

TOWN OF BERLIN, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

TOWN OF BERLIN, MARYLAND

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INDEPENDENT AUDITORS' REPORT

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Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Berlin, Maryland's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014, on our consideration of the Town of Berlin, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Berlin, Maryland's internal control over financial reporting and compliance.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 30, 2014

TOWN OF BERLIN, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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, 2014. 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, the water and sewer system, and the stormwater system.

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

Government-wide financial statements

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

The two government-wide statements report the Town's *net position* and how it has changed. Net position – the difference between the Town's assets and liabilities – is one way to measure the Town's financial health, or position. Over time, increases or decreases in the Town's net 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, sewer, and stormwater departments are included here.

Fund financial statements

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

- *Governmental funds* – Most of the Town’s basic services are included in governmental funds which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town’s programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide financial statements, provide both long- and short-term financial information. In fact, the Town’s *enterprise funds* are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town’s combined net position at June 30, 2014 was \$31,066,000. Of this total, \$21,930,000 is invested in capital assets and \$1,175,000 is restricted which leaves an unrestricted balance of \$7,961,000. The Town’s net position increased \$50,000 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 Position
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 7,893	\$ 7,531	\$ 4,700	\$ 4,511	\$ 12,593	\$ 12,042
Capital assets	4,752	4,837	38,631	38,815	43,383	43,652
Total assets	12,645	12,368	43,331	43,326	55,976	55,694
Long-term liabilities	1,442	1,576	21,459	21,248	22,901	22,824
Other liabilities	161	222	1,828	1,595	1,989	1,817
Total liabilities	1,603	1,798	23,287	22,843	24,890	24,641
Deferred inflows of resources	20	20		17	20	37
Net position						
Invested in capital assets, net of related debt	3,408	3,408	18,522	19,209	21,930	22,617
Restricted	459	207	716	1,398	1,175	1,605
Unrestricted	7,155	6,937	806	35	7,961	6,794
Total net position	\$ 11,022	\$ 10,550	\$ 20,044	\$ 20,466	\$ 31,066	\$ 31,016

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 Position
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program services						
Charges for services	\$ 375	\$ 393	\$ 8,436	\$ 8,132	\$ 8,811	\$ 8,525
Operating grants and contributions	242	92			242	92
Capital grants and contributions	86	157	48	1,757	134	1,914
General revenues						
Property taxes	2,844	3,120			2,844	3,120
Other taxes and fees	469	394			469	394
Unrestricted grants	450	400			450	400
Overhead allocation	609	593	(609)	(593)		
Other	54	81	8	4	62	85
Total revenues	<u>5,129</u>	<u>5,230</u>	<u>7,883</u>	<u>9,300</u>	<u>13,012</u>	<u>14,530</u>
Expenses						
General government	1,202	1,473			1,202	1,473
Public Safety	1,617	1,364			1,617	1,364
Public Works	1,060	1,042			1,060	1,042
Planning and community developmt	309	307			309	307
Recreation and parks	105	97			105	97
Interest on long-term debt	64	98			64	98
Electric			4,985	5,136	4,985	5,136
Water			604	639	604	639
Sewer			2,787	2,612	2,787	2,612
Stormwater			229	49	229	49
Total expenses	<u>4,357</u>	<u>4,381</u>	<u>8,605</u>	<u>8,436</u>	<u>12,962</u>	<u>12,817</u>
Excess before transfers	772	849	(722)	864	50	1,713
Transfers	(300)	(300)	300	300		
Change in net position	<u>\$ 472</u>	<u>\$ 549</u>	<u>\$ (422)</u>	<u>\$ 1,164</u>	<u>\$ 50</u>	<u>\$ 1,713</u>

Governmental activities

Net position for the Town's governmental activities increased \$472,000 during the fiscal year. The primary reasons for this increase mirror those highlighted in the following analysis of the Governmental Funds.

Business-type activities

During the fiscal year, the Town's net position for business-type activities decreased \$422,000. Because the change in net position for the Enterprise Funds is an aggregate, for purposes of this management discussion and analysis, Electric, Water, Sewer, and Stormwater funds will be addressed individually below.

The Electric Fund had an operating income of \$804,000 and a total increase in net position of \$569,000 compared to net increase of \$438,000 last year.

Revenues were down 1% from last year. It should be noted that revenues in a given fiscal year are not a true representation of kilowatts sold in that same fiscal year because you are always recovering power costs from prior years.

Operating expenses were down from last year by \$77,000 or 1%. Purchased power decreased 4%. 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 an operating income of \$20,000 and a total increase in net position of \$25,000 compared to a net increase last year of \$32,000. Revenues were comparable to last year with a \$31,000 decrease in expenses due mainly to decreases in personnel expenses and contracted services.

The Sewer Fund had an operating loss of \$810,000 and a total decrease in net position of \$1,203,000 compared to an increase in net position last year of \$290,000. Total revenues increased \$187,000 due to increases in charges for services, hauler fees and interest on delinquent accounts. Capital grants of \$1,498,000 were received in 2013 for the spray site project.

Operating expenses increased \$4,000 due to increases in personnel expenses, supplies, and repairs and maintenance.

The Stormwater Fund had an operating loss of \$113,000 prior to a transfer from the general fund of \$300,000 and a total increase in net position of \$187,000. Fiscal year 2014 was the first year that user fees were charged.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of June 30, 2014, the Town's governmental funds reported a combined fund balance of \$7,579,000. This is a \$491,000 increase in fund balance compared to a \$350,000 decrease last year. The primary reasons for the increase include:

Revenues increased from the prior year by \$3,600 or less than 1%.

Along with the increase in revenues, the Town experienced a decrease in expenditures of \$839,000 or 16%. The most significant changes occurred in the following areas:

- Public safety expenditures increased due to a increase in funding to the Berlin Fire Company.
- Debt service costs decreased due to the payoff of two bonds in the prior year.
- Capital outlay expenses decreased.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council revised the general fund budget to reduce the general fund contingency and transfer these monies to the fire department allocation account. Budgeted revenues and expenses were increased as follows:

- Contribution to fire department allocation \$ 200,000
- Reduction of contingency expense \$ 200,000

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets

At the end of the fiscal year, the Town had \$43,383,000, 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	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,783	\$ 1,783	\$ 4,065	\$ 4,062	\$ 5,848	\$ 5,845
Infrastructure	4,041	3,801	56,294	48,972	60,335	52,773
Buildings and improvements	975	924	633	677	1,608	1,601
Equipment	823	873	3,238	3,126	4,061	3,999
Vehicles	1,215	1,246	1,251	1,277	2,466	2,523
Construction in progress	63	113	1,660	7,724	1,723	7,837
Less: accumulated depreciation	(4,148)	(3,903)	(28,510)	(26,847)	(32,658)	(30,750)
Total	<u>\$ 4,752</u>	<u>\$ 4,837</u>	<u>\$ 38,631</u>	<u>\$ 38,991</u>	<u>\$ 43,383</u>	<u>\$ 43,828</u>

