

TOWN OF BERLIN, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

TOWN OF BERLIN, MARYLAND

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INDEPENDENT AUDITORS' REPORT

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To the Mayor and Council
Town of Berlin, Maryland

Report on the Financial Statements

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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, 2016, 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.

MEMBERS OF:

AMERICAN INSTITUTE OF
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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, 2016, 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 and pension plan information on pages 3 through 10 and pages 46 through 48 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 14, 2016, 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.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 14, 2016

TOWN OF BERLIN, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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, 2016. Please read it in conjunction with the Town's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-wide financial statements

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

The two government-wide statements report the Town's *net position* and how it has changed. Net position – the difference between the Town's assets and liabilities – is one way to measure the Town's financial health, or position. Over time, increases or decreases in the Town's net 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 planning and economic development. Property taxes and state and federal grants finance most of these activities.
- *Business-type activities* – The Town charges fees to customers to help it cover the costs of certain services it provides. The Town's electric, water, sewer, and stormwater departments are included here.

Fund financial statements

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

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

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position at June 30, 2016 was \$29,277,000. Of this total, \$22,849,000 is invested in capital assets and \$1,212,000 is restricted which leaves an unrestricted balance of \$5,216,000. The Town's net position decreased \$677,000 from last year. The tables below show key financial information in a condensed format for the current year.

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

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 8,847	\$ 8,261	\$ 3,823	\$ 4,915	\$ 12,670	\$ 13,176
Capital assets	7,479	4,964	36,220	37,246	43,699	42,210
Total assets	16,326	13,225	40,043	42,161	56,369	55,386
Deferred outflows of resources	459	208	285	133	744	341
Long-term liabilities	5,949	2,823	18,701	19,820	24,650	22,643
Other liabilities	528	575	2,408	2,304	2,936	2,879
Total liabilities	6,477	3,398	21,109	22,124	27,586	25,522
Deferred inflows of resources	152	153	98	98	250	251
Net position						
Net investment in capital assets	3,307	3,680	19,542	19,195	22,849	22,875
Restricted	1,047	832	165	322	1,212	1,154
Unrestricted	5,802	5,370	(586)	555	5,216	5,925
Total net position	\$ 10,156	\$ 9,882	\$ 19,121	\$ 20,072	\$ 29,277	\$ 29,954

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	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program services						
Charges for services	\$ 561	\$ 524	\$ 7,789	\$ 8,476	\$ 8,350	\$ 9,000
Operating grants and contributions	203	191			203	191
Capital grants and contributions	56	128	223	1,231	279	1,359
General revenues						
Property taxes	3,020	2,975			3,020	2,975
Other taxes and fees	587	481			587	481
Unrestricted grants	450	450			450	450
Overhead allocation	710	597	(710)	(597)	-	
Other	251	53	15	9	266	62
Total revenues	<u>5,838</u>	<u>5,399</u>	<u>7,317</u>	<u>9,119</u>	<u>13,155</u>	<u>14,518</u>
EXPENSES						
General government	1,540	1,367			1,540	1,367
Public safety	2,047	1,952			2,047	1,952
Public works	1,183	1,033			1,183	1,033
Planning and economic development	500	431			500	431
Recreation and parks	97	99			97	99
Interest on long-term debt	97	66			97	66
Electric			4,825	4,974	4,825	4,974
Water			638	641	638	641
Sewer			2,700	2,683	2,700	2,683
Stormwater			205	185	205	185
Total expenses	<u>5,464</u>	<u>4,948</u>	<u>8,368</u>	<u>8,483</u>	<u>13,832</u>	<u>13,431</u>
Excess (deficit) before transfers	374	451	(1,051)	636	(677)	1,087
Transfers	<u>(100)</u>	<u>(260)</u>	<u>100</u>	<u>260</u>		
Change in net position	<u>\$ 274</u>	<u>\$ 191</u>	<u>\$ (951)</u>	<u>\$ 896</u>	<u>\$ (677)</u>	<u>\$ 1,087</u>

Governmental activities

Net position for the Town's governmental activities increased \$274,000 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 \$951,000. 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 \$205,000 with little change in net position compared to a net increase of \$502,000 last year.

Service charges were down 11% 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 \$101,000 or 2%. Purchased power decreased 8%. The Town changed electric service providers which resulted in a decrease in the power cost adjustments. This also resulted in a corresponding decrease in revenues. 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 loss of \$34,000 and a total increase in net position of \$48,000 compared to a net increase last year of \$336,000. Special connection fees were \$48,000 which is a substantial decrease compared to last year's fees of \$336,000. Operating revenues decreased \$25,000 or 3% from last year with a \$14,000 decrease in expenses due mainly to decreases in personnel expenses and supplies and operating costs.

The Sewer Fund had an operating loss of \$836,000 and a total decrease in net position of \$1,032,000 compared to a decrease in net position last year of \$127,000. Special connection fees of \$127,000 were billed in the current year which is a substantial decrease compared to last year's fees of \$895,000. Operating revenues decreased \$51,000. Operating expenses increased \$136,000 due to increases in personnel expenses, supplies and operating costs, insurance, repairs and maintenance and general overhead.

The Stormwater Fund had an operating loss of \$78,000 prior to a transfer from the general fund of \$100,000 resulting in an increase in net position of \$33,000 compared to an increase in net position last year of \$185,000. Operating revenues increased \$13,000 or 8% from last year. Operating expenses increased \$16,000.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of June 30, 2016, the Town's governmental funds reported a combined fund balance of \$8,389,000. This is an \$873,000 increase in fund balance compared to a \$62,000 decrease last year. The primary reasons for the increase include increases in property and state shared taxes of \$276,000 and proceeds from the sale of property of \$434,000.

Revenues increased from the prior year by \$358,000 or 7%.

The Town experienced an increase in expenditures of \$3,015,000 which included \$2,500,000 for the purchase of property on Route 50. The purchase was funded with general obligation bonds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council amended the general, electric, water, sewer, and stormwater fund budgets to increase or decrease fund expenses through contingency.

