricted	382,694	1,319,193	1,701,887
Unrestricted	7,157,769	512,795	7,670,564
Total net assets	<u>\$ 10,078,511</u>	<u>\$ 19,477,989</u>	<u>\$ 29,556,500</u>

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

TOWN OF BERLIN, MARYLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 1,215,730	\$ 485,105	\$ 28	\$ 14,032	\$ (716,565)	\$	\$ (716,565)
Public safety	1,890,448	1,587	70,349		(1,818,512)		(1,818,512)
Public works	1,072,479	12,477	95,385		(964,617)		(964,617)
Planning and economic development	346,690	34,235		65,147	(247,308)		(247,308)
Recreation and parks	91,480			4,071	(87,409)		(87,409)
Interest on long-term debt	90,681				(90,681)		(90,681)
Total governmental activities	<u>4,707,508</u>	<u>533,404</u>	<u>165,762</u>	<u>83,250</u>	<u>(3,925,092)</u>		<u>(3,925,092)</u>
Business-type activities							
Electric	5,155,297	5,520,868				365,571	365,571
Water	630,927	701,202		148,680		218,955	218,955
Sewer	2,151,453	1,434,298		4,022,825		3,305,670	3,305,670
Total business-type activities	<u>7,937,677</u>	<u>7,656,368</u>		<u>4,171,505</u>		<u>3,890,196</u>	<u>3,890,196</u>
Total	<u>\$ 12,645,185</u>	<u>\$ 8,189,772</u>	<u>\$ 165,762</u>	<u>\$ 4,254,755</u>	<u>(3,925,092)</u>		<u>(34,896)</u>
General revenues							
Taxes							
Property taxes					3,339,513		3,339,513
Public service taxes					44,633		44,633
State income taxes					244,685		244,685
Franchise fees					70,401		70,401
Grants and contributions not restricted to specific programs					400,000		400,000
Unrestricted investment earnings					20,231	10,322	30,553
Overhead allocation					537,571	(537,571)	
Special item - Loss on disposal of assets					(366)	(413,607)	(413,973)
Transfers					(892,259)	892,259	
Total general revenues and special items					<u>3,764,409</u>	<u>(48,597)</u>	<u>3,715,812</u>
Change in net assets					<u>(160,683)</u>	<u>3,841,599</u>	<u>3,680,916</u>
Net assets at beginning of year, restated					<u>10,239,194</u>	<u>15,636,390</u>	<u>25,875,584</u>
Net assets, end of year					<u>\$ 10,078,511</u>	<u>\$ 19,477,989</u>	<u>\$ 29,556,500</u>

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

TOWN OF BERLIN, MARYLAND

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 425,407	\$ 14,528	\$ 439,935
Pooled cash and investments	6,161,269		6,161,269
Taxes receivable	326,870		326,870
Accounts and notes receivable, net	162,500		162,500
Due from other governments	191,202	6,482	197,684
Due from other funds	219,452		219,452
Restricted cash	382,694		382,694
Total assets	\$ 7,869,394	\$ 21,010	\$ 7,890,404
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 55,132	\$	\$ 55,132
Accrued expenses	125,432	1,569	127,001
Deferred revenue	174,977	20,630	195,607
Total liabilities	355,541	22,199	377,740
Fund balances			
Restricted	39,163		39,163
Committed	343,531		343,531
Assigned	362,902		362,902
Unassigned	6,768,257	(1,189)	6,767,068
Total fund balance (deficit)	7,513,853	(1,189)	7,512,664
Total liabilities and fund balances	\$ 7,869,394	\$ 21,010	\$ 7,890,404

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 ASSETS

JUNE 30, 2012

Total fund balances, governmental funds	\$ 7,512,664
Amounts reported for governmental activities in the statement of net assets 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 Assets.	4,630,838
Governmental funds report bond issuance costs as an expenditure. In contrast, the Statement of Activities treats such costs as an asset and amortizes them over the term of the debt.	2,299
Certain revenues that do not provide current financial resources are reported as deferred income in the fund financial statements, but are reported as revenue in the governmental activities of the Statement of Net Assets.	174,788
Some liabilities including notes payable, and accrued compensated absences 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 Assets.	<u>(2,242,078)</u>
Net assets of governmental activities in the Statement of Net Assets	<u>\$ 10,078,511</u>

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, 2012

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Taxes	\$ 3,700,525	\$	\$ 3,700,525
Licenses and permits	184,442		184,442
Intergovernmental revenues	915,247	36,729	951,976
Service charges	571,599		571,599
Impact fees	14,032		14,032
Earnings on investments	20,231		20,231
Miscellaneous	83,080		83,080
Total revenues	5,489,156	36,729	5,525,885
Expenditures			
Current			
General government	1,139,896		1,139,896
Public safety	1,825,914	36,335	1,862,249
Public works	840,836		840,836
Planning and economic development	334,021		334,021
Recreation and parks	43,932		43,932
Debt service	449,185		449,185
Capital outlay	215,986		215,986
Total expenditures	4,849,770	36,335	4,886,105
Excess of revenues over expenditures	639,386	394	639,780
Other financing sources (uses)			
Transfers out	(488,264)		(488,264)
Proceeds from issuance of long term debt	37,484		37,484
Net other financing sources (uses)	(450,780)		(450,780)
Net change in fund balance	188,606	394	189,000
Fund balance (deficit), beginning of year	7,325,247	(1,583)	7,323,664
Fund balance (deficit), end of year	\$ 7,513,853	\$ (1,189)	\$ 7,512,664

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, 2012

Net change in fund balances, governmental funds	\$ 189,000
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 depreciation (\$419,299) exceeded capital outlays (\$215,986) in the current period.	(203,313)
In addition, capital assets with a book value of \$16,415 were transferred from the electric fund to the general fund.	16,415
In the Statement of Activities, the gain or loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the book value of the assets sold.	(3,983)
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	(6,141)
Change in long-term compensated absences	12,334
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 revenue	(71,698)
Governmental funds report loan proceeds as a revenue. In contrast, the Statement of Activities treats such proceeds as an increase in long-term liabilities.	(37,484)
In addition, during the fiscal year long term debt was transferred from the enterprise funds to the general fund.	(420,410)
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.	362,298
Governmental funds report bond issuance costs as an expenditure. In contrast, the Statement of Activities treats such costs as an asset and amortizes them over the term of the debt:	
Bond issuance costs (\$2,348) net of amortization expense (\$49).	2,299
Change in net assets of governmental activities	<u>\$ (160,683)</u>