This year's major capital asset additions included:

Governmental activities

- Roof for the Visitor's Center
- Town Hall cabinets and A/C unit
- Kubota lawn mower
- Sidewalks and street paving
- Two new vehicles

Business-type activities

- Three touch/read meter readers
- Sludge pump
- One pickup truck and two lawn mowers
- Salt spreader and snow plow for dump truck
- Various maintenance and computer equipment

Long-term debt

At the end of the fiscal year, the Town had \$23,663,000 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
	2014	2013	2014	2013	2014	2013	
General obligation bonds	\$ 1,344	\$ 1,430	\$ 22,319	\$ 21,985	\$ 23,663	\$ 23,415	1%
Total	<u>\$ 1,344</u>	<u>\$ 1,430</u>	<u>\$ 22,319</u>	<u>\$ 21,985</u>	<u>\$ 23,663</u>	<u>\$ 23,415</u>	1%

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Town has established a stormwater management program and is committed to improving surface water quality, enhance surface water drainage, and reduce pollutant. The implementation of these projects is being funded by various government agencies. The Town has been approved for grants totaling \$1.9 million from the Federal Emergency Management Agency (FEMA), Community Development Block Grants (CDBG), and the Maryland Department of Natural Resources (MDNR).

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

REQUESTS FOR INFORMATION

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

TOWN OF BERLIN, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 340,751	\$ 428,797	\$ 769,548
Pooled cash and investments	5,214,283	3,173,216	8,387,499
Taxes receivable	166,030		166,030
Accounts receivable, net	64,957	1,337,079	1,402,036
Internal balances	1,458,841	(1,458,841)	
Due from other governments	189,237	297,230	486,467
Inventories		206,680	206,680
Total current assets	<u>7,434,099</u>	<u>3,984,161</u>	<u>11,418,260</u>
Noncurrent assets			
Restricted cash	459,136	716,021	1,175,157
Capital assets, net of accumulated depreciation	4,752,130	38,631,226	43,383,356
Total noncurrent assets	<u>5,211,266</u>	<u>39,347,247</u>	<u>44,558,513</u>
Total assets	<u>12,645,365</u>	<u>43,331,408</u>	<u>55,976,773</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	132,056	645,994	778,050
Accrued compensated absences	12,254	21,055	33,309
Accrued interest payable	465	128,980	129,445
Customer deposits		97,513	97,513
Current portion of long-term debt	15,732	934,995	950,727
Total current liabilities	<u>160,507</u>	<u>1,828,537</u>	<u>1,989,044</u>
Noncurrent liabilities			
Bonds payable	1,328,582	21,383,947	22,712,529
Accrued compensated absences	113,605	74,612	188,217
Total noncurrent liabilities	<u>1,442,187</u>	<u>21,458,559</u>	<u>22,900,746</u>
Total liabilities	<u>1,602,694</u>	<u>23,287,096</u>	<u>24,889,790</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred grant revenues	20,630		20,630
NET POSITION			
Invested in capital assets, net of related debt	3,407,816	18,522,326	21,930,142
Restricted	459,136	716,021	1,175,157
Unrestricted	7,155,089	805,965	7,961,054
Total net position	<u>\$ 11,022,041</u>	<u>\$ 20,044,312</u>	<u>\$ 31,066,353</u>

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

TOWN OF BERLIN, MARYLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 1,202,361	\$ 306,742	\$ 62,534	\$ 15,800	\$ (879,819)	\$	\$ (879,819)
Public safety	1,616,804	18,890	119,422	44,234	(1,535,380)		(1,535,380)
Public works	1,060,409	18,030	60,500		(878,723)		(878,723)
Planning and economic development	308,573	31,685	250	25,724	(216,388)		(216,388)
Recreation and parks	105,284				(79,310)		(79,310)
Interest on long-term debt	63,603				(63,603)		(63,603)
Total governmental activities	4,357,034	375,347	242,706	85,758	(3,653,223)		(3,653,223)
Business-type activities							
Electric	4,984,791	5,829,539				844,748	844,748
Water	604,500	708,434		12,690		116,624	116,624
Sewer	2,786,681	1,715,631		35,022		(1,036,028)	(1,036,028)
Stormwater	228,917	182,419				(46,498)	(46,498)
Total business-type activities	8,604,889	8,436,023		47,712		(121,154)	(121,154)
Total	\$ 12,961,923	\$ 8,811,370	\$ 242,706	\$ 133,470	\$ (3,653,223)	\$ (121,154)	\$ (3,774,377)
General revenues							
Taxes							
Property taxes					2,844,112		2,844,112
Public service taxes					69,746		69,746
State income taxes					324,175		324,175
Franchise fees					74,574		74,574
Grants and contributions not restricted to specific programs					450,000		450,000
Unrestricted investment earnings					44,316	3,180	47,496
Overhead allocation					608,658	(608,658)	
Special item - gain on disposal of assets					9,347	5,097	14,444
Transfers					(300,000)	300,000	
Total general revenues and special items					4,124,928	(300,381)	3,824,547
Change in net position					471,705	(421,535)	50,170
Net position at beginning of year, as restated					10,550,336	20,465,847	31,016,183
Net position at end of year					\$ 11,022,041	\$ 20,044,312	\$ 31,066,353

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

TOWN OF BERLIN, MARYLAND

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2014

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 340,751	\$	\$ 340,751
Pooled cash and investments	5,198,110	16,173	5,214,283
Taxes receivable	166,030		166,030
Accounts and notes receivable, net	64,957		64,957
Due from other governments	185,481	3,756	189,237
Due from other funds	1,458,841		1,458,841
Restricted cash	459,136		459,136
Total assets	\$ 7,873,306	\$ 19,929	\$ 7,893,235
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts payable and accrued expenses	\$ 132,015	\$ 41	\$ 132,056
Accrued compensated absences	12,254		12,254
Total liabilities	144,269	41	144,310
Deferred inflows of resources			
Deferred property taxes and grants	149,433	20,630	170,063
Fund balances			
Restricted	236,042		236,042
Committed	223,194		223,194
Assigned	363,530		363,530
Unassigned (deficit)	6,756,838	(742)	6,756,096
Total fund balance (deficit)	7,579,604	(742)	7,578,862
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,873,306	\$ 19,929	\$ 7,893,235

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

TOWN OF BERLIN, MARYLAND

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

JUNE 30, 2014

Total fund balances, governmental funds	\$ 7,578,862
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	4,752,130
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 Position.	149,433
Some liabilities including notes payable, accrued interest, 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 Position.	<u>(1,458,384)</u>
Net position, governmental activities	<u>\$ 11,022,041</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, 2014