Significant budget variances include:

- Impact fees of \$57,000 were under budget by \$241,000
- General government, public safety, and capital outlay expenses were less than the amount budgeted by \$1,964,000.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets

At the end of the fiscal year, the Town had \$43,699,000, 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	
	2016	2015	2016	2015	2016	2015
Land	\$ 4,053	\$ 1,808	\$ 4,065	\$ 4,065	\$ 8,118	\$ 5,873
Infrastructure	4,227	4,165	56,542	56,407	60,769	60,572
Buildings and improvements	1,021	998	633	633	1,654	1,631
Equipment	924	838	3,572	3,318	4,496	4,156
Vehicles	1,474	1,469	1,374	1,293	2,848	2,762
Construction in progress	495	117	2,008	1,726	2,503	1,843
Less: accumulated depreciation	(4,715)	(4,431)	(31,974)	(30,196)	(36,689)	(34,627)
Total	\$ 7,479	\$ 4,964	\$ 36,220	\$ 37,246	\$ 43,699	\$ 42,210

This year's major capital asset additions included:

Governmental activities

- Tyson property
- Accounting and billing software
- Zero-turn lawn mower
- HVAC system for Visitors Center
- Sidewalks

Business-type activities

- Accounting and billing software
- Three 2016 Ford pickup trucks
- Branch Street generator
- Cooling tower upgrade
- Regulators for Savage substation
- Various maintenance equipment

Long-term debt

At the end of the fiscal year, the Town had \$23,066,000 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
	2016	2015	2016	2015	2016	2015	
General obligation bonds	\$ 4,172	\$ 1,259	\$ 18,894	\$ 20,186	\$23,066	\$21,445	8%
Total	\$ 4,172	\$ 1,259	\$ 18,894	\$ 20,186	\$23,066	\$21,445	8%

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Town has established a storm water 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 expects to break ground on a new Police Department building in the spring of 2017.

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, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,259,956	\$	\$ 1,259,956
Pooled cash and investments	4,305,046	3,878,424	8,183,470
Taxes receivable	143,803		143,803
Accounts receivable, net	57,563	1,556,664	1,614,227
Internal balances	1,912,242	(1,912,242)	
Due from other governments	120,609		120,609
Inventories		135,228	135,228
Total current assets	<u>7,799,219</u>	<u>3,658,074</u>	<u>11,457,293</u>
Noncurrent assets			
Restricted cash	1,047,337	165,047	1,212,384
Capital assets, net of accumulated depreciation	7,479,322	36,220,068	43,699,390
Total noncurrent assets	<u>8,526,659</u>	<u>36,385,115</u>	<u>44,911,774</u>
Total assets	<u>16,325,878</u>	<u>40,043,189</u>	<u>56,369,067</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred financing outflows - retirement	459,336	285,401	744,737
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	198,511	638,586	837,097
Accrued compensated absences	130,192	63,091	193,283
Accrued interest payable	12,509	135,450	147,959
Customer deposits		98,044	98,044
Current portion of long-term debt	186,878	1,472,873	1,659,751
Total current liabilities	<u>528,090</u>	<u>2,408,044</u>	<u>2,936,134</u>
Noncurrent liabilities			
Bonds payable	3,985,422	17,421,203	21,406,625
Net pension liability	1,856,927	1,173,192	3,030,119
Accrued compensated absences	106,615	106,910	213,525
Total noncurrent liabilities	<u>5,948,964</u>	<u>18,701,305</u>	<u>24,650,269</u>
Total liabilities	<u>6,477,054</u>	<u>21,109,349</u>	<u>27,586,403</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred financing inflows - retirement	152,455	97,651	250,106
NET POSITION			
Net investment in capital assets	3,307,022	19,542,492	22,849,514
Restricted	1,047,337	165,047	1,212,384
Unrestricted	5,801,346	(585,949)	5,215,397
Total net position	<u>\$ 10,155,705</u>	<u>\$ 19,121,590</u>	<u>\$ 29,277,295</u>

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

TOWN OF BERLIN, MARYLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	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
FUNCTIONS/PROGRAMS							
GOVERNMENTAL ACTIVITIES							
General government	\$ 1,540,437	\$ 419,913	\$	\$ 56,659	\$ (1,063,865)	\$	\$ (1,063,865)
Public safety	2,046,443	29,048	50,738		(1,966,657)		(1,966,657)
Public works	1,183,091	18,332	145,814		(1,018,945)		(1,018,945)
Planning and economic development	499,586	93,277	6,275		(400,034)		(400,034)
Recreation and parks	97,401				(97,401)		(97,401)
Interest on long-term debt	97,132				(97,132)		(97,132)
Total governmental activities	<u>5,464,090</u>	<u>560,570</u>	<u>202,827</u>	<u>56,659</u>	<u>(4,644,034)</u>		<u>(4,644,034)</u>
BUSINESS-TYPE ACTIVITIES							
Electric	4,824,811	5,124,845				300,034	300,034
Water	638,250	717,989		84,143		163,882	163,882
Sewer	2,699,514	1,771,295		127,466		(800,753)	(800,753)
Stormwater	205,343	174,512		11,145		(19,686)	(19,686)
Total business-type activities	<u>8,367,918</u>	<u>7,788,641</u>		<u>222,754</u>		<u>(356,523)</u>	<u>(356,523)</u>
Total	<u>\$ 13,832,008</u>	<u>\$ 8,349,211</u>	<u>\$ 202,827</u>	<u>\$ 279,413</u>	<u>(4,644,034)</u>	<u>(356,523)</u>	<u>(5,000,557)</u>
GENERAL REVENUES							
Taxes							
Property taxes					3,020,185		3,020,185
Public service taxes					74,404		74,404
State income taxes					431,856		431,856
Franchise fees					80,624		80,624
Grants and contributions not restricted to specific programs					450,000		450,000
Unrestricted investment earnings					57,079	788	57,867
Overhead allocation					710,278	(710,278)	
Gain on disposal of assets					193,776	15,226	209,002
Transfers					(100,000)	100,000	
Total general revenues and transfers					<u>4,918,202</u>	<u>(594,264)</u>	<u>4,323,938</u>
Change in net position					274,168	(950,787)	(676,619)
NET POSITION, BEGINNING OF YEAR, RESTATED					9,881,537	20,072,377	29,953,914
NET POSITION, END OF YEAR					<u>\$ 10,155,705</u>	<u>\$ 19,121,590</u>	<u>\$ 29,277,295</u>

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

TOWN OF BERLIN, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2016

ASSETS

	General Fund	Special Revenue Fund	Total Governmental Funds
Cash and cash equivalents	\$ 1,259,956	\$	\$ 1,259,956
Pooled cash and investments	4,286,815	18,231	4,305,046
Taxes receivable	143,803		143,803
Accounts and notes receivable, net	57,563		57,563
Due from other governments	120,609		120,609
Due from other funds	1,912,242		1,912,242
Restricted cash	1,047,337		1,047,337
Total assets	<u>\$ 8,828,325</u>	<u>\$ 18,231</u>	<u>\$ 8,846,556</u>

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

LIABILITIES

Accounts payable and accrued expenses	\$ 177,235	\$ 21,276	\$ 198,511
Accrued compensated absences	130,192		130,192
Total liabilities	<u>307,427</u>	<u>21,276</u>	<u>328,703</u>

DEFERRED INFLOWS OF RESOURCES

Deferred property taxes	<u>128,530</u>		<u>128,530</u>
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FUND BALANCES