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

TOWN OF BERLIN, MARYLAND

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2012

ASSETS	Electric Fund	Water Fund	Sewer Fund	Total
Current assets				
Cash	\$	\$	\$ 57,971	\$ 57,971
Pooled cash and investments	1,189,268	25,513		1,214,781
Accounts receivable, net of allowance	656,362	222,012	547,213	1,425,587
Due from other governments			552,250	552,250
Inventory	130,301	5,690	1,436	137,427
Total current assets	<u>1,975,931</u>	<u>253,215</u>	<u>1,158,870</u>	<u>3,388,016</u>
Noncurrent assets				
Restricted cash		1,072,074	247,119	1,319,193
Deferred charges, net of accumulated amortization	143,451	5,032	34,474	182,957
Capital assets, net of accumulated depreciation	6,193,779	1,552,445	27,914,024	35,660,248
Total noncurrent assets	<u>6,337,230</u>	<u>2,629,551</u>	<u>28,195,617</u>	<u>37,162,398</u>
Total assets	<u>8,313,161</u>	<u>2,882,766</u>	<u>29,354,487</u>	<u>40,550,414</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	246,466	10,107	267,491	524,064
Accrued compensated absences	8,163	5,644	2,755	16,562
Accrued interest payable	30,564	2,227	82,303	115,094
Customer deposits	102,582			102,582
Current portion of long-term debt	469,561	10,411	276,299	756,271
Due to other funds			219,451	219,451
Deferred revenue		55,000	67,500	122,500
Total current liabilities	<u>857,336</u>	<u>83,389</u>	<u>915,799</u>	<u>1,856,524</u>
Noncurrent liabilities				
Bonds payable	6,455,567	243,855	12,461,630	19,161,052
Accrued compensated absences	20,992	16,932	16,925	54,849
Total noncurrent liabilities	<u>6,476,559</u>	<u>260,787</u>	<u>12,478,555</u>	<u>19,215,901</u>
Total liabilities	<u>7,333,895</u>	<u>344,176</u>	<u>13,394,354</u>	<u>21,072,425</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,391,178	1,298,179	15,457,688	18,147,045
Restricted for capital projects		1,072,074	247,119	1,319,193
Unrestricted	(411,912)	168,337	255,326	11,751
Total net assets	<u>\$ 979,266</u>	<u>\$ 2,538,590</u>	<u>\$ 15,960,133</u>	<u>\$ 19,477,989</u>

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

TOWN OF BERLIN, MARYLAND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2012

	Electric Fund	Water Fund	Sewer Fund	Total
Revenues				
Service charges	\$ 5,398,712	\$ 590,224	\$ 1,318,815	\$ 7,307,751
Sales and services	39,849	13,428	8,186	61,463
Hauler fees			75,150	75,150
Interest on delinquent accounts	47,511	8,300	17,739	73,550
Miscellaneous	34,796	89,250	14,408	138,454
Total revenues	<u>5,520,868</u>	<u>701,202</u>	<u>1,434,298</u>	<u>7,656,368</u>
Expenses				
Purchased power	2,783,257			2,783,257
Personnel expenses	620,064	317,261	580,691	1,518,016
Supplies and operating	389,332	133,738	322,467	845,537
Professional services	189,796		1,311	191,107
Contracted services	119,890	2,940	17,465	140,295
Insurance	18,394	1,907	12,356	32,657
Repairs and maintenance	48,274	30,586	12,330	91,190
Depreciation and amortization	591,284	125,918	957,495	1,674,697
General overhead	304,285	84,143	149,143	537,571
Total expenses	<u>5,064,576</u>	<u>696,493</u>	<u>2,053,258</u>	<u>7,814,327</u>
Operating income (loss)	<u>456,292</u>	<u>4,709</u>	<u>(618,960)</u>	<u>(157,959)</u>
Nonoperating revenues (expenses)				
Capital grants			3,634,160	3,634,160
Interest income		9,609	713	10,322
Interest expense	(395,006)	(18,577)	(247,338)	(660,921)
Loss on disposal of assets	(6,949)	(332)	(406,326)	(413,607)
Net nonoperating revenues (expenses)	<u>(401,955)</u>	<u>(9,300)</u>	<u>2,981,209</u>	<u>2,569,954</u>
Income (loss) before contributions and transfers	54,337	(4,591)	2,362,249	2,411,995
Transfers in	750,914	33,066	108,279	892,259
Capital contributions - special connection fees		148,680	388,665	537,345
Change in net assets	<u>805,251</u>	<u>177,155</u>	<u>2,859,193</u>	<u>3,841,599</u>
Net assets at beginning of year, restated	<u>174,015</u>	<u>2,361,435</u>	<u>13,100,940</u>	<u>15,636,390</u>
Net assets at end of year	<u>\$ 979,266</u>	<u>\$ 2,538,590</u>	<u>\$ 15,960,133</u>	<u>\$ 19,477,989</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, 2012

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Cash flows from operating activities				
Receipts from customers	\$ 5,780,114	\$ 549,371	\$ 1,217,875	\$ 7,547,360
Other receipts	34,796	83,950	4,239	122,985
Payments to suppliers	(3,595,006)	(167,919)	(361,840)	(4,124,765)
Payments to employees	(628,739)	(318,590)	(579,524)	(1,526,853)
Payments for interfund services	(304,285)	(84,143)	(149,143)	(537,571)
Net cash provided by operating activities	<u>1,286,880</u>	<u>62,669</u>	<u>131,607</u>	<u>1,481,156</u>
Cash flows from noncapital financing activities				
Interfund transfers	488,264			488,264
Interfund borrowings (repayments)			(1,608,067)	(1,608,067)
Net cash provided (used) by noncapital financing activities	<u>488,264</u>		<u>(1,608,067)</u>	<u>(1,119,803)</u>
Cash flows from investing activities				
Interest income		9,609	713	10,322
Proceeds from sale of capital assets			17,344	17,344
Net cash provided by investing activities		<u>9,609</u>	<u>18,057</u>	<u>27,666</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	(287,059)	(62,855)	(5,027,825)	(5,377,739)
Proceeds from capital grants			3,648,613	3,648,613
Proceeds from issuance of long-term debt	192,404	5,300	2,972,411	3,170,115
Principal paid on long-term debt	(355,968)	(10,409)	(209,264)	(575,641)
Interest paid on long-term debt	(420,718)	(18,731)	(193,958)	(633,407)
Capital contributions - special connection fees		148,680	388,665	537,345
Net cash provided (used) by capital and related financing activities	<u>(871,341)</u>	<u>61,985</u>	<u>1,578,642</u>	<u>769,286</u>
Net increase in cash	903,803	134,263	120,239	1,158,305
Cash at beginning of year	285,465	963,324	184,851	1,433,640
Cash at end of year	<u>\$ 1,189,268</u>	<u>\$ 1,097,587</u>	<u>\$ 305,090</u>	<u>\$ 2,591,945</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 456,292	\$ 4,709	(618,960)	\$ (157,959)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	591,284	125,909	957,495	1,674,688
Deferred revenue		(5,300)	(5,300)	(10,600)
(Increase) decrease in assets				
Accounts receivable	290,090	(62,581)	(206,883)	20,626
Inventory	9,152	7,205	(7)	16,350
Increase (decrease) in liabilities				
Accounts payable and accrued expenses	(63,890)	(7,273)	5,262	(65,901)
Deposits	3,952			3,952
Net cash provided by operating activities	<u>\$ 1,286,880</u>	<u>\$ 62,669</u>	<u>\$ 131,607</u>	<u>\$ 1,481,156</u>