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Taxes	\$ 3,310,768	\$	\$ 3,310,768
Licenses and permits	166,902		166,902
Intergovernmental revenues	986,781	10,347	997,128
Service charges	660,235		660,235
Impact fees	15,800		15,800
Earnings on investments	44,316		44,316
Miscellaneous	8,409		8,409
Total revenues	<u>5,193,211</u>	<u>10,347</u>	<u>5,203,558</u>
Expenditures			
Current			
General government	1,148,645		1,148,645
Public safety	1,574,398	10,624	1,585,022
Public works	859,334		859,334
Planning and economic development	307,576		307,576
Recreation and parks	63,607		63,607
Debt service	147,447		147,447
Capital outlay	300,735		300,735
Total expenditures	<u>4,401,742</u>	<u>10,624</u>	<u>4,412,366</u>
Excess of revenues over (under) expenditures	791,469	(277)	791,192
Other financing sources (uses)			
Transfers out	<u>(300,000)</u>		<u>(300,000)</u>
Net change in fund balance	491,469	(277)	491,192
Fund balance (deficit), beginning of year, as restated	<u>7,088,135</u>	<u>(465)</u>	<u>7,087,670</u>
Fund balance (deficit), end of year	<u>\$ 7,579,604</u>	<u>\$ (742)</u>	<u>\$ 7,578,862</u>

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

TOWN OF BERLIN, MARYLAND

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

YEAR ENDED JUNE 30, 2014

Net change in fund balances, governmental funds	\$ 491,192
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 (\$370,702) exceeded capital outlay expense (\$300,735) in the current period.	(69,967)
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.	(14,930)
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	5,200
Change in long-term compensated absences	47,716
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	(72,738)
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.	85,232
Change in net position, governmental activities	<u>\$ 471,705</u>

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

TOWN OF BERLIN, MARYLAND

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

JUNE 30, 2014

ASSETS	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
Current assets					
Cash	\$	\$	\$ 428,797	\$	\$ 428,797
Pooled cash and investments	1,995,662	860,445		317,109	3,173,216
Accounts receivable, net of allowance	588,567	288,921	445,891	13,700	1,337,079
Due from other governments			297,230		297,230
Inventory	189,687	15,117	1,876		206,680
Total current assets	<u>2,773,916</u>	<u>1,164,483</u>	<u>1,173,794</u>	<u>330,809</u>	<u>5,443,002</u>
Noncurrent assets					
Restricted cash		227,780	488,241		716,021
Capital assets, net of accumulated depreciation	5,722,658	2,305,352	30,324,409	278,807	38,631,226
Total noncurrent assets	<u>5,722,658</u>	<u>2,533,132</u>	<u>30,812,650</u>	<u>278,807</u>	<u>39,347,247</u>
Total assets	<u>8,496,574</u>	<u>3,697,615</u>	<u>31,986,444</u>	<u>609,616</u>	<u>44,790,249</u>
LIABILITIES					
Current liabilities					
Accounts payable and accrued expenses	281,470	21,592	325,849	17,083	645,994
Accrued compensated absences	10,654	5,360	4,326	715	21,055
Accrued interest payable	27,142	1,929	99,909		128,980
Customer deposits	97,513				97,513
Current portion of long-term debt	475,820	11,430	447,745		934,995
Due to other funds		281,980	1,176,861		1,458,841
Total current liabilities	<u>892,599</u>	<u>322,291</u>	<u>2,054,690</u>	<u>17,798</u>	<u>3,287,378</u>
Noncurrent liabilities					
Bonds payable	5,725,582	768,389	14,889,976		21,383,947
Accrued compensated absences	31,423	16,080	26,573	536	74,612
Total noncurrent liabilities	<u>5,757,005</u>	<u>784,469</u>	<u>14,916,549</u>	<u>536</u>	<u>21,458,559</u>
Total liabilities	<u>6,649,604</u>	<u>1,106,760</u>	<u>16,971,239</u>	<u>18,334</u>	<u>24,745,937</u>
NET POSITION					
Invested in capital assets, net of related debt	1,731,298	1,525,533	14,986,688	278,807	18,522,326
Restricted for capital projects		227,780	488,241		716,021
Unrestricted (deficit)	115,672	837,542	(459,724)	312,475	805,965
Total net position	<u>\$ 1,846,970</u>	<u>\$ 2,590,855</u>	<u>\$ 15,015,205</u>	<u>\$ 591,282</u>	<u>\$ 20,044,312</u>

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

TOWN OF BERLIN, MARYLAND

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

YEAR ENDED JUNE 30, 2014

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
Revenues					
Service charges	\$ 5,763,026	\$ 633,309	\$ 1,582,994	\$ 180,147	\$ 8,159,476
Sales and services	22,083	3,893	3,586	1,020	30,582
Hauler fees			97,993		97,993
Interest on delinquent accounts	44,242	8,499	30,328	688	83,757
Miscellaneous	188	62,733	730	564	64,215
Total revenues	<u>5,829,539</u>	<u>708,434</u>	<u>1,715,631</u>	<u>182,419</u>	<u>8,436,023</u>
Expenses					
Purchased power	3,005,363				3,005,363
Personnel expenses	633,857	303,084	690,567	88,850	1,716,358
Supplies and operating	402,768	133,247	413,939	30,695	980,649
Professional services	110,601		824	96,657	208,082
Contracted services	54,600	6,110	23,076	2,632	86,418
Insurance	16,420	6,922	14,087	1,000	38,429
Repairs and maintenance	15,228	19,550	78,886		113,664
Depreciation	508,834	126,826	1,133,295	9,083	1,778,038
General overhead	278,022	92,655	171,394	66,587	608,658
Total expenses	<u>5,025,693</u>	<u>688,394</u>	<u>2,526,068</u>	<u>295,504</u>	<u>8,535,659</u>
Operating income (loss)	<u>803,846</u>	<u>20,040</u>	<u>(810,437)</u>	<u>(113,085)</u>	<u>(99,636)</u>
Nonoperating revenues (expenses)					
Interest income		1,156	2,024		3,180
Interest expense	(237,120)	(8,761)	(432,007)		(677,888)
Gain on disposal of assets	2,313		2,784		5,097
Net nonoperating expenses	<u>(234,807)</u>	<u>(7,605)</u>	<u>(427,199)</u>		<u>(669,611)</u>
Income (loss) before contributions and transfers	<u>569,039</u>	<u>12,435</u>	<u>(1,237,636)</u>	<u>(113,085)</u>	<u>(769,247)</u>
Transfers in				300,000	300,000
Capital contributions - special connection fees		12,690	35,022		47,712
Change in net position	<u>569,039</u>	<u>25,125</u>	<u>(1,202,614)</u>	<u>186,915</u>	<u>(421,535)</u>
Net position, beginning of year, as restated	<u>1,277,931</u>	<u>2,565,730</u>	<u>16,217,819</u>	<u>404,367</u>	<u>20,465,847</u>
Net position, end of year	<u>\$ 1,846,970</u>	<u>\$ 2,590,855</u>	<u>\$ 15,015,205</u>	<u>\$ 591,282</u>	<u>\$ 20,044,312</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, 2014