Restricted	663,568		663,568
Committed	383,769		383,769
Assigned	773,305		773,305
Unassigned (deficit)	6,571,726	(3,045)	6,568,681
Total fund balance (deficit)	<u>8,392,368</u>	<u>(3,045)</u>	<u>8,389,323</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,828,325</u>	<u>\$ 18,231</u>	<u>\$ 8,846,556</u>

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

TOWN OF BERLIN, MARYLAND

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

JUNE 30, 2016

Total fund balances, governmental funds	\$ 8,389,323
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.	7,479,322
Certain expenditures that reduce current financial resources are reported as expenditures in the fund financial statements, but are reported as deferred outflows of resources in the governmental activities of the Statement of Net Position.	459,336
Certain expenditures that reduce current financial resources are reported as expenditures in the fund financial statements, but are reported as deferred outflows of resources in the governmental activities of the Statement of Net Position: Deferred property taxes.	128,530
Some liabilities and deferred inflows of resources are not due and payable in the current period and therefore are not reported in the fund financial statements, but are included in the governmental activities in the Statement of Net Position.	
Bonds payable and accrued interest	(4,184,809)
Compensated absences	(106,615)
Deferred financing inflows - retirement	(152,455)
Net pension liability	<u>(1,856,927)</u>
Net position, governmental activities	<u>\$ 10,155,705</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, 2016

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 3,589,595	\$	\$ 3,589,595
Licenses and permits	247,925		247,925
Intergovernmental revenues	963,012	6,449	969,461
Service charges	783,474		783,474
Impact fees	56,659		56,659
Earnings on investments	57,079		57,079
Miscellaneous	17,403		17,403
Total revenues	5,715,147	6,449	5,721,596
EXPENDITURES			
Current			
General government	1,447,207		1,447,207
Public safety	1,927,569	9,182	1,936,751
Public works	954,089		954,089
Planning and economic development	463,123		463,123
Recreation and parks	56,057		56,057
Debt service	176,842		176,842
Capital outlay	3,149,134		3,149,134
Total expenditures	8,174,021	9,182	8,183,203
Excess of expenditures over revenues	(2,458,874)	(2,733)	(2,461,607)
OTHER FINANCING SOURCES (USES)			
Transfers out	(100,000)		(100,000)
Proceeds from sale of assets	434,185		434,185
Proceeds from issuance of long term debt	3,000,000		3,000,000
Net other financing sources	3,334,185		3,334,185
Net change in fund balance	875,311	(2,733)	872,578
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	7,517,057	(312)	7,516,745
FUND BALANCE (DEFICIT), END OF YEAR	\$ 8,392,368	\$ (3,045)	\$ 8,389,323

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, 2016

Net change in fund balances, governmental funds	\$ 872,578
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expense (\$3,149,134) exceeded depreciation (\$393,082) in the current period.	2,756,052
Changes in deferred outflows of resources presented in the governmental activities of the Statement of Activities.	251,798
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.	(240,409)
Some expenses reported in the statements of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Change in accrued interest payable	(6,572)
Change in long-term compensated absences	77,947
Change in net pension liability	(460,724)
Change in deferred financing inflows	368
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	(63,151)
Governmental funds report loan proceeds as a revenue. In contrast, the Statement of Activities treats such proceeds as an increase in long-term liabilities.	(3,000,000)
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.	<u>86,281</u>
Change in net position, governmental activities	<u>\$ 274,168</u>

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

TOWN OF BERLIN, MARYLAND

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2016

ASSETS	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
Current assets					
Pooled cash and investments	\$ 2,525,374	\$ 884,864	\$	\$ 468,186	\$ 3,878,424
Accounts receivable, net of allowance	582,989	224,472	738,333	10,870	1,556,664
Inventory	124,727	9,107	1,394		135,228
Total current assets	<u>3,233,090</u>	<u>1,118,443</u>	<u>739,727</u>	<u>479,056</u>	<u>5,570,316</u>
Noncurrent assets					
Restricted cash		40,202	124,845		165,047
Capital assets, net of accumulated depreciation	5,221,118	2,277,561	28,342,804	378,585	36,220,068
Total noncurrent assets	<u>5,221,118</u>	<u>2,317,763</u>	<u>28,467,649</u>	<u>378,585</u>	<u>36,385,115</u>
Total assets	<u>8,454,208</u>	<u>3,436,206</u>	<u>29,207,376</u>	<u>857,641</u>	<u>41,955,431</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred financing outflows - retirement	117,293	46,264	100,746	21,098	285,401
LIABILITIES					
Current liabilities					
Accounts payable and accrued expenses	396,221	53,537	152,352	36,476	638,586
Accrued compensated absences	38,511	15,928	7,827	825	63,091
Accrued interest payable	26,904	365	108,181		135,450
Customer deposits	98,044				98,044
Current portion of long-term debt	458,320	252,909	761,644		1,472,873
Total current liabilities	<u>1,018,000</u>	<u>322,739</u>	<u>1,030,004</u>	<u>37,301</u>	<u>2,408,044</u>
Noncurrent liabilities					
Bonds payable	4,992,788	99,558	12,328,857		17,421,203
Due to other funds			1,912,242		1,912,242
Net pension liability	482,499	189,014	425,811	75,868	1,173,192
Accrued compensated absences	46,719	19,117	41,074		106,910
Total noncurrent liabilities	<u>5,522,006</u>	<u>307,689</u>	<u>14,707,984</u>	<u>75,868</u>	<u>20,613,547</u>
Total liabilities	<u>6,540,006</u>	<u>630,428</u>	<u>15,737,988</u>	<u>113,169</u>	<u>23,021,591</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred financing inflows - retirement	40,184	15,654	36,230	5,583	97,651
NET POSITION					
Net investment in capital assets	1,986,510	1,925,094	15,252,303	378,585	19,542,492
Restricted for capital projects		40,202	124,845		165,047
Unrestricted (deficit)	4,801	871,092	(1,843,244)	381,402	(585,949)
Total net position	<u>\$ 1,991,311</u>	<u>\$ 2,836,388</u>	<u>\$ 13,533,904</u>	<u>\$ 759,987</u>	<u>\$ 19,121,590</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, 2016