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**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. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent they do not conflict or contradict guidance of the GASB.

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 assets 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, 2012

**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 enterprise funds, each displayed in a separate column. Any remaining governmental and enterprise 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 enterprise funds: electric, water and sewer. These funds account for the operation and management of the electric, water, and sewer 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.

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.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Allowance for Uncollectible Accounts

Provision is made for estimated uncollectible electric, water and sewer charges and miscellaneous accounts receivable based upon the Town's determination of individual accounts not likely to be collected. At June 30, 2012, the allowance in the General Fund was \$3,932 and the Enterprise Fund was \$70,682.

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.

TOWN OF BERLIN, MARYLAND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

BASIS OF PRESENTATION AND
 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Deferred revenue in the general fund arises when a revenue does not meet both the "measurable" and the "available" criteria for recognition in the current period. For the governmental funds statements, property taxes not collected within sixty days following the end of the year are considered not available to pay liabilities that are owed at the balance sheet date and therefore are reported as deferred revenue. Deferred revenue in the proprietary funds represent grant proceeds that have been received but not spent.

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.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. 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 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	20 - 50 years
Buildings and improvements	20 - 40 years
Machinery and equipment	5 - 10 years
Transportation equipment	5 - 15 years

During 2012, the Town changed its estimates of the useful lives of certain capital assets in the electric fund. The estimated useful lives were changed to reflect the depreciation rates prescribed in the United States Department of Agriculture, Rural Electrification Administration Bulletin 183-1, "Depreciation Rates and Procedures".

Deferred Charges

Deferred charges represent bond issuance costs which have been capitalized and amortized over the terms of the respective bonds, using the straight-line method.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Compensated Absences

The Town accrues a liability in the government-wide 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.

Government-Wide and Proprietary Fund Net Assets

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

Invested in capital assets, net of related debt - 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 net assets - consists of net 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 special connection charges restricted for water and sewer capital and related financing activities and EDU escrow deposits.

Unrestricted - all other net assets are reported in this category.

When an expense is incurred that can be paid using either restricted or unrestricted net assets, 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.

TOWN OF BERLIN, MARYLAND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

BASIS OF PRESENTATION AND
 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Balances (Continued)

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.

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 maintains a cash and investment pool that is available for use by all funds. In addition, cash is separately held by several of the Town's funds. Total cash and investments includes:

Cash	\$	2,066,533
Repurchase agreements		7,509,310
Total	\$	9,575,843

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, 2012, \$1,940,068 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, 2012

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases and Transfers In	Decreases and Transfers Out	Ending Balance
Governmental activities:				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,782,474	\$	\$	\$ 1,782,474
Construction in progress		19,886		19,886
Total capital assets not being depreciated	<u>1,782,474</u>	<u>19,886</u>		<u>1,802,360</u>
<i>Capital assets being depreciated</i>				
Infrastructure	3,248,026	187,270		3,435,296
Buildings and improvements	865,130	18,253		883,383
Equipment	861,865	33,505	32,137	863,233
Vehicles	1,252,078	28,843	66,055	1,214,866
Total capital assets being depreciated	<u>6,227,099</u>	<u>267,871</u>	<u>98,192</u>	<u>6,396,778</u>
Less accumulated depreciation for:				
Infrastructure	1,315,684	273,695		1,589,379
Buildings and improvements	528,214	27,527		555,741
Equipment	492,562	88,587	32,137	549,012
Vehicles	851,393	84,847	62,072	874,168
Total accumulated depreciation	<u>3,187,853</u>	<u>474,656</u>	<u>94,209</u>	<u>3,568,300</u>
Total capital assets being depreciated, net	<u>3,039,246</u>	<u>(206,785)</u>	<u>3,983</u>	<u>2,828,478</u>
Governmental activity capital assets, net	<u>\$ 4,821,720</u>	<u>\$ (186,899)</u>	<u>\$ 3,983</u>	<u>\$ 4,630,838</u>

Business-type Activities

Electric:

Capital assets not being depreciated

Land	\$ 304,510	\$	\$	\$ 304,510
Construction in progress	37,962		37,962	
Total capital assets not being depreciated	<u>342,472</u>		<u>37,962</u>	<u>304,510</u>

Capital assets being depreciated

Infrastructure	14,532,419	249,008	210,977	14,570,450
Buildings and improvements	615,163	13,458	11,158	617,463
Equipment	2,239,165	57,038	273,565	2,022,638
Vehicles	444,765	21,800	19,849	446,716
Total capital assets being depreciated	<u>17,831,512</u>	<u>341,304</u>	<u>515,549</u>	<u>17,657,267</u>

Less accumulated depreciation for:

Infrastructure	9,480,523	385,424	191,442	9,674,505
Buildings and improvements	383,280	17,347	11,157	389,470
Equipment	1,488,689	74,766	269,742	1,293,713
Vehicles	416,181	13,978	19,849	410,310
Total accumulated depreciation	<u>11,768,673</u>	<u>491,515</u>	<u>492,190</u>	<u>11,767,998</u>
Total capital assets being depreciated, net	<u>6,062,839</u>	<u>(150,211)</u>	<u>23,359</u>	<u>5,889,269</u>
Electric activities, capital assets, net	<u>6,405,311</u>	<u>(150,211)</u>	<u>61,321</u>	<u>6,193,779</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

CAPITAL ASSETS (Continued)