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Stormwater Fund</u>	<u>Total</u>
Cash flows from operating activities					
Receipts from customers	\$ 5,904,082	\$ 564,875	\$ 2,002,967	\$ 166,730	\$ 8,638,654
Other receipts	188	62,733	730	564	64,215
Payments to suppliers	(3,593,444)	(180,353)	(448,588)	(116,575)	(4,338,960)
Payments to employees	(632,843)	(306,884)	(691,081)	(87,599)	(1,718,407)
Payments for interfund services	(278,022)	(92,655)	(171,394)	(66,587)	(608,658)
Net cash provided (used) by operating activities	<u>1,399,961</u>	<u>47,716</u>	<u>692,634</u>	<u>(103,467)</u>	<u>2,036,844</u>
Cash flows from noncapital financing activities					
Interfund borrowings (repayments)		87,682	(316,663)	125,005	(103,976)
Interfund transfers				300,000	300,000
Net cash provided (used) by noncapital financing activities		<u>87,682</u>	<u>(316,663)</u>	<u>425,005</u>	<u>196,024</u>
Cash flows from investing activities					
Interest income		1,156	2,024		3,180
Net cash provided by investing activities		<u>1,156</u>	<u>2,024</u>		<u>3,180</u>
Cash flows from capital and related financing activities					
Purchases of capital assets	(64,320)	(288,342)	(924,950)	(107,358)	(1,384,970)
Proceeds from the sale of capital assets	2,313		2,784		5,097
Proceeds from issuance of long-term debt		199,819	503,059		702,878
Principal paid on long-term debt	(405,877)	(10,948)	(249,542)		(666,367)
Interest paid on long-term debt	(238,864)	(28,226)	(448,852)		(715,942)
Capital contributions - special connection fees		12,690	35,022		47,712
Net cash used by capital and related financing activities	<u>(706,748)</u>	<u>(115,007)</u>	<u>(1,082,479)</u>	<u>(107,358)</u>	<u>(2,011,592)</u>
Net increase (decrease) in cash	693,213	21,547	(704,484)	214,180	224,456
Cash, beginning of year	1,302,449	1,066,678	1,621,522	102,929	4,093,578
Cash, end of year	<u>\$ 1,995,662</u>	<u>\$ 1,088,225</u>	<u>\$ 917,038</u>	<u>\$ 317,109</u>	<u>\$ 4,318,034</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 803,846	\$ 20,040	\$ (810,437)	\$ (113,085)	\$ (99,636)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	508,834	126,826	1,133,295	9,083	1,778,038
Change in deferred revenue				(16,605)	(16,605)
(Increase) decrease in assets					
Accounts receivable	75,978	(80,826)	288,066	1,480	284,698
Inventory	(16,804)	(7,368)	(489)		(24,661)
Increase (decrease) in liabilities					
Accounts payable and accrued expenses	29,354	(10,956)	82,199	15,660	116,257
Deposits	(1,247)				(1,247)
Net cash provided (used) by operating activities	<u>\$ 1,399,961</u>	<u>\$ 47,716</u>	<u>\$ 692,634</u>	<u>\$ (103,467)</u>	<u>\$ 2,036,844</u>

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

The accompanying financial statements of the Town of Berlin, Maryland, (the Town), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

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

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

Basis of Presentation

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

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

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, sewer, and stormwater. These funds account for the operation and management of the electric, water, sewer, and stormwater departments.

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

Measurement Focus, Basis of Accounting

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

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, 2014

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, sewer, and stormwater charges and miscellaneous accounts receivable based upon the Town's determination of individual accounts not likely to be collected. At June 30, 2014, the allowance in the General Fund was \$3,912 and the Enterprise Fund was \$48,173.

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, 2014

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

Deferred Inflows and Outflows of Resources

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

The Town may report decreases in net assets that relate to a future period as deferred outflows of resources in a separate section of its government-wide and proprietary statements of net position or the governmental funds balance sheet. The Town did not have deferred outflows of resources to report in the current year.

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 Town established a \$5,000 minimum threshold amount for capitalization in 2014. 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

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.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

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 Position

Government-wide and proprietary fund net position 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 - consists of assets that are restricted by enabling legislation. In the governmental activities, this amount represents impact fees that are restricted for use on future capital projects and slots revenue that is restricted by the State of Maryland. In the business-type activities, this amount represents special connection charges restricted for water and sewer capital and related financing activities and EDU escrow deposits.

Unrestricted - all other not reported in the above categories.

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

Governmental Fund Balances

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

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

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

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

Change in Accounting Principles

During 2014, the Town adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Adoption of this statement changed the terms and classification of items in the statement of financial position in the government-wide activities and enterprise funds. In addition, debt issuance costs, which under previous guidelines were amortized over the life of the debt, are expensed when incurred under GASB Statement No. 65.

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. The Town's deposits are held in checking, money market accounts, and certificates of deposits.

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, 2014, \$2,199,631 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, 2014

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 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	112,719	63,194	112,330	63,583
Total capital assets not being depreciated	<u>1,895,193</u>	<u>63,194</u>	<u>112,330</u>	<u>1,846,057</u>
<i>Capital assets being depreciated</i>				
Infrastructure	3,800,984	240,517		4,041,501
Buildings and improvements	924,311	50,338		974,649
Equipment	873,540	12,500	63,183	822,857
Vehicles	1,245,802	46,516	76,955	1,215,363
Total capital assets being depreciated	<u>6,844,637</u>	<u>349,871</u>	<u>140,138</u>	<u>7,054,370</u>
Less accumulated depreciation for:				
Infrastructure	1,775,391	189,266		1,964,657
Buildings and improvements	583,667	30,929		614,596
Equipment	619,519	74,188	63,065	630,642
Vehicles	924,226	76,320	62,144	938,402
Total accumulated depreciation	<u>3,902,803</u>	<u>370,703</u>	<u>125,209</u>	<u>4,148,297</u>
Total capital assets being depreciated, net	<u>2,941,834</u>	<u>(20,832)</u>	<u>14,929</u>	<u>2,906,073</u>
Governmental activity capital assets, net	<u>\$ 4,837,027</u>	<u>\$ 42,362</u>	<u>\$ 127,259</u>	<u>\$ 4,752,130</u>
Business-type Activities				
<u>Electric:</u>				
<i>Capital assets not being depreciated</i>				
Land	\$ 304,510	\$	\$	\$ 304,510
Total capital assets not being depreciated	<u>304,510</u>			<u>304,510</u>
<i>Capital assets being depreciated</i>				
Infrastructure	14,772,397	43,553		14,815,950
Buildings and improvements	617,463			617,463
Equipment	2,188,163	20,767		2,208,930
Vehicles	522,693		29,300	493,393
Total capital assets being depreciated	<u>18,100,716</u>	<u>64,320</u>	<u>29,300</u>	<u>18,135,736</u>
Less accumulated depreciation for:				
Infrastructure	10,056,030	388,600		10,444,630
Buildings and improvements	406,847	17,377		424,224
Equipment	1,356,865	77,386		1,434,251
Vehicles	418,312	25,471	29,300	414,483
Total accumulated depreciation	<u>12,238,054</u>	<u>508,834</u>	<u>29,300</u>	<u>12,717,588</u>
Total capital assets being depreciated, net	<u>5,862,662</u>	<u>(444,514)</u>		<u>5,418,148</u>
Electric activities, capital assets, net	<u>6,167,172</u>	<u>(444,514)</u>		<u>5,722,658</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