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
REVENUES					
Service charges	\$ 5,007,025	\$ 639,979	\$ 1,642,275	\$ 173,245	\$ 7,462,524
Sales and services	81,998	10,745			92,743
Hauler fees			107,632		107,632
Interest on delinquent accounts	34,495	9,001	19,284	933	63,713
Miscellaneous	1,327	58,264	2,104	334	62,029
Total revenues	<u>5,124,845</u>	<u>717,989</u>	<u>1,771,295</u>	<u>174,512</u>	<u>7,788,641</u>
EXPENSES					
Purchased power	2,624,837				2,624,837
Personnel expenses	813,426	315,195	733,255	160,237	2,022,113
Supplies and operating	370,049	126,601	391,983	19,825	908,458
Professional services	88,360		2,674	13,845	104,879
Contracted services	129,519	12,014	16,593	1,169	159,295
Insurance	19,526	8,275	17,919	1,106	46,826
Repairs and maintenance	45,118	39,477	70,529		155,124
Depreciation	515,640	134,897	1,140,775	9,161	1,800,473
General overhead	313,771	115,950	233,429	47,128	710,278
Total expenses	<u>4,920,246</u>	<u>752,409</u>	<u>2,607,157</u>	<u>252,471</u>	<u>8,532,283</u>
Operating income (loss)	<u>204,599</u>	<u>(34,420)</u>	<u>(835,862)</u>	<u>(77,959)</u>	<u>(743,642)</u>
NONOPERATING REVENUES (EXPENSES)					
Capital grants		35,993		11,145	47,138
Interest income		397	391		788
Interest expense	(218,336)	(1,791)	(325,786)		(545,913)
Gain on disposal of assets	13,662		1,564		15,226
Net nonoperating revenues (expenses)	<u>(204,674)</u>	<u>34,599</u>	<u>(323,831)</u>	<u>11,145</u>	<u>(482,761)</u>
Income (loss) before contributions and transfers	(75)	179	(1,159,693)	(66,814)	(1,226,403)
Transfers in				100,000	100,000
Capital contributions - special connection fees		48,150	127,466		175,616
Change in net position	(75)	48,329	(1,032,227)	33,186	(950,787)
NET POSITION, BEGINNING OF YEAR	<u>1,991,386</u>	<u>2,788,059</u>	<u>14,566,131</u>	<u>726,801</u>	<u>20,072,377</u>
NET POSITION, END OF YEAR	<u>\$ 1,991,311</u>	<u>\$ 2,836,388</u>	<u>\$ 13,533,904</u>	<u>\$ 759,987</u>	<u>\$ 19,121,590</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, 2016

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 5,337,902	\$ 738,879	\$ 1,857,086	\$ 176,880	\$ 8,110,747
Other receipts	1,327	58,264	2,104	334	62,029
Payments to suppliers	(3,249,013)	(186,570)	(512,880)	(22,344)	(3,970,807)
Payments to employees	(745,952)	(296,925)	(695,129)	(149,018)	(1,887,024)
Payments for interfund services	(313,771)	(115,950)	(233,429)	(47,128)	(710,278)
Net cash provided (used) by operating activities	<u>1,030,493</u>	<u>197,698</u>	<u>417,752</u>	<u>(41,276)</u>	<u>1,604,667</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Interfund borrowings			208,773		208,773
Interfund transfers				100,000	100,000
Net cash provided by noncapital financing activities			<u>208,773</u>	<u>100,000</u>	<u>308,773</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income		397	391		788
Net cash provided by investing activities		<u>397</u>	<u>391</u>		<u>788</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(339,348)	(176,453)	(135,282)	(100,900)	(751,983)
Proceeds from the sale of capital assets	18,975		1,564		20,539
Proceeds from capital grants		35,993		11,145	47,138
Principal paid on long-term debt	(274,474)	(244,573)	(772,807)		(1,291,854)
Interest paid on long-term debt	(224,669)	(15,593)	(341,627)		(581,889)
Capital contributions - special connection fees		48,150	127,466		175,616
Net cash used by capital and related financing activities	<u>(819,516)</u>	<u>(352,476)</u>	<u>(1,120,686)</u>	<u>(89,755)</u>	<u>(2,382,433)</u>
Net increase (decrease) in cash	210,977	(154,381)	(493,770)	(31,031)	(468,205)
CASH, BEGINNING OF YEAR	<u>2,314,397</u>	<u>1,079,447</u>	<u>618,615</u>	<u>499,217</u>	<u>4,511,676</u>
CASH, END OF YEAR	<u>\$ 2,525,374</u>	<u>\$ 925,066</u>	<u>\$ 124,845</u>	<u>\$ 468,186</u>	<u>\$ 4,043,471</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 204,599	\$ (34,420)	\$ (835,862)	\$ (77,959)	\$ (743,642)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	515,640	134,897	1,140,775	9,161	1,800,473
Deferred financing outflows - retirement	(62,597)	(24,955)	(51,443)	(13,490)	(152,485)
Deferred financing inflows - retirement	(92)	(37)	(75)	(20)	(224)
(Increase) decrease in assets					
Accounts receivable	219,294	79,154	87,895	2,702	389,045
Inventory	30,288	(3,663)	(529)		26,096
Increase (decrease) in liabilities					
Accounts payable and accrued expenses	128,271	46,722	76,991	38,330	290,314
Deposits	(4,910)				(4,910)
Net cash provided (used) by operating activities	<u>\$ 1,030,493</u>	<u>\$ 197,698</u>	<u>\$ 417,752</u>	<u>\$ (41,276)</u>	<u>\$ 1,604,667</u>

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**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, 2016

**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 proprietary funds are aggregated and reported as nonmajor funds.

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

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

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

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

Measurement Focus, Basis of Accounting

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Measurement Focus, Basis of Accounting (continued)

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

Budgetary Data

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

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

Cash Equivalents

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

Restricted Cash

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Allowance for Uncollectible Accounts

Provision is made for estimated uncollectible electric, water, sewer, and stormwater charges and miscellaneous accounts receivable based upon the Town's determination of individual accounts not likely to be collected. At June 30, 2016, the allowance in the General Fund was \$3,912 and the Enterprise Fund was \$31,538.

Inventories

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

Deferred Inflows and Outflows of Resources

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

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

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

Property Taxes

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. General infrastructure assets, such as streets, curbs, gutters, storm drains, traffic lighting systems and similar assets, acquired after June 30, 2000 are capitalized in the government-wide financial statements. The Town 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, governmental and proprietary fund statements for certain compensated absences (vacation and compensatory time) that have been earned but not yet paid. Sick pay, which is earned but not payable at separation, is not included.

Capital Contributions - Enterprise Funds

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

Government-Wide and Proprietary Fund Net Position

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

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

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

Unrestricted - all other not reported in the above categories.