	Beginning Balance	Increases and Transfers In	Decreases and Transfers Out	Ending Balance
Sewer:				
<i>Capital assets not being depreciated</i>				
Land	3,495,233			3,495,233
Construction in progress	13,291,014	4,089,180	14,173,221	3,206,973
Total capital assets not being depreciated	<u>16,786,247</u>	<u>4,089,180</u>	<u>14,173,221</u>	<u>6,702,206</u>
<i>Capital assets being depreciated</i>				
Infrastructure	17,200,659	14,173,221	1,168,629	30,205,251
Buildings and improvements	20,737			20,737
Equipment	613,741	42,533	37,913	618,361
Vehicles	466,245	237,706	5,125	698,826
Total capital assets being depreciated	<u>18,301,382</u>	<u>14,453,460</u>	<u>1,211,667</u>	<u>31,543,175</u>
Less accumulated depreciation for:				
Infrastructure	9,697,992	808,793	751,172	9,755,613
Buildings and improvements	20,737			20,737
Equipment	262,584	76,874	31,700	307,758
Vehicles	200,428	51,946	5,125	247,249
Total accumulated depreciation	<u>10,181,741</u>	<u>937,613</u>	<u>787,997</u>	<u>10,331,357</u>
Total capital assets being depreciated, net	<u>8,119,641</u>	<u>13,515,847</u>	<u>423,670</u>	<u>21,211,818</u>
Sewer, capital assets, net	<u>24,905,888</u>	<u>17,605,027</u>	<u>14,596,891</u>	<u>27,914,024</u>
Water:				
<i>Capital assets not being depreciated</i>				
Land	82,039			82,039
Construction in progress	2,355	58,009		60,364
Total capital assets not being depreciated	<u>84,394</u>	<u>58,009</u>		<u>142,403</u>
<i>Capital assets being depreciated</i>				
Infrastructure	3,979,043	4,844	873	3,983,014
Buildings and improvements	14,205			14,205
Equipment	241,479		225	241,254
Vehicles	85,663			85,663
Total capital assets being depreciated	<u>4,320,390</u>	<u>4,844</u>	<u>1,098</u>	<u>4,324,136</u>
Less accumulated depreciation for:				
Infrastructure	2,507,497	115,268	541	2,622,224
Buildings and improvements	9,933	276		10,209
Equipment	186,747	9,701	225	196,223
Vehicles	85,438			85,438
Total accumulated depreciation	<u>2,789,615</u>	<u>125,245</u>	<u>766</u>	<u>2,914,094</u>
Total capital assets being depreciated, net	<u>1,530,775</u>	<u>(120,401)</u>	<u>332</u>	<u>1,410,042</u>
Water, capital assets, net	<u>1,615,169</u>	<u>(62,392)</u>	<u>332</u>	<u>1,552,445</u>
Business-type activities				
Capital assets, net	<u>\$ 32,926,368</u>	<u>\$ 17,392,424</u>	<u>\$ 14,658,544</u>	<u>\$ 35,660,248</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

CAPITAL ASSETS (Continued)

Included in construction in progress in the sewer fund is \$3,204,874 for Phases I and II of the spray irrigation project.

Phase I of the spray irrigation project is estimated to cost \$3,500,000. This project is being funded by a U.S. Department of Agriculture loan (\$2,462,000) and grant (\$1,037,350) and a \$650 contribution from the Town. As of June 30, 2012, total construction costs of \$1,868,940 have been incurred and are included in construction in progress in the sewer fund. In addition, \$1,700,000 of the funding was used for the purchase of land for the spray site.

Phase II of the spray irrigation project is estimated to cost \$5,600,000 and is being funded by a loan (\$3,500,000) and grant (\$1,500,000) from the Maryland Department of the Environment and a CDBG grant of \$600,000. As of June 30, 2012, costs of \$1,335,934 have been incurred and are included in construction in progress.

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

General government	\$	74,893
Public safety		34,017
Public works		244,799
Planning and community development		18,037
Recreation and parks		47,553
		419,299
	\$	419,299

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 has designed for the payment of employee insurance premiums.

INTERNAL BALANCES

Balances due to/from other funds at June 30, 2012 consist of the following:

	Balance June 30, 2011	Increase (Decrease)	Balance June 30, 2012
Due to the general fund from the sewer fund	\$ 1,827,518	\$ (1,608,067)	\$ 219,451
Due to the general fund from the grants fund	8,055	(8,055)	-
	\$ 1,835,573	\$ (1,616,122)	\$ 219,451

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

TRANSFERS BETWEEN FUNDS

During 2012, the Mayor and Council approved the following transfers in (out) between the governmental activities and business-type activities. The result is an increase in net assets in the business-type activities and enterprise funds of \$892,259, a decrease in the governmental activities of \$892,259, and a decrease in the general fund balance of \$488,264.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>		
		<u>Electric</u>	<u>Water</u>	<u>Sewer</u>
Transfer long-term bonds payable from 2002, proceeds used for renovations to Town Hall	\$ (420,410)	\$ 279,065	\$ 33,066	\$ 108,279
Transfer of capital assets from the electric fund	16,415	(16,415)		
Repayment of engineering and professional fees originally paid by the electric fund in prior years	<u>(488,264)</u>	<u>488,264</u>		
Net transfers in (out)	<u>\$ (892,259)</u>	<u>\$ 750,914</u>	<u>\$ 33,066</u>	<u>\$ 108,279</u>

LONG-TERM DEBT

Changes in long-term obligations for the year June 30, 2012 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
General obligation bonds	<u>\$ 1,997,194</u>	<u>\$ 457,894</u>	<u>\$ 362,298</u>	<u>\$ 2,092,790</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

LONG-TERM DEBT (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Electric				
General obligation bonds	\$ 7,285,029	\$ 4,343,905	\$ 4,703,806	\$ 6,925,128
Water				
General obligation bonds	292,441	5,300	43,475	254,266
Sewer				
General obligation bonds	<u>10,072,834</u>	<u>3,559,831</u>	<u>894,736</u>	<u>12,737,929</u>
	<u>\$ 17,650,304</u>	<u>\$ 7,909,036</u>	<u>\$ 5,642,017</u>	<u>\$ 19,917,323</u>

Governmental Activities

Notes payable and general obligation bonds consist of the following:

	<u>Principal Balance Outstanding at June 30, 2012</u>
Public improvement bonds of 2002 payable to the U.S. Department of Agriculture. The original obligations are dated September 26, 2002 in the amount of \$163,655. 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 \$1,206 through September 26, 2042.	\$ 566,777
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.	910,000
Municipal bond payable to E & C Development, Inc. for the purchase of land for a new police department in the amount of \$372,298. The original obligation is dated August 30, 2010. Interest only at 4.9% is due monthly for five years. The principal balance is due August 30, 2015.	372,298