CAPITAL ASSETS (continued)

	Beginning Balance	Increases and Transfers In	Decreases and Transfers Out	Ending Balance
<u>Sewer:</u>				
<i>Capital assets not being depreciated</i>				
Land	3,495,233			3,495,233
Construction in progress	6,994,322	864,319	7,284,696	573,945
Total capital assets not being depreciated	<u>10,489,555</u>	<u>864,319</u>	<u>7,284,696</u>	<u>4,069,178</u>
<i>Capital assets being depreciated</i>				
Infrastructure	30,216,357	7,298,474	43,910	37,470,921
Buildings and improvements	20,737		19,227	1,510
Equipment	701,745	63,585	2,224	763,106
Vehicles	698,826		20,000	678,826
Total capital assets being depreciated	<u>31,637,665</u>	<u>7,362,059</u>	<u>85,361</u>	<u>38,914,363</u>
Less accumulated depreciation for:				
Infrastructure	10,880,477	972,869	43,910	11,809,436
Buildings and improvements	20,737		19,227	1,510
Equipment	393,265	95,202	2,224	486,243
Vehicles	316,719	65,224	20,000	361,943
Total accumulated depreciation	<u>11,611,198</u>	<u>1,133,295</u>	<u>85,361</u>	<u>12,659,132</u>
Total capital assets being depreciated, net	<u>20,026,467</u>	<u>6,228,764</u>		<u>26,255,231</u>
Sewer, capital assets, net	<u>30,516,022</u>	<u>7,093,083</u>	<u>7,284,696</u>	<u>30,324,409</u>
<u>Water:</u>				
<i>Capital assets not being depreciated</i>				
Land	82,039			82,039
Construction in progress	730,276	251,385		981,661
Total capital assets not being depreciated	<u>812,315</u>	<u>251,385</u>		<u>1,063,700</u>
<i>Capital assets being depreciated</i>				
Infrastructure	4,007,356			4,007,356
Buildings and improvements	14,206			14,206
Equipment	235,656	30,288		265,944
Vehicles	55,538	23,400		78,938
Total capital assets being depreciated	<u>4,312,756</u>	<u>53,688</u>		<u>4,366,444</u>
Less accumulated depreciation for:				
Infrastructure	2,734,677	112,626		2,847,303
Buildings and improvements	10,485	276		10,761
Equipment	197,491	11,584		209,075
Vehicles	55,313	2,340		57,653
Total accumulated depreciation	<u>2,997,966</u>	<u>126,826</u>		<u>3,124,792</u>
Total capital assets being depreciated, net	<u>1,314,790</u>	<u>(73,138)</u>		<u>1,241,652</u>
Water, capital assets, net	<u>2,127,105</u>	<u>178,247</u>		<u>2,305,352</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

CAPITAL ASSETS (continued)

	<u>Beginning Balance</u>	<u>Increases and Transfers In</u>	<u>Decreases and Transfers Out</u>	<u>Ending Balance</u>
<u>Stormwater:</u>				
<i>Capital asset not being depreciated</i>				
Construction in progress		107,357	2,697	104,660
Total capital assets not being depreciated		<u>107,357</u>	<u>2,697</u>	<u>104,660</u>
<i>Capital assets being depreciated</i>				
Land improvements	180,532	2,697		183,229
Total capital assets being depreciated	<u>180,532</u>	<u>2,697</u>		<u>183,229</u>
Less accumulated depreciation for:				
Land improvements		9,082		9,082
Total accumulated depreciation		<u>9,082</u>		<u>9,082</u>
Total capital assets being depreciated, net	<u>180,532</u>	<u>(6,385)</u>		<u>174,147</u>
Stormwater, capital asset, net	<u>180,532</u>	<u>100,972</u>	<u>2,697</u>	<u>278,807</u>
Business-type activities				
Capital assets, net	<u>\$ 38,990,831</u>	<u>\$ 6,927,788</u>	<u>\$ 7,287,393</u>	<u>\$ 38,631,226</u>

Included in construction in progress in the sewer fund is \$573,945 for the North Main Street sewer extension project.

Included in construction in progress in the water fund is \$571,845 for the North Main Street extension project and \$409,817 for the Branch Street well wastewater treatment project.

Included in construction in progress in the stormwater fund is \$104,660 for the stormwater design project.

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

General government	\$ 52,016
Public safety	32,671
Public works	185,646
Planning and community development	58,693
Recreation and parks	41,677
	<u>41,677</u>
	<u>\$ 370,703</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 AND ACTIVITY

Balances due to/from other funds at June 30, 2014 consist of the following:

	Balance June 30, 2013	Increase (Decrease)	Balance June 30, 2014
Due to the general fund from the sewer fund	\$ 1,493,524	\$ (316,663)	\$ 1,176,861
Due to the general fund from the water fund	194,298	87,682	281,980
	\$ 1,687,822	\$ (228,981)	\$ 1,458,841

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

In the current year, the general fund transferred \$300,000 to the stormwater fund. This transfer is treated as other financing sources or uses within the respective funds.