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

Governmental Fund Balances

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

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

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

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

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Governmental Fund Balances (continued)

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

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

DEPOSITS AND INVESTMENTS

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

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. As of June 30, 2016, \$2,770,595 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, 2016

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
<i>Capital assets not being depreciated</i>				
Land	\$ 1,807,474	\$ 2,485,374	\$ 239,976	\$ 4,052,872
Construction in progress	117,166	430,657	52,983	494,840
Total capital assets not being depreciated	<u>1,924,640</u>	<u>2,916,031</u>	<u>292,959</u>	<u>4,547,712</u>
<i>Capital assets being depreciated</i>				
Infrastructure	4,164,456	62,977		4,227,433
Buildings and improvements	998,003	22,610		1,020,613
Equipment	838,952	88,980	3,637	924,295
Vehicles	1,468,763	111,518	106,397	1,473,884
Total capital assets being depreciated	<u>7,470,174</u>	<u>286,085</u>	<u>110,034</u>	<u>7,646,225</u>
Less accumulated depreciation for:				
Infrastructure	2,139,558	176,833		2,316,391
Buildings and improvements	648,584	34,355		682,939
Equipment	649,742	60,694	3,204	707,232
Vehicles	993,250	121,200	106,397	1,008,053
Total accumulated depreciation	<u>4,431,134</u>	<u>393,082</u>	<u>109,601</u>	<u>4,714,615</u>
Total capital assets being depreciated, net	<u>3,039,040</u>	<u>(106,997)</u>	<u>433</u>	<u>2,931,610</u>
Governmental activity capital assets, net	<u>\$ 4,963,680</u>	<u>\$ 2,809,034</u>	<u>\$ 293,392</u>	<u>\$ 7,479,322</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

CAPITAL ASSETS (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
<u>Electric:</u>				
<i>Capital assets not being depreciated</i>				
Land	\$ 304,510	\$	\$	\$ 304,510
Total capital assets not being being depreciated	304,510			304,510
<i>Capital assets being depreciated</i>				
Infrastructure	14,843,717	135,956		14,979,673
Buildings and improvements	617,463			617,463
Equipment	2,228,608	141,132	1,671	2,368,069
Vehicles	549,314	62,261	16,676	594,899
Total capital assets being depreciated	18,239,102	339,349	18,347	18,560,104
Less accumulated depreciation for:				
Infrastructure	10,824,435	381,821		11,206,256
Buildings and improvements	441,601	17,377		458,978
Equipment	1,510,504	76,625	240	1,586,889
Vehicles	364,349	39,817	12,793	391,373
Total accumulated depreciation	13,140,889	515,640	13,033	13,643,496
Total capital assets being depreciated, net	5,098,213	(176,291)	5,314	4,916,608
Electric activities, capital assets, net	5,402,723	(176,291)	5,314	5,221,118

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

CAPITAL ASSETS (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Sewer:</u>				
<i>Capital assets not being depreciated</i>				
Land	3,495,233			3,495,233
Construction in progress	598,432	107,220		705,652
Total capital assets not being depreciated	4,093,665	107,220		4,200,885
<i>Capital assets being depreciated</i>				
Infrastructure	37,536,754			37,536,754
Buildings and improvements	1,510			1,510
Equipment	823,186	41,865		865,051
Vehicles	678,826			678,826
Total capital assets being depreciated	39,040,276	41,865		39,082,141
Less accumulated depreciation for:				
Infrastructure	12,788,131	978,137		13,766,268
Buildings and improvements	1,510			1,510
Equipment	583,007	98,948		681,955
Vehicles	426,799	63,690		490,489
Total accumulated depreciation	13,799,447	1,140,775		14,940,222
Total capital assets being depreciated, net	25,240,829	(1,098,910)		24,141,919
Sewer, capital assets, net	29,334,494	(991,690)		28,342,804

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

CAPITAL ASSETS (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Water:</u>				
<i>Capital assets not being depreciated</i>				
Land	82,039			82,039
Construction in progress	1,006,150	73,295		1,079,445
Total capital assets not being depreciated	<u>1,088,189</u>	<u>73,295</u>		<u>1,161,484</u>
<i>Capital assets being depreciated</i>				
Infrastructure	4,026,412			4,026,412
Buildings and improvements	14,206			14,206
Equipment	265,944	81,077	8,429	338,592
Vehicles	64,509	35,884		100,393
Total capital assets being depreciated	<u>4,371,071</u>	<u>116,961</u>	<u>8,429</u>	<u>4,479,603</u>
Less accumulated depreciation for:				
Infrastructure	2,956,485	109,778		3,066,263
Buildings and improvements	11,037	276		11,313
Equipment	221,632	12,986	8,429	226,189
Vehicles	47,904	11,857		59,761
Total accumulated depreciation	<u>3,237,058</u>	<u>134,897</u>	<u>8,429</u>	<u>3,363,526</u>
Total capital assets being depreciated, net	<u>1,134,013</u>	<u>(17,936)</u>		<u>1,116,077</u>
Water, capital assets, net	<u>2,222,202</u>	<u>55,359</u>		<u>2,277,561</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

CAPITAL ASSETS (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Stormwater:</u>				
<i>Capital asset not being depreciated</i>				
Construction in progress	121,861	100,900		222,761
Total capital assets not being depreciated	121,861	100,900		222,761
<i>Capital assets being depreciated</i>				
Land improvements	183,229			183,229
Total capital assets being depreciated	183,229			183,229
Less accumulated depreciation for:				
Land improvements	18,244	9,161		27,405
Total accumulated depreciation	18,244	9,161		27,405
Total capital assets being depreciated, net	164,985	(9,161)		155,824
Stormwater, capital asset, net	286,846	91,739		378,585
Business-type activities				
Capital assets, net	\$ 37,246,265	\$ (1,020,883)	\$ 5,314	\$ 36,220,068

Construction in progress includes the following:

Sewer fund	\$ 705,652	North Main Street sewer extension project
Water fund	\$ 669,628	North Main Street extension project
	\$ 409,817	Branch Street well
Stormwater fund	\$ 121,861	Stormwater design project

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

General government	\$ 44,763
Public safety	54,801
Public works	184,728
Planning and community development	67,446
Recreation and parks	41,344
	<u>\$ 393,082</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

FUND BALANCES

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

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

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

INTERNAL BALANCES AND ACTIVITY

Balances due to/from other funds at June 30, 2016 consist of the following:

	<u>June 30, 2015</u>	<u>Increase</u>	<u>June 30, 2016</u>
Due to the general fund from the sewer fund	<u>\$ 1,703,469</u>	<u>\$ 208,773</u>	<u>\$ 1,912,242</u>

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

In the current year, the general fund transferred \$100,000 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, 2016 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
General obligation bonds	<u>\$ 1,258,582</u>	<u>\$ 3,000,000</u>	<u>\$ 86,282</u>	<u>\$ 4,172,300</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

LONG-TERM DEBT (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Electric				
General obligation bonds	\$ 5,725,582	\$ 2,288,100	2,562,574	\$ 5,451,108
Water				
General obligation bonds	597,040	8,214	252,787	352,467
Sewer				
General obligation bonds	13,863,308	8,214	781,021	13,090,501
	<u>\$ 20,185,930</u>	<u>\$ 2,304,528</u>	<u>\$ 3,596,382</u>	<u>\$ 18,894,076</u>

Governmental Activities

Notes payable and general obligation bonds consist of the following:

	Principal Balance Outstanding at June 30, 2016
Public improvement bonds of 2002 payable to the U.S. Department of Agriculture. The original obligations are dated September 26, 2002. Debt is amortized over 40 years at an interest rate of 4.75%. Interest and principal is due quarterly, with payments ranging from \$362 to \$1,026 through September 26, 2042.	\$ 529,408
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.	630,000
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.	12,892

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

LONG-TERM DEBT (continued)

Governmental Activities (continued)

	<u>Principal Balance Outstanding at June 30, 2016</u>
Public improvement bonds of 2016 payable to the Bank of Ocean City for the purchase of property. The original obligations are dated January 22, 2016. Debt is amortized over 30 years at an interest rate of 3.50%. Interest and principal is due annually, with principal payments of \$100,000 through December 1, 2045.	3,000,000
Total Governmental Activities	<u>\$ 4,172,300</u>

Business-type Activities – Electric Fund

	<u>Principal Balance Outstanding at June 30, 2016</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 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.	\$ 309,408
2015 bonds payable to the Maryland Department of Housing and Community Development dated August 27, 2015 for \$2,288,100. Proceeds were used to refinance 2004 bonds payable. Debt is amortized over 19 years at an interest rate averaging 3.24%. Interest and principal is due semi-annually, with total annual payments ranging from \$19,251 to \$165,546 through April 1, 2034.	2,216,500
Infrastructure financing bonds of 2007 payable to the Maryland Department of Community Development. This obligation was used to refinance general obligation bonds for 1995. The original obligation is dated November 14, 2007 in the amount of \$944,200. Debt is amortized from 8 to 20 years at an interest rate of 4.125%. Interest and principal is due semi-annually with total annual payments ranging from \$90,970 to \$97,980. Payment is shared by the electric, water, and sewer funds. The maturity dates range from May 1, 2015 to May 1, 2027.	351,400

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

LONG-TERM DEBT (continued)

Business-type Activities - Electric Fund (continued)

	Principal Balance Outstanding at <u>June 30, 2016</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.	1,145,000
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>1,428,800</u>
Total Electric Fund	<u>\$ 5,451,108</u>

Refunding of electric fund debt

On August 27, 2015, the Town issued \$2,288,100 of Local Government Infrastructure Bonds, 2015 Series A, with an interest rate of 3.29%. The Town issued the bonds to currently refund the entire balance of \$2,288,100 of the outstanding 2014 Series A, Maryland Infrastructure bonds with a 4.44% interest rate. Unspent proceeds of the prior obligation of \$56,839 were used for issuance costs.

The current refunding reduced total debt service payments over the next 19 years by \$371,855. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$310,723.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

LONG-TERM DEBT (continued)

Business-type Activities - Water Fund

	Principal Balance Outstanding at <u>June 30, 2016</u>
<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. Payments are split between the electric, water, and sewer funds. The maturity date is May 1, 2027.</p>	\$ 39,487
<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>	<u>312,980</u>
<p>Total Water Fund</p>	<u>\$ 352,467</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

LONG-TERM DEBT (continued)

Business-type Activities – Sewer Fund

	Principal Balance Outstanding at <u>June 30, 2016</u>
<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 \$31,760. The maturity date is August 19, 2036.</p>	\$ 527,898
<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. Payments are split between the electric, water, and sewer funds. The maturity date is May 1, 2027.</p>	768,412
<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>	455,215
<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>	5,445,711

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

LONG-TERM DEBT (continued)

Business-type Activities – Sewer Fund (continued)

	Principal Balance Outstanding at June 30, 2016
<p>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.</p>	2,350,661
<p>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.</p>	2,890,924
<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 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.</p>	338,700
<p>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.</p>	312,980
<p>Total Sewer Fund</p>	13,090,501
<p>Total long-term debt - Business-type Activities</p>	\$ 18,894,076

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016 are as follows:

Governmental Activities			
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 186,878	\$ 152,670	\$ 339,548
2018	187,518	145,703	333,221
2019	181,538	138,695	320,233
2020	182,096	132,038	314,134
2021	182,681	124,854	307,535
2022 - 2026	853,217	520,860	1,374,077
2027 - 2031	592,715	391,032	983,747
2032 - 2036	617,405	278,899	896,304
2037 - 2041	648,670	159,961	808,631
2042 - 2046	539,582	45,234	584,816
	<u>\$ 4,172,300</u>	<u>\$ 2,089,946</u>	<u>\$ 6,262,246</u>

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of June 30, 2016 are as follows:

Business-Type Activities			
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 1,472,873	\$ 503,087	\$ 1,975,960
2018	1,123,122	469,411	1,592,533
2019	861,382	440,637	1,302,019
2020	885,401	417,063	1,302,464
2021	862,025	386,693	1,248,718
2022 - 2026	3,838,711	1,589,105	5,427,816
2027 - 2031	3,175,426	1,020,995	4,196,421
2032 - 2036	2,440,197	624,719	3,064,916
2037 - 2041	1,421,506	405,352	1,826,858
2042 - 2046	1,390,875	252,375	1,643,250
2047 - 2051	1,422,558	81,961	1,504,519
	<u>\$ 18,894,076</u>	<u>\$ 6,191,398</u>	<u>\$ 25,085,474</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016, total interest incurred and paid in the Enterprise Fund was \$573,520. Of this amount, \$27,607 was included in construction in progress and \$545,913 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, 2016 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>\$ 313,771</u>	<u>\$ 115,950</u>	<u>\$ 233,429</u>	<u>\$ 47,128</u>	<u>\$ 710,278</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, 2016 were \$61,292.

Future lease payment terms to be received are:

<u>Year Ending June 30,</u>	<u>Total Payment</u>
2017	\$ 61,292
2018	63,602
2019	72,174
2020	72,174
2021	72,174
All subsequent years	<u>464,562</u>
Total minimum lease payments to be received	<u>\$ 805,978</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

RETIREMENT AND PENSION PLANS

General information about the pension plan

Plan description. Employees of the Town are covered by the Pension System for Employees of the State of Maryland or the Employees’ Retirement System of the State of Maryland. These systems are part of the Maryland State Retirement and Pension System (MSRPS), and are cost-sharing multiple-employer public employee retirement systems. The plan is administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the MSRPS is vested in a 15-member Board of Trustees. The MSRPS was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issued a publicly available financial report that includes basic financial statements and required supplementary information for the MSRPS. This report can be found at www.sra.state.md.us/Agency/Downloads/CAFR/CAFR-2015.pdf.

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

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

Fiscal Year Ending	Annual Pension Cost	Percentage Funded
6/30/2014	\$ 300,756	100%
6/30/2015	\$ 307,322	100%
6/30/2016	\$ 301,310	100%

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

RETIREMENT AND PENSION PLANS (Continued)

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

At June 30, 2016, the Town reported a liability of \$3,030,119 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. At June 30, 2015, the Town's proportion was .0129%.