TOWN OF BERLIN, MARYLAND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

LONG-TERM DEBT (Continued)

Governmental Activities (Continued)

	Principal Balance Outstanding at <u>June 30, 2012</u>
Municipal bond payable to an individual for the purchase of land for a new police department in the amount of \$456,232. The original obligation is dated August 30, 2010. Interest at 5.9% is due monthly. The maturity date is August 30, 2015.	206,231
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 \$37,484. Debt is being amortized over 6 years. Interest rates range from 1.41% to 1.94%. Interest is due semi-annually with principal payments due annually and maturing May 1, 2018.	<u>37,484</u> <u>\$ 2,092,790</u>

Business-type Activities
Electric Fund

	Principal Balance Outstanding at <u>June 30, 2012</u>
General obligation bonds of 1999 payable to the Maryland Department of Housing and Community Development. The original obligations are dated March 24, 1999 in the amount of \$2,055,000. Debt was being amortized over 15 to 30 years at interest rates ranging from 4.13% to 5.00%. The debt was refinanced in part with 2012 infrastructure bonds. Interest and principal is due semi-annually maturing May 1, 2014.	\$ 37,500
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 1988. The original obligations are dated May 17, 2012 in the amount of \$899,618. Debt is amortized over 6 years. Interest rates range from 1.41% to 1.94%. Interest is due semi-annually with principal payments due annually, ranging from \$1,484 to \$157,804 through May 1, 2018.	899,618

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

LONG-TERM DEBT (Continued)

Business-type Activities (Continued)
Electric Fund(Continued)

Principal Balance
Outstanding at
June 30, 2012

Infrastructure financing bonds of 2004 payable to the Maryland Department of Housing and Community Development. The original obligation is dated April 22, 2004, in the amount of \$3,000,000. Debt is amortized over 30 years at interest rates ranging from 2.00% to 4.875%. Interest and principal is due semi-annually, with total annual payments ranging from \$186,214 to \$200,334 through May 1, 2034. As of June 30, 2012, \$383,573 of the \$3,000,000 has not been drawn. The undrawn portion currently earns interest at 2.00%, which is applied against the debt service costs.

2,122,526

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 \$47,230 to \$97,980. The maturity dates range from May 1, 2015 to May 1, 2027.

613,600

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.

1,431,232

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.

1,820,652

Total Electric Fund 6,925,128

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

LONG-TERM DEBT (Continued)

Business-type Activities (Continued)
Water Fund

	Principal Balance Outstanding at <u>June 30, 2012</u>
<p>General obligation bond of 1980 to the U.S. Department of Agriculture. The original obligation is dated August 3, 1981 in the amount of \$154,000. Debt is amortized over 40 years at an average interest rate of 5.00%. Interest and principal is due semi-annually with total annual payments of \$4,546. The maturity date is August 3, 2021.</p>	67,424
<p>General obligation bond of 2000 to the U.S. Department of Agriculture. The original obligation is dated September 7, 2000, in the amount of \$150,000. Debt is amortized over 40 years at an average interest rate of 5.13%. Interest and principal is due quarterly, with total annual payments of \$8,844. The maturity date is September 7, 2040.</p>	131,489
<p>Infrastructure financing bonds of 2007 payable to the Maryland Department of Housing and Community Development. This obligations was used to refinance general obligation bonds of 1997. The original obligation is dated November 14, 2007 in the amount of \$68,853. Debt is amortized over 20 years at interest rates ranging from 3.50% to 4.25%. Interest and principal is due semi-annually with total annual payments ranging from \$90,970 to \$93,787. The maturity date is May 1, 2027.</p>	50,053
<p>Loan payable to the Bank of Ocean City. This loan is to fund the water line expansion project on Route 818. The note is dated April 10, 2012 for \$750,000. Only \$5,300 has been drawn as of June 30, 2012. Interest payments are due quarterly at 3.3% and annual principal payments begin December 30, 2015. This note matures on December 30, 2017.</p>	<u>5,300</u>
<p>Total Water Fund</p>	<u>254,266</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

LONG-TERM DEBT (Continued)

Business-type Activities (Continued)
Sewer Fund

Principal Balance
Outstanding at
June 30, 2012

General obligation bonds of 1996 payable to the U.S. Department of Agriculture. The original obligation is dated August 19, 1996 in the amount of \$2,350,800. Debt is amortized over 40 years at an interest rate of 4.50%. Interest and principal is due quarterly with total payments of \$31,747. The maturity date is August 19, 2036.

1,867,933

Infrastructure financing bonds of 2007 payable to the Maryland Department of Housing and Community Development. The obligation was used to refinance general obligation bonds of 1997. The original obligation was dated November 14, 2007 in the amount of \$1,185,347. Debt is amortized over 20 years at interest rates ranging from 3.50% to 4.25%. Interest and principal is due semi-annually with total annual payments ranging from \$90,970 to \$93,787. The maturity date is May 1, 2027.

973,747

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 15, 2036.

489,757

Bond payable to the U.S. Department of Agriculture. This obligation was used to fund the lagoon liner and waterwater treatment plan 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.

5,846,659

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

LONG-TERM DEBT (Continued)

Business-type Activities (Continued)
Sewer Fund (Continued)

	Principal Balance Outstanding at <u>June 30, 2012</u>
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.	2,462,000
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. Only \$505,111 has been drawn as of June 30, 2012. Interest payments at .80% are due in semi-annual payments. Principal payments begin annually February 2015. The maturity date is February 2033.	505,111
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 1, 2021.	587,422
Loan payable to the Bank of Ocean City. This loan is to fund the sewer line expansion project on Route 818. The note is dated April 10, 2012 for \$750,000. Only \$5,300 has been drawn as of June 30, 2012. Interest payments are due quarterly at 3.3% and annual principal payments begin December 30, 2015. This note matures on December 30, 2017.	<u>5,300</u>
Total Sewer Fund	<u>12,737,929</u>
Total long-term debt - Business-type Activities	<u>\$ 19,917,323</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

LONG-TERM DEBT (Continued)

Debt Service Requirements

Principal and interest requirements to amortize the note and the general obligation and public improvements bonds as of June 30, 2012 are as follows:

<u>Governmental Activities</u>			
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 14,716	\$ 94,831	\$ 109,547
2014	15,232	94,303	109,535
2015	15,732	93,776	109,508
2016	594,812	70,369	665,181
2017	16,878	62,236	79,114
2018 - 2022	67,127	301,996	369,123
2023 - 2027	986,757	230,172	1,216,929
2028 - 2032	97,198	80,102	177,300
2033 - 2037	123,082	54,218	177,300
2038 - 2042	155,859	21,441	177,300
2043	5,397	64	5,461
	<u>\$ 2,092,790</u>	<u>\$ 1,103,508</u>	<u>\$ 3,196,298</u>