LONG-TERM DEBT

Changes in long-term obligations for the year June 30, 2014 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
General obligation bonds	\$ 1,429,545	\$	\$ 85,231	\$ 1,344,314

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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	\$ 6,607,278	\$ 78,304	\$ 484,180	\$ 6,201,402
Water				
General obligation bonds	590,948	199,819	10,948	779,819
Sewer				
General obligation bonds	<u>14,786,974</u>	<u>845,289</u>	<u>294,542</u>	<u>15,337,721</u>
	<u>\$ 21,985,200</u>	<u>\$ 1,123,412</u>	<u>\$ 789,670</u>	<u>\$ 22,318,942</u>

Governmental Activities

Notes payable and general obligation bonds consist of the following:

	<u>Principal Balance Outstanding at June 30, 2014</u>
Public improvement bonds of 2002 payable to the U.S. Department of Agriculture. The original obligations are dated September 26, 2002. Debt is amortized over 40 years at an interest rate of 4.75%. Interest and principal is due quarterly, with payments ranging from \$362 to \$1,206 through September 26, 2042.	\$ 548,974
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.	770,000
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.	25,340
	<u>\$ 1,344,314</u>

TOWN OF BERLIN, MARYLAND
 NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

LONG-TERM DEBT (continued)

Business-type Activities
Electric Fund

Principal Balance
 Outstanding at
June 30, 2014

<p>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.</p>	<p>\$ 608,160</p>
<p>2004 bonds payable to the Maryland Department of Housing and Community Development dated April 22, 2004, for \$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, 2014, \$153,558 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.</p>	<p>2,210,042</p>
<p>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.</p>	<p>462,900</p>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

LONG-TERM DEBT (continued)

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

	Principal Balance Outstanding at <u>June 30, 2014</u>
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.	1,291,000
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.	<u>1,629,300</u>
Total Electric Fund	<u>6,201,402</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

LONG-TERM DEBT (continued)

Business-type Activities (continued)
Water Fund

	Principal Balance Outstanding at June 30, 2014
<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>	55,526
<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>	127,085
<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>	44,962
<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 up to \$750,000. Interest only payments are due quarterly at 3.3% and annual principal payments begin December 30, 2015. This note matures on December 30, 2017.</p>	552,246
<p>Total Water Fund</p>	779,819

TOWN OF BERLIN, MARYLAND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

LONG-TERM DEBT (continued)

Business-type Activities (continued)
Sewer Fund

	Principal Balance Outstanding at June 30, 2014
<p>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.</p>	1,778,491
<p>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.</p>	874,840
<p>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.</p>	473,932
<p>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.</p>	5,650,670

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

LONG-TERM DEBT (continued)

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

	Principal Balance Outstanding at June 30, 2014
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.	2,432,296
Loan payable to Maryland Department of the Environment. This loan is being used to fund construction of Phase II of the spray irrigation project. Total amount available to draw is \$3,207,000. Interest payments at .80% are due in semi-annual payments. Principal payments begin annually February 2015. The maturity date is February 2033.	3,109,246
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.	466,000
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 up to \$750,000. Interest only payments are due quarterly at 3.3% and annual principal payments begin December 30, 2015. This note matures on December 30, 2017.	552,246
Total Sewer Fund	15,337,721
Total long-term debt - Business-type Activities	\$ 22,318,942

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014 are as follows:

Governmental Activities			
Year Ending	Principal	Interest	Totals
2015	\$ 15,732	\$ 63,366	\$ 79,098
2016	16,282	62,817	79,099
2017	16,878	62,236	79,114
2018	17,614	61,617	79,231
2019	11,538	60,959	72,497
2020 - 2024	66,619	295,866	362,485
2025 - 2029	854,360	148,496	1,002,856
2030 - 2034	106,825	70,475	177,300
2035 - 2039	135,272	42,028	177,300
2040 - 2043	103,194	8,553	111,747
	\$ 1,344,314	\$ 876,413	\$ 2,220,727

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of June 30, 2014 are as follows:

Business-Type Activities			
Year Ending	Principal	Interest	Totals
2015	\$ 934,995	\$ 628,868	\$ 1,563,863
2016	1,394,951	616,015	2,010,966
2017	1,520,736	578,772	2,099,508
2018	941,108	549,892	1,491,000
2019	805,319	524,473	1,329,792
2020 - 2024	4,153,793	2,261,935	6,415,728
2025 - 2029	4,145,692	1,587,099	5,732,791
2030 - 2034	3,137,907	955,919	4,093,826
2035 - 2039	1,949,283	491,732	2,441,015
2040 - 2044	1,338,144	316,161	1,654,305
2045 - 2049	1,490,787	152,463	1,643,250
2050 - 2052	506,227	11,073	517,300
	\$ 22,318,942	\$ 8,674,402	\$ 30,993,344

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014, total interest incurred and paid in the Enterprise Fund was \$711,351. Of this amount, \$33,463 was included in construction in progress and \$677,888 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, 2014 were as follows:

<u>Service Type</u>	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Stormwater Fund</u>	<u>Total</u>
Administrative services	<u>\$ 278,022</u>	<u>\$ 92,655</u>	<u>\$ 171,394</u>	<u>\$ 66,587</u>	<u>\$ 608,658</u>

LEASE AGREEMENTS

The Town has entered into lease agreements expiring in 2027 and 2026 with AT&T Wireless and T-mobile for the use of the Town's water tower for wireless antennas and transmission lines. Total lease payments billed for the year ended June 30, 2014 were \$56,183.

Future lease payment terms to be received are:

<u>Year Ending June 30,</u>	<u>Total Payment</u>
2015	\$ 57,090
2016	57,090
2017	59,400
2018	60,420
2019	60,420
All subsequent years	<u>458,925</u>
Total minimum lease payments to be received	<u>\$ 753,345</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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. 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, 2012	\$ 352,101	100%	-0-
June 30, 2013	\$ 324,524	100%	-0-
June 30, 2014	\$ 300,758	100%	-0-

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

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.

RESTATEMENT OF NET POSITION – CHANGE IN ACCOUNTING PRINCIPLE

The proprietary fund net positions and the governmental and business-type activities net position at the beginning of the year have been restated for the cumulative effect of changing to a new accounting principle as follows:

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net position, beginning of the year, as previously reported	\$ 1,417,176	\$ 2,570,435	\$ 16,250,615	\$ 10,552,240	\$ 20,642,593
Write-off previously amortized bond issuance costs as required by GASB Statement No. 65	<u>(139,245)</u>	<u>(4,705)</u>	<u>(32,796)</u>	<u>(1,904)</u>	<u>(176,746)</u>
Net position, beginning of the year, as restated	<u>\$ 1,277,931</u>	<u>\$ 2,565,730</u>	<u>\$ 16,217,819</u>	<u>\$ 10,550,336</u>	<u>\$ 20,465,847</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

The Town has an on-going dispute with a contractor that may result in legal action. The outcome of this dispute cannot be determined.