For the year ended June 30, 2016, the Town recognized pension expense of \$295,553. At June 30, 2016, the Town reported deferred outflows of resources or deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows Resources
Changes of assumptions	\$ 176,536	\$
Net difference between projected and actual earnings on pension plan investments	266,891	250,106
Contributions subsequent to measurement date	301,310	
	\$ 744,737	\$ 250,106

The Town's contribution subsequent to the measurement date of \$301,310, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.87 years. The 2014 deferred outflows not related to investment activity are being amortized over the remaining service life of 5 years. The net difference in investment earnings for both 2015 and 2014 is being amortized over a closed five year period. The following table shows the amortization of these balances:

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

RETIREMENT AND PENSION PLANS (Continued)

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

Year Ended June 30	Deferred Inflows	Deferred Outflows
2017	\$ 75,404	\$ 106,277
2018	75,404	106,277
2019	75,522	106,293
2020	12,759	97,645
2021	11,017	26,935
Total	<u>\$ 250,106</u>	<u>\$ 443,427</u>

Actuarial assumptions. The actuarial assumption for the Pension Plan as a whole and based on the June 30, 2015 annual actuarial valuation report for Maryland Municipal Corporation are as follows:

Inflation	2.95% general, 3.45% wage
Salary increases	3.2% to 8.95%, including inflation
Investment rate of return	7.55%

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

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

RETIREMENT AND PENSION PLANS (Continued)

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

Discount rate. The discount rate used to measure the total pension liability was 7.55%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contribution from the municipalities will be made at contractually required rates, actuarially determined.

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.55%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.55%) or 1-percentage point higher (8.55%) than the current rate:

1% Decrease (6.55%)	\$ 3,788,957
Current discount rate (7.55%)	\$ 3,030,119
1% Increase (8.55%)	\$ 1,761,991

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

DEFERRED COMPENSATION PLAN

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

RELATED PARTY TRANSACTIONS

During the year, the Town purchased property for \$2,500,000 that was owned by a company. A Council Member was a part owner and a member of the company. The Town's Ethics Commission, comprised of four residents, developed a process, with the advice from the Town Attorney, for the Town to follow in order to purchase the property without the involvement of the Council Member.

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.

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.

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

PRIOR PERIOD ADJUSTMENT

The net position in the governmental activities of the government-wide statements as of June 30, 2015 was restated to reflect a \$25,000 deposit on a land purchase that was expensed in the prior year. There was no effect on the revenues and expenses in the current year.

REQUIRED SUPPLEMENTARY INFORMATION

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

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes	\$ 3,207,000	\$ 3,207,000	\$ 3,589,595	\$ 382,595
Licenses and permits	153,500	153,500	247,925	94,425
Intergovernmental revenues	1,132,700	1,132,700	963,012	(169,688)
Service charges	769,518	769,518	783,474	13,956
Impact fees	298,000	298,000	56,659	(241,341)
Earnings on investments	52,000	52,000	57,079	5,079
Miscellaneous	4,000	4,000	17,403	13,403
Total revenues	<u>5,616,718</u>	<u>5,616,718</u>	<u>5,715,147</u>	<u>98,429</u>
EXPENDITURES				
Current				
General government	1,699,276	1,699,276	1,447,207	252,069
Public safety	1,992,911	1,992,911	1,927,569	65,342
Public works	905,648	905,648	954,089	(48,441)
Planning and economic development	491,008	491,008	463,123	27,885
Recreation and parks	64,900	64,900	56,057	8,843
Debt service	147,975	147,975	176,842	(28,867)
Capital outlay	4,795,500	4,795,500	3,149,134	1,646,366
Total expenditures	<u>10,097,218</u>	<u>10,097,218</u>	<u>8,174,021</u>	<u>1,923,197</u>
Excess of expenditures over (under) revenues	(4,480,500)	(4,480,500)	(2,458,874)	2,021,626
OTHER FINANCING SOURCES (USES)				
Prior year surplus	580,500	580,500		(580,500)
Transfers out	(100,000)	(100,000)	(100,000)	
Proceeds from sale of assets			434,185	434,185
Proceeds from issuance of long-term debt	4,000,000	4,000,000	3,000,000	(1,000,000)
Net other financing sources (uses)	<u>4,480,500</u>	<u>4,480,500</u>	<u>3,334,185</u>	<u>(1,146,315)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ 875,311</u>	<u>\$ 875,311</u>

TOWN OF BERLIN, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

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

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

	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	0.0146%	0.0129%
Town's proportionate share of the net pension liability	\$ 3,030,119	2,290,390
Town's covered-employee payroll	\$ 3,212,440	2,984,932
Town's proportionate share of the net pension liability as a percentage of its covered payroll	94.32%	76.73%
Plan fiduciary net position as a percentage of the total pension liability	68.78%	71.87%

TOWN OF BERLIN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE TOWN'S CONTRIBUTIONS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
(UNAUDITED)

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

SUPPLEMENTARY INFORMATION



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JOHN M. STERN, JR., CPA

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Mayor and Council
Town of Berlin, Maryland

www.pkscpa.com

Report on Supplementary Information

Salisbury
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FAX: 410.548.9576

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, 2016, 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 50 through 55 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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Other Matter

The prior year comparative information has been derived from the Town's 2015 and 2014 financial statements and, in our reports dated October 30, 2015 and October 30, 2014, 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.

MEMBERS OF:

AMERICAN INSTITUTE OF
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MARYLAND ASSOCIATION OF
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Salisbury, Maryland
October 14, 2016

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENDITURES
GENERAL FUND**

**YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)**

	2016	2015	2014
REVENUES			
Taxes			
Berlin property	\$ 3,050,896	\$ 2,877,762	\$ 2,878,905
County shared	74,404	68,002	69,746
State shared	431,856	333,844	324,175
Penalties and interest	32,439	55,394	37,942
Licenses and permits	247,925	253,856	166,902
Intergovernmental			
State	513,012	489,689	537,031
County	450,000	450,000	450,000
Service charges to other funds	710,279	596,997	608,658
Service charges, other	73,195	69,096	51,577
Impact fees	56,659	102,000	15,800
Earnings on investments	57,079	53,036	44,316
Miscellaneous	17,403	7,092	8,159
Total revenues	5,715,147	5,356,768	5,193,211
EXPENDITURES			
Current			
General government	1,447,207	1,293,367	1,148,645
Public safety	1,927,569	1,872,440	1,574,398
Public works	954,089	832,697	859,334
Planning and economic development	463,123	425,536	307,576
Recreation and parks	56,057	57,326	63,607
Debt service	176,842	146,817	147,447
Capital outlay	3,149,134	531,132	300,735
Total expenditures	8,174,021	5,159,315	4,401,742
Revenues over (under) expenditures	(2,458,874)	197,453	791,469
OTHER FINANCING SOURCES (USES)			
Transfers out	(100,000)	(260,000)	(300,000)
Proceeds from sale of assets	434,185		
Proceeds from issuance of long term debt	3,000,000		
Net other financing sources (uses)	3,334,185	(260,000)	(300,000)
Net change in fund balance	\$ 875,311	\$ (62,547)	\$ 491,469