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of June 30, 2012 are as follows:

<u>Business-Type Activities</u>			
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 756,271	\$ 645,092	\$ 1,401,363
2014	799,863	621,599	1,421,462
2015	959,397	601,411	1,560,808
2016	939,294	580,248	1,519,542
2017	950,257	559,060	1,509,317
2018 - 2022	3,613,949	2,416,934	6,030,883
2023 - 2027	3,624,358	1,797,043	5,421,401
2028 - 2032	2,700,913	1,121,025	3,821,938
2033 - 2037	1,762,268	589,502	2,351,770
2038 - 2042	1,293,867	378,126	1,671,993
2043 - 2047	1,423,410	219,840	1,643,250
2048 - 2050	1,093,476	51,297	1,144,773
	<u>\$ 19,917,323</u>	<u>\$ 9,581,177</u>	<u>\$ 29,498,500</u>

TOWN OF BERLIN, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2012, total interest incurred and paid in the Enterprise Fund was \$722,078. Of this amount, \$61,157 was included in construction in progress and \$660,921 was charged to operations.

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, 2012 were as follows:

<u>Service Type</u>	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Administrative services	<u>\$ 304,285</u>	<u>\$ 84,143</u>	<u>\$ 149,143</u>	<u>\$ 537,571</u>

LEASE AGREEMENTS

At the end of fiscal year 2003, the Town entered into a 25-year lease agreement with AT&T Wireless PCS, LLC, for the use of the Town's water tower for wireless antennas and transmission lines. Monthly payments are due in advance by the 5th of the month. In 2011, additional antennas were added, increasing the annual payment to \$42,000. Total lease payments received for the year ended June 30, 2012 were \$42,000.

The Town entered into a lease with the Berlin Chamber of Commerce for ninety-nine years (subject to termination if the Chamber ceases to occupy the premises) ending on March 24, 2110 for rental of property. Monthly payments of \$458 are due through May 31, 2031. Thereafter, the tenant will pay \$1 per year for the remainder of the lease agreement. Total lease payments received during the year were \$5,490.

Future lease payment terms to be received are:

<u>Year Ending June 30,</u>	<u>Total Payment</u>
2013	\$ 47,490
2014	47,490
2015	47,490
2016	47,490
2017	47,490
All subsequent years	<u>538,409</u>
Total minimum lease payments to be received	<u>\$ 775,859</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

RETIREMENT AND PENSION PLANS

State Retirement and Pension Systems of Maryland

Plan Description

Certain 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 (the State System), and are cost-sharing multiple-employer public employee retirement systems. The State System provides pension, death and disability benefits to plan members and beneficiaries. The plan is administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the State System is vested in a 12-member Board of Trustees. The State System 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 State System. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 410-625-5555. The Town contributes to the State Retirement and Pension Systems of Maryland ("Systems"), a multiple-employer public employee retirement system that acts as a common investment and cost-sharing agent for State employees, teachers, judges, legislators and employees of participating municipalities within the State of Maryland.

Funding Policy

The State Personnel and Pensions Article requires active members to contribute to the State System 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. The three year contribution information for the Town is as follows:

Fiscal Year Ended	As a Whole Employer Annual Pension Costs	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
June 30, 2010	\$ 250,600	100%	-0-
June 30, 2011	\$ 349,938	100%	-0-
June 30, 2012	\$ 352,101	100%	-0-

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, 2012

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.

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.

CASH FLOW DISCLOSURES – ENTERPRISE FUNDS

Non-cash investing and financing transactions during the year were as follows:

	Electric Fund	Water Fund	Sewer Fund
Increase in long term debt	\$ 4,343,905		\$ 3,559,832
Less: principal paid on refinanced debt	(4,068,773)		(577,195)
Less: bond issuance costs	<u>(82,728)</u>		<u>(10,226)</u>
Proceeds from issuance of long-term debt	<u>\$ 192,404</u>		<u>\$ 2,972,411</u>
Reduction in long term debt	\$ 4,703,806	\$ 43,475	\$ 894,738
Less: refinanced debt	(4,068,773)		(577,195)
Less: debt transferred to governmental activities	<u>(279,065)</u>	<u>(33,066)</u>	<u>(10,226)</u>
Cash paid for principal payments on debt	<u>\$ 355,968</u>	<u>\$ 10,409</u>	<u>\$ 307,317</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

PRIOR PERIOD ADJUSTMENT

Net assets in the electric fund in the proprietary fund financial statements and the business-type activities in the government-wide financial statements at the beginning of 2012 have been restated. Between 2003 and 2005, the Town incurred costs totaling \$501,153 of engineering and professional fees in order to determine whether to sell the electric plant or to keep the plant and upgrade the facilities. These costs were reported as capital assets and depreciated. Eventually, the Town decided not to sell the electric plant and no major upgrades were done. During an extensive inventory of the capital assets in the electric fund performed during 2012, it was determined that these costs should have been expensed subsequent to the Town's decision not to sell or upgrade the electric plant. Since the decisions were made prior to the year ended June 30, 2012, a prior period adjustment has been made to reduce net assets for the book value of these assets.

	June 30, 2011 as originally reported	Adjustment	June 30, 2011 balances restated
Proprietary fund Statement of Net Assets			
Electric fund			
Invested in capital assets, net of related debt	\$ 1,606,935	\$ (488,624)	\$ 1,118,311
Unrestricted	(944,296)		(944,296)
Total net assets	\$ 662,639	\$ (488,624)	\$ 174,015
Government-wide Statement of Net Assets			
Business-type activities			
Invested in capital assets, net of related debt	\$ 15,935,199	\$ (488,624)	\$ 15,446,575
Restricted	901,417		901,417
Unrestricted	(711,602)		(711,602)
Total net assets	\$ 16,125,014	\$ (488,624)	\$ 15,636,390