SUBSEQUENT EVENTS

The Town has received approval for grant funding for various projects to be completed in the stormwater fund in subsequent years. These grants include the following:

Federal Emergency Management Agency	\$ 213,387
Community Development Block Grant	\$ 800,000
Maryland Department of Natural Resources	\$ 964,903

NEW PRONOUNCEMENTS

GASB also approved Statement No. 68 which will require the Town to provide additional information in the financial statements related to cost sharing pension plans. The Town will be required to implement GASB Statement No. 68 for the year ending June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BERLIN, MARYLAND
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND

YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes	\$ 3,155,600	\$ 3,155,600	\$ 3,310,768	\$ 155,168
Licenses and permits	139,600	139,600	166,902	27,302
Intergovernmental revenues	733,600	733,600	986,781	253,181
Service charges	631,258	631,258	660,235	28,977
Impact fees			15,800	15,800
Earnings on investments	91,000	91,000	44,316	(46,684)
Miscellaneous			8,409	8,409
Total revenues	<u>4,751,058</u>	<u>4,751,058</u>	<u>5,193,211</u>	<u>442,153</u>
Expenditures				
Current				
General government	1,686,841	1,458,641	1,148,645	309,996
Public safety	1,382,779	1,582,779	1,574,398	8,381
Public works	820,314	820,314	859,334	(39,020)
Planning and economic development	325,848	354,048	307,576	46,472
Recreation and parks	59,450	59,450	63,607	(4,157)
Debt service	174,826	174,826	147,447	27,379
Capital outlay	182,000	182,000	300,735	(118,735)
Total expenditures	<u>4,632,058</u>	<u>4,632,058</u>	<u>4,401,742</u>	<u>230,316</u>
Excess of revenues over expenditures	119,000	119,000	791,469	672,469
Other financing sources (uses)				
Prior year surplus	181,000	181,000		(181,000)
Transfers out	(300,000)	(300,000)	(300,000)	
Net other financing sources (uses)	<u>(119,000)</u>	<u>(119,000)</u>	<u>(300,000)</u>	<u>(181,000)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ 491,469</u>	<u>\$ 491,469</u>

SUPPLEMENTARY INFORMATION



PKS & Company, P.A.

Pigg, Krahl & Stern

**Certified Public Accountants
& Advisors to Business**

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**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

To the Mayor and Council
Town of Berlin, Maryland

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Report on Supplementary Information

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Our report on our audit of the financial statements that collectively comprise the Town of Berlin, Maryland's basic financial statements as of June 30, 2014, appears on pages one and two. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Berlin, Maryland's basic financial statements. The supplementary information presented on pages 42 through 47 is presented for purposes of additional analysis and is not a required part of the financial statements.

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

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MEMBERS OF:

Other Matter

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The prior year comparative information has been derived from the Town's 2013 and 2012 financial statements and, in our reports dated November 4, 2013 and October 19, 2012, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

PKS + Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 30, 2014

TOWN OF BERLIN, MARYLAND

SCHEDULES OF REVENUES AND EXPENDITURES
GENERAL FUND

YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

	2014	2013	2012
Revenues			
Taxes			
Berlin property	\$ 2,878,905	\$ 3,020,413	\$ 3,329,110
County shared	69,746	45,432	44,633
State shared	324,175	273,204	244,685
Penalties and interest	37,942	51,790	82,097
Licenses and permits	166,902	173,906	184,442
Intergovernmental			
Federal		72,826	28,857
State	536,781	390,664	385,896
County	450,000	400,000	425,494
Service charges to other funds	608,658	592,970	537,570
Service charges, other	51,577	62,613	34,029
Impact fees	15,800	4,000	14,032
Earnings on investments	44,316	79,972	20,231
Miscellaneous	8,409	21,798	83,080
Total revenues	<u>5,193,211</u>	<u>5,189,588</u>	<u>5,414,156</u>
Expenditures			
Current			
General government	1,148,645	1,392,519	1,139,896
Public safety	1,574,398	1,317,453	1,825,914
Public works	859,334	828,591	840,836
Planning and economic development	307,576	306,023	334,021
Recreation and parks	63,607	51,579	43,932
Debt service	147,447	761,137	449,185
Capital outlay	300,735	583,004	215,986
Total expenditures	<u>4,401,742</u>	<u>5,240,306</u>	<u>4,849,770</u>
Excess of revenues over (under) expenditures	791,469	(50,718)	564,386
Other financing sources (uses)			
Transfers out	(300,000)	(300,000)	(488,264)
Proceeds from issuance of long term debt			37,484
Net other financing sources (uses)	<u>(300,000)</u>	<u>(300,000)</u>	<u>(450,780)</u>
Net change in fund balance	<u>\$ 491,469</u>	<u>\$ (350,718)</u>	<u>\$ 113,606</u>

TOWN OF BERLIN, MARYLAND

SCHEDULES OF REVENUES AND EXPENDITURES
SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues			
Intergovernmental revenues	\$ 10,347	\$ 8,970	\$ 36,729
Total revenues	<u>10,347</u>	<u>8,970</u>	<u>36,729</u>
Expenditures			
Salaries and related	<u>10,624</u>	<u>8,246</u>	<u>22,137</u>
Total expenditures	<u>10,624</u>	<u>8,246</u>	<u>22,137</u>
Net change in fund balance	<u>\$ (277)</u>	<u>\$ 724</u>	<u>\$ 14,592</u>

TOWN OF BERLIN, MARYLAND

SCHEDULES OF REVENUES AND EXPENSES
ELECTRIC FUND

YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

	2014	2013	2012
Revenues			
Service charges	\$ 5,763,026	\$ 5,823,279	\$ 5,398,712
Sales and services	22,083	40,974	39,849
Interest on delinquent accounts	44,242	40,097	47,511
Miscellaneous	188	2,010	34,796
Total revenues	<u>5,829,539</u>	<u>5,906,360</u>	<u>5,520,868</u>
Expenses			
Purchased power	3,005,363	3,133,262	2,783,257
Personnel expenses	633,857	610,204	620,064
Supplies and operating	402,768	373,216	389,332
Professional services	110,601	193,817	189,796
Contracted services	54,600	51,717	119,890
Insurance	16,420	15,316	18,394
Repairs and maintenance	15,228	25,841	48,274
Depreciation and amortization	508,834	481,579	591,284
General overhead	278,022	336,240	304,285
Total expenses	<u>5,025,693</u>	<u>5,221,192</u>	<u>5,064,576</u>
Operating income	<u>803,846</u>	<u>685,168</u>	<u>456,292</u>
Nonoperating revenues (expenses)			
Interest expense	(237,120)	(251,063)	(395,006)
Gain on disposal of assets	2,313	3,805	(6,949)
Net nonoperating expenses	<u>(234,807)</u>	<u>(247,258)</u>	<u>(401,955)</u>
Income before transfers	569,039	437,910	54,337
Transfers in			<u>750,914</u>
Change in net position	<u>\$ 569,039</u>	<u>\$ 437,910</u>	<u>\$ 805,251</u>