TOWN OF BERLIN, MARYLAND

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

**YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES			
Intergovernmental revenues	\$ 6,449	\$ 9,351	\$ 10,347
Total revenues	<u>6,449</u>	<u>9,351</u>	<u>10,347</u>
EXPENDITURES			
Salaries and related	<u>9,182</u>	<u>8,921</u>	<u>10,624</u>
Total expenditures	<u>9,182</u>	<u>8,921</u>	<u>10,624</u>
Net change in fund balance	<u>\$ (2,733)</u>	<u>\$ 430</u>	<u>\$ (277)</u>

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
ELECTRIC FUND**

**YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES			
Service charges	\$ 5,007,025	\$ 5,629,198	\$ 5,763,026
Sales and services	81,998	76,772	22,083
Interest on delinquent accounts	34,495	39,495	44,242
Miscellaneous	1,327	4,640	188
Total revenues	<u>5,124,845</u>	<u>5,750,105</u>	<u>5,829,539</u>
EXPENSES			
Purchased power	2,624,837	2,848,237	3,005,363
Personnel expenses	813,426	745,432	633,857
Supplies and operating	370,049	416,975	402,768
Professional services	88,360	140,378	110,601
Contracted services	129,519	31,961	54,600
Insurance	19,526	17,898	16,420
Repairs and maintenance	45,118	31,324	15,228
Depreciation	515,640	508,302	508,834
General overhead	313,771	280,290	278,022
Total expenses	<u>4,920,246</u>	<u>5,020,797</u>	<u>5,025,693</u>
Operating income	<u>204,599</u>	<u>729,308</u>	<u>803,846</u>
NONOPERATING REVENUES (EXPENSES)			
Interest expense	(218,336)	(233,078)	(237,120)
Gain on disposal of assets	13,662	5,550	2,313
Net nonoperating expenses	<u>(204,674)</u>	<u>(227,528)</u>	<u>(234,807)</u>
Change in net position	<u>\$ (75)</u>	<u>\$ 501,780</u>	<u>\$ 569,039</u>

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
WATER FUND**

**YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)**

	2016	2015	2014
REVENUES			
Service charges	\$ 639,979	\$ 655,105	\$ 635,409
Sales and services	10,745	9,819	3,893
Interest on delinquent accounts	9,001	14,064	8,499
Miscellaneous	58,264	63,680	62,733
Total revenues	<u>717,989</u>	<u>742,668</u>	<u>710,534</u>
EXPENSES			
Personnel expenses	315,195	318,465	303,084
Supplies and operating	126,601	160,157	133,247
Contracted services	12,014	7,231	6,110
Insurance	8,275	7,268	6,922
Repairs and maintenance	39,477	15,987	19,550
Depreciation	134,897	126,694	126,826
General overhead	115,950	103,016	94,755
Total expenses	<u>752,409</u>	<u>738,818</u>	<u>690,494</u>
Operating income (loss)	<u>(34,420)</u>	<u>3,850</u>	<u>20,040</u>
NONOPERATING REVENUES (EXPENSES)			
Capital grants	35,993		
Interest income	397	1,553	1,156
Interest expense	(1,791)	(4,735)	(8,761)
Net nonoperating revenues (expenses)	<u>34,599</u>	<u>(3,182)</u>	<u>(7,605)</u>
Income before contributions	179	668	12,435
Capital contribution - special connection fees	48,150	335,760	12,690
Change in net position	<u>\$ 48,329</u>	<u>\$ 336,428</u>	<u>\$ 25,125</u>

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
SEWER FUND**

**YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)**

	2016	2015	2014
REVENUES			
Service charges	\$ 1,642,275	\$ 1,669,216	\$ 1,582,994
Sales and services		1,448	3,586
Hauler fees	107,632	119,280	97,993
Interest on delinquent accounts	19,284	31,066	30,328
Miscellaneous	2,104	1,088	730
Total revenues	<u>1,771,295</u>	<u>1,822,098</u>	<u>1,715,631</u>
EXPENSES			
Personnel expenses	733,255	715,435	690,567
Supplies and operating	391,983	390,669	413,939
Professional services	2,674	1,100	824
Contracted services	16,593	16,522	23,076
Insurance	17,919	7,344	14,087
Repairs and maintenance	70,529	36,830	78,886
Depreciation	1,140,775	1,140,916	1,133,295
General overhead	233,429	162,733	171,394
Total expenses	<u>2,607,157</u>	<u>2,471,549</u>	<u>2,526,068</u>
Operating loss	<u>(835,862)</u>	<u>(649,451)</u>	<u>(810,437)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	391	1,991	2,024
Interest expense	(325,786)	(374,628)	(432,007)
Gain on disposal of assets	1,564		2,784
Net nonoperating expenses	<u>(323,831)</u>	<u>(372,637)</u>	<u>(427,199)</u>
Loss before contributions	(1,159,693)	(1,022,088)	(1,237,636)
Capital contributions - special connection fees	<u>127,466</u>	<u>895,143</u>	<u>35,022</u>
Change in net position	<u>\$ (1,032,227)</u>	<u>\$ (126,945)</u>	<u>\$ (1,202,614)</u>

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
STORMWATER FUND**

**YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES			
Service charges	\$ 173,245	\$ 160,677	\$ 180,147
Sales and services			1,020
Interest on delinquent accounts	933	753	688
Miscellaneous	334	154	564
Total revenues	<u>174,512</u>	<u>161,584</u>	<u>182,419</u>
EXPENSES			
Personnel expenses	160,237	112,402	88,850
Supplies and operating	19,825	36,438	30,695
Professional services	13,845	19,153	96,657
Contracted services	1,169	7,192	2,632
Insurance	1,106	1,050	1,000
Depreciation	9,161	9,161	9,083
General overhead	47,128	50,958	66,587
Total expenses	<u>252,471</u>	<u>236,354</u>	<u>295,504</u>
Operating loss	<u>(77,959)</u>	<u>(74,770)</u>	<u>(113,085)</u>
NONOPERATING REVENUES (EXPENSES)			
Capital grants	<u>11,145</u>		
Net nonoperating revenues	<u>11,145</u>		
Loss before transfers	(66,814)	(74,770)	(113,085)
Transfers in	<u>100,000</u>	<u>260,000</u>	<u>300,000</u>
Change in net position	<u><u>\$ 33,186</u></u>	<u><u>\$ 185,230</u></u>	<u><u>\$ 186,915</u></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, 2016, 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 14, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 14, 2016