NEW PRONOUNCEMENT

The Government Accounting Standards Board (GASB) approved GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Under GASB 62, utilities that are required to follow GASB standards can choose to follow accounting and financial guidance issued on or after November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Town will be required to implement GASB 62 for the year ended June 30, 2013, however, no material effect on the financial statements is anticipated.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BERLIN, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes	\$ 3,294,100	\$ 3,294,100	\$ 3,700,525	\$ 406,425
Licenses and permits	123,687	123,687	184,442	60,755
Intergovernmental revenues	762,386	762,386	915,247	152,861
Service charges	586,207	586,207	571,599	(14,608)
Impact fees			14,032	14,032
Earnings on investments	11,347	11,347	20,231	8,884
Miscellaneous			83,080	83,080
Total revenues	<u>4,777,727</u>	<u>4,777,727</u>	<u>5,489,156</u>	<u>711,429</u>
Expenditures				
Current				
General government	1,524,591	1,524,591	1,139,896	384,695
Public safety	1,851,584	1,851,584	1,825,914	25,670
Public works	793,495	793,495	840,836	(47,341)
Planning and economic development	291,308	291,308	334,021	(42,713)
Recreation and parks	59,450	59,450	43,932	15,518
Debt service	169,899	169,899	449,185	(279,286)
Capital outlay	210,000	210,000	215,986	(5,986)
Total expenditures	<u>4,900,327</u>	<u>4,900,327</u>	<u>4,849,770</u>	<u>50,557</u>
Excess of revenues over (under) expenditures	(122,600)	(122,600)	639,386	761,986
Other financing sources (uses)				
Prior year surplus	122,600	122,600		(122,600)
Transfers out			(488,264)	(488,264)
Proceeds from issuance of long term debt			37,484	37,484
Net other financing sources (uses)	<u>122,600</u>	<u>122,600</u>	<u>(450,780)</u>	<u>(573,380)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ 188,606</u>	<u>\$ 188,606</u>

SUPPLEMENTARY INFORMATION



PKS & Company, P.A.

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**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Berlin, Maryland's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The prior year summarized comparative information has been derived from the Town's 2011 financial statements and, in our report dated October 24, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

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October 19, 2012

TOWN OF BERLIN, MARYLAND

SCHEDULES OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012		2011
	Final budget	Actual	Actual
Revenues			
Taxes			
Berlin property	\$ 3,111,100	\$ 3,329,110	\$ 3,133,905
County shared	30,000	44,633	44,417
State shared	150,000	244,685	246,464
Penalties and interest	3,000	82,097	34,995
Licenses and permits	123,687	184,442	177,090
Intergovernmental			
Federal		28,857	
State	292,386	385,896	497,459
County	470,000	500,494	506,586
Service charges to other funds	566,707	537,570	510,822
Service charges, other	19,500	34,029	36,135
Impact fees		14,032	4,000
Earnings on investments	11,347	20,231	2,355
Miscellaneous		83,080	21,877
Total revenues	<u>4,777,727</u>	<u>5,489,156</u>	<u>5,216,105</u>
Expenditures			
Current			
General government	1,524,591	1,139,896	1,077,968
Public safety	1,851,584	1,825,914	1,841,985
Public works	793,495	840,836	843,267
Planning and economic development	291,308	334,021	323,894
Recreation and parks	59,450	43,932	34,639
Debt service	169,899	449,185	161,167
Capital outlay	210,000	215,986	1,507,838
Total expenditures	<u>4,900,327</u>	<u>4,849,770</u>	<u>5,790,758</u>
Excess of revenues over (under) expenditures	(122,600)	639,386	(574,653)
Other financing sources (uses)			
Prior year surplus	122,600		
Transfers out		(488,264)	
Proceeds from issuance of long term debt		37,484	828,530
Net other financing sources (uses)	<u>122,600</u>	<u>(450,780)</u>	<u>828,530</u>
Net change in fund balance	<u>\$</u>	<u>\$ 188,606</u>	<u>\$ 253,877</u>

TOWN OF BERLIN, MARYLAND

SCHEDULES OF REVENUES AND EXPENDITURES
SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	<u>2012</u>	<u>2011</u>
Revenues		
Intergovernmental revenues	\$ 36,729	\$ 33,607
Total revenues	<u>36,729</u>	<u>33,607</u>
Expenditures		
Salaries and related	22,137	19,354
Contract services		14,700
Other expenses	14,198	2,200
Total expenditures	<u>36,335</u>	<u>36,254</u>
Net change in fund balance	<u>\$ 394</u>	<u>\$ (2,647)</u>

TOWN OF BERLIN, MARYLAND

SCHEDULES OF REVENUES AND EXPENSES
ELECTRIC FUND

YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	<u>2012</u>	<u>2011</u>
Revenues		
Service charges	\$ 5,398,712	\$ 6,502,860
Sales and services	39,849	37,162
Interest on delinquent accounts	47,511	37,410
Miscellaneous	34,796	8,412
Total revenues	<u>5,520,868</u>	<u>6,585,844</u>
Expenses		
Purchased power	2,783,257	3,649,059
Personnel expenses	620,064	622,115
Supplies and operating	389,332	354,878
Professional services	189,796	109,180
Contracted services	119,890	178,891
Insurance	18,394	20,465
Repairs and maintenance	48,274	6,478
Depreciation and amortization	591,284	798,861
General overhead	304,285	280,411
Total expenses	<u>5,064,576</u>	<u>6,020,338</u>
Operating income	<u>456,292</u>	<u>565,506</u>
Nonoperating revenues (expenses)		
Interest expense	(395,006)	(400,915)
Loss on disposal of assets	(6,949)	(7,166)
Net nonoperating expenses	<u>(401,955)</u>	<u>(408,081)</u>
Income before transfers	54,337	157,425
Transfers in	<u>750,914</u>	<u> </u>
Change in net assets	<u>\$ 805,251</u>	<u>\$ 157,425</u>

TOWN OF BERLIN, MARYLAND
 SCHEDULES OF REVENUES AND EXPENSES
 WATER FUND

YEAR ENDED JUNE 30, 2012
 (WITH COMPARATIVE TOTALS FOR 2011)

	2012	2011
Revenues		
Service charges	\$ 590,224	\$ 582,548
Sales and services	13,428	6,857
Interest on delinquent accounts	8,300	6,332
Miscellaneous	89,250	55,002
Total revenues	701,202	650,739
Expenses		
Personnel expenses	317,261	309,505
Supplies and operating	133,738	136,648
Contracted services	2,940	8,356
Insurance	1,907	2,634
Repairs and maintenance	30,586	9,046
Depreciation and amortization	125,918	140,479
General overhead	84,143	80,206
Total expenses	696,493	686,874
Operating income (loss)	4,709	(36,135)
Nonoperating revenues (expenses)		
Interest income	9,609	8,462
Interest expense	(18,577)	(17,998)
Loss on disposal of assets	(332)	
Net nonoperating expenses	(9,300)	(9,536)
Loss before transfers and contributions	(4,591)	(45,671)
Transfers in	33,066	
Capital contributions - special connection fees	148,680	42,038
Change in net assets	\$ 177,155	\$ (3,633)