TOWN OF BERLIN, MARYLAND

SCHEDULES OF REVENUES AND EXPENSES
WATER FUND

YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues			
Service charges	\$ 633,309	\$ 615,973	\$ 590,224
Sales and services	3,893	9,804	13,428
Interest on delinquent accounts	8,499	10,299	8,300
Miscellaneous	62,733	58,597	89,250
Total revenues	<u>708,434</u>	<u>694,673</u>	<u>701,202</u>
Expenses			
Personnel expenses	303,084	310,531	317,261
Supplies and operating	133,247	145,703	133,738
Contracted services	6,110	24,162	2,940
Insurance	6,922	5,910	1,907
Repairs and maintenance	19,550	15,865	30,586
Depreciation	126,826	123,004	125,918
General overhead	92,655	93,560	84,143
Total expenses	<u>688,394</u>	<u>718,735</u>	<u>696,493</u>
Operating income (loss)	<u>20,040</u>	<u>(24,062)</u>	<u>4,709</u>
Nonoperating revenues (expenses)			
Capital grants		55,000	
Interest income	1,156	1,039	9,609
Interest expense	(8,761)	(13,407)	(18,577)
Loss on disposal of assets			(332)
Net nonoperating revenues (expenses)	<u>(7,605)</u>	<u>42,632</u>	<u>(9,300)</u>
Income (loss) before contributions	12,435	18,570	(4,591)
Transfers in			33,066
Capital contributions - special connection fees	12,690	13,275	148,680
Change in net position	<u>\$ 25,125</u>	<u>\$ 31,845</u>	<u>\$ 177,155</u>

TOWN OF BERLIN, MARYLAND

SCHEDULES OF REVENUES AND EXPENSES
SEWER FUND

YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013 AND 2012)

	2014	2013	2012
Revenues			
Service charges	\$ 1,582,994	\$ 1,422,823	\$ 1,318,815
Sales and services	3,586	3,779	8,186
Hauler fees	97,993	81,010	75,150
Interest on delinquent accounts	30,328	20,935	17,739
Miscellaneous	730	298	14,408
Total revenues	<u>1,715,631</u>	<u>1,528,845</u>	<u>1,434,298</u>
Expenses			
Personnel expenses	690,567	580,428	580,691
Supplies and operating	413,939	401,443	322,467
Professional services	824	2,803	1,311
Contracted services	23,076	35,872	17,465
Insurance	14,087	10,974	12,356
Repairs and maintenance	78,886	39,777	12,330
Depreciation	1,133,295	1,287,145	957,495
General overhead	171,394	163,170	149,143
Total expenses	<u>2,526,068</u>	<u>2,521,612</u>	<u>2,053,258</u>
Operating loss	<u>(810,437)</u>	<u>(992,767)</u>	<u>(618,960)</u>
Nonoperating revenues (expenses)			
Capital grants		1,498,120	3,634,160
Interest income	2,024	1,577	713
Interest expense	(432,007)	(250,589)	(247,338)
Gain (loss) on disposal of assets	2,784	(2,642)	(406,326)
Net nonoperating revenues (expenses)	<u>(427,199)</u>	<u>1,246,466</u>	<u>2,981,209</u>
Income (loss) before contributions	(1,237,636)	253,699	2,362,249
Capital contributions - special connection fees	35,022	36,783	388,665
Transfers in			108,279
Change in net position	<u>\$ (1,202,614)</u>	<u>\$ 290,482</u>	<u>\$ 2,859,193</u>

TOWN OF BERLIN, MARYLAND

SCHEDULES OF REVENUES AND EXPENSES
STORMWATER FUND

YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	<u>2014</u>	<u>2013</u>
Revenues		
Service charges	\$ 180,147	\$
Sales and services	1,020	
Interest on delinquent accounts	688	
Miscellaneous	564	
Total revenues	<u>182,419</u>	<u></u>
Expenses		
Personnel expenses	88,850	
Supplies and operating	30,695	1,068
Professional services	96,657	18,527
Contracted services	2,632	30,037
Insurance	1,000	
Depreciation and amortization	9,083	
General overhead	66,587	
Total expenses	<u>295,504</u>	<u>49,632</u>
Operating loss	<u>(113,085)</u>	<u>(49,632)</u>
Nonoperating revenues (expenses)		
Capital grants		154,000
Net nonoperating revenues		<u>154,000</u>
Income (loss) before transfers and contributions	(113,085)	104,368
Transfers in	<u>300,000</u>	<u>300,000</u>
Change in net position	<u>\$ 186,915</u>	<u>\$ 404,368</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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To the Mayor and Council
Town of Berlin, Maryland

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Berlin, Maryland's basic financial statements and have issued our report thereon dated October 30, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs (14-01) that we consider to be a significant deficiency.

Compliance and Other Matters

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

Town of Berlin, Maryland's Response to Findings

The Town of Berlin, Maryland's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

PKS + Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 30, 2014

SINGLE AUDIT REPORTS AND SCHEDULES



PKS & Company, P.A.

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

www.pkscpa.com
To the Mayor and Council
Town of Berlin, Maryland

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

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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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon dated October 30, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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Salisbury, Maryland
October 30, 2014

TOWN OF BERLIN, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Award	Federal Expenditures
<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	3,207,000	645,492
Total U.S. Environmental Protection Agency			<u>3,207,000</u>	<u>645,492</u>
<u>U.S. Department of Transportation</u>				
Pass through program from Maryland Highway Safety Office				
State and Community Highway Safety	20.600		4,225	4,225
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601		2,000	2,000
Alcohol Open Container Requirements	20.607		422	422
National Priority Safety Programs	20.616		2,500	2,500
Total U.S. Department of Transportation			<u>9,147</u>	<u>9,147</u>
Total expenditures of federal awards			<u>\$ 3,216,147</u>	<u>\$ 654,639</u>

TOWN OF BERLIN, MARYLAND

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2014

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, 2014. 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, 2014 with continuing compliance requirements was \$3,109,246.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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To the Mayor and Council
Town of Berlin, Maryland

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Report on Compliance for Each Major Federal Program

We have audited the Town of Berlin, Maryland's 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, 2014. The Town's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

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Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. 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 considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Berlin, Maryland, complied, in all material respects, with the types of compliance 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, 2014.

Report on Internal Control Over Compliance

Management of the Town of Berlin, Maryland is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 allow 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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PKS + Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 30, 2014

TOWN OF BERLIN, MARYLAND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2014

There were no findings relative to the federal award programs reported for the year ended June 30, 2013.

TOWN OF BERLIN, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

Summary of Audit Results

1. The auditor's report expressed an unmodified 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 unmodified 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 program tested as a major program was:

66.458 Capitalization Grants for Clean Water State Revolving Funds
6. The threshold for distinguishing Types A and B programs was \$300,000.
7. The Town of Berlin, Maryland did not qualify as a low-risk auditee.

Findings—Financial Statements Audit

SIGNIFICANT DEFICIENCIES

- 14-01 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 fraud or unintentional errors could be made and not detected.

TOWN OF BERLIN, MARYLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)

YEAR ENDED JUNE 30, 2014

Cause – The external auditors cannot be a part of the Town’s internal accounting controls and the management of the Town lacks the formal training and expertise to determine that the financial statements, especially the note disclosures, are in accordance with GAAP and new accounting standards, if any, are implemented.

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