TOWN OF BERLIN, MARYLAND

SCHEDULES OF REVENUES AND EXPENSES
SEWER FUND

YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	<u>2012</u>	<u>2011</u>
Revenues		
Service charges	\$ 1,318,815	\$ 1,289,080
Sales and services	8,186	4,243
Hauler fees	75,150	11,165
Interest on delinquent accounts	17,739	12,545
Miscellaneous	14,408	29,308
Total revenues	<u>1,434,298</u>	<u>1,346,341</u>
Expenses		
Personnel expenses	580,691	543,396
Supplies and operating	322,467	233,677
Professional services	1,311	435
Contracted services	17,465	17,859
Insurance	12,356	5,578
Repairs and maintenance	12,330	25,550
Depreciation and amortization	957,495	771,545
General overhead	149,143	150,206
Total expenses	<u>2,053,258</u>	<u>1,748,246</u>
Operating income (loss)	<u>(618,960)</u>	<u>(401,905)</u>
Nonoperating revenues (expenses)		
Capital grants	3,634,160	4,319,330
Interest expense	(247,338)	(193,109)
Loss on disposal of assets	(406,326)	
Net nonoperating revenues	<u>2,981,209</u>	<u>4,126,221</u>
Income before transfers and contributions	2,362,249	3,724,316
Capital contributions - special connection fees	388,665	116,479
Transfers in	108,279	
Change in net assets	<u>\$ 2,859,193</u>	<u>\$ 3,840,795</u>

GOVERNMENT AUDITING STANDARDS REPORT



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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***

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We have audited 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 ("the Town") as of and for the year ended June 30, 2012 which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 19, 2012. 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.

Internal Control over Financial Reporting

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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 misstatements on a timely basis. A *material weakness* is a significant deficiency, or combination of significant deficiencies, in internal controls 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.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined previously. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as 12-01, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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 these 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 that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to the management of the Town of Berlin, Maryland in a separate letter dated October 19, 2012.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor and Council, management, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

October 19, 2012

SINGLE AUDIT REPORTS AND SCHEDULES



PKS & Company, P.A.

Pigg, Krahl & Stern

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**INDEPENDENT AUDITORS' REPORT ON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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To the Mayor and Council
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Berlin, Maryland's financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by U. S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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October 19, 2012

TOWN OF BERLIN, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Award	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Pass through program from Maryland Department of Housing and Community Development				
Community Development Block Grants (State's program and Non-Entitlement Grants in Hawaii)	14.228	MD-12-CD-32	\$ 600,000	\$ 600,000
<u>U.S. Department of Agriculture</u>				
Water and waste disposal systems for rural communities (grant)	ARRA 10.760		5,828,217	1,927,909
Water and waste disposal systems for rural communities (grant)	10.760		1,037,350	905,423
Water and waste disposal systems for rural communities (loan)	10.760		2,462,000	329,178
Total U.S. Department of Agriculture			<u>9,327,567</u>	<u>3,162,510</u>
<u>U.S. Department of Energy</u>				
Pass through program from Maryland Energy Administration				
Energy efficiency and conservation block grant program	ARRA 81.128		17,009	17,009
<u>U.S. Department of Homeland Security</u>				
Pass through program from Maryland Emergency Management Agency				
Disaster assistance projects	97.088	FEMA-4034-DR-MD	39,101	39,101
<u>U.S. Environmental Protection Agency</u>				
Pass through program from Maryland Department of the Environment				
Capitalization grants for clean water state revolving funds	66.458	WQPF11-674-24L	1,500,000	201,308
	66.458	WQBL11-674-24L	3,207,000	505,111
Total U.S. Environmental Protection Agency			<u>4,707,000</u>	<u>706,419</u>
Total expenditures of federal awards			<u>\$ 14,690,677</u>	<u>\$ 4,525,039</u>

See accompanying notes to schedule of expenditures of federal awards.

TOWN OF BERLIN, MARYLAND

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2012

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Town of Berlin, Maryland under programs of the federal government for the year ended June 30, 2012. The information presented in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Town.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

LOANS

For purposes of the schedule of expenditures of Federal awards, the value of Federal expenditures in the form of loans is calculated as the sum of the balance of loans from previous years for which the Federal Government imposes continuing compliance requirements plus the value of new loans received during the fiscal year.

The amount of federal loans outstanding at June 30, 2012 with continuing compliance requirements was \$2,967,111.



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
 WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
 EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
 OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133

We have audited the Town of Berlin, Maryland's ("the Town") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2012. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we have considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not follow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor and Council, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

October 19, 2012

TOWN OF BERLIN, MARYLAND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012

There were no findings relative to the federal award programs reported for the year ended June 30, 2011.

TOWN OF BERLIN, MARYLAND
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2012

Summary of Audit Results

1. The auditor's report expressed an unqualified opinion on the financial statements of the Town of Berlin, Maryland.
2. One significant deficiency disclosed during the audit of the financial statements is reported in this schedule. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Town of Berlin, Maryland, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
3. The auditor's report on compliance for the major federal awards programs for the Town of Berlin, Maryland expresses an unqualified opinion on all major federal programs.
4. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
5. The programs tested as major programs included:

10.760	Water and Waste Disposal Systems for Rural Communities
14.228	Community Development Block Grants (State's program and Non-Entitlement Grants in Hawaii)
66.458	Capitalization Grants for Clear Water State Revolving Funds
6. The threshold for distinguishing Types A and B programs was \$300,000.
7. The Town of Berlin, Maryland qualified as a low-risk auditee.

Findings—Financial Statements Audit

SIGNIFICANT DEFICIENCIES

- 12-01 Criteria – Controls should be in place to detect, prevent, or correct misstatements in the Town's drafted financial statements.

Condition – Management relies on the auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements are reviewed and approved by management prior to their issuance. In addition, management relies on the auditor to perform certain tasks such as the calculation of accrued liabilities, update of depreciation schedules, and the posting of approved adjusting entries to the trial balance.

Effect – There is a danger that intentional or unintentional errors could be made and not detected.

Cause – Management does not have sufficient knowledge of generally accepted accounting principles (GAAP) to prepare the financial statements and related disclosures.

TOWN OF BERLIN, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

YEAR ENDED JUNE 30, 2012

Recommendation – None.

Auditee's response and planned corrective action – Management acknowledges the condition and has evaluated the cost vs. benefit of establishing internal controls over the preparation of the financial statements in accordance with GAAP, and has determined that it is in the best interest of the Town to outsource this task to its independent auditors.

Findings and questioned costs—Major Federal Awards Programs Audit

None