

TOWN OF BERLIN, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

TOWN OF BERLIN, MARYLAND

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 11
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements	
Statement of net position	12
Statement of activities	13
Fund financial statements	
Governmental funds	
Balance sheet	14
Reconciliation of the governmental funds balance sheet to the statement of net position	15
Statement of revenues, expenditures and changes in fund balances	16
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	17
Proprietary funds	
Statement of net position	18
Statement of revenues, expenses and changes in net position	19
Statement of cash flows	20
Notes to financial statements	21 - 44

TOWN OF BERLIN, MARYLAND
TABLE OF CONTENTS (CONTINUED)

	<u>Page(s)</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule - general fund	45
Maryland State Retirement and Pension System	
Schedule of the Town's proportionate share of the net pension liability	46
Schedule of the Town's contributions	47
SUPPLEMENTARY INFORMATION	
Independent auditors' report on supplementary information	48
Schedules of revenues and expenditures - General Fund	49
Schedules of revenues and expenditures - Special Revenue Fund	50
Schedules of revenues and expenses - Electric Fund	51
Schedules of revenues and expenses - Water Fund	52
Schedules of revenues and expenses - Sewer Fund	53
Schedules of revenues and expenses - Stormwater Fund	54
<i>GOVERNMENT AUDITING STANDARDS REPORT</i>	
Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	55 - 56



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council
Town of Berlin, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Berlin, Maryland's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Auditors' Responsibility (continued)

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2020 on our consideration of the Town of Berlin, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

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

contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Berlin, Maryland's internal control over financial reporting and compliance.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
November 20, 2020

TOWN OF BERLIN, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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, 2020. 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, deferred outflows, liabilities, and deferred inflows – is one way to measure the Town's financial health, or position. Over time, increases or decreases in the Town's net position are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Town you need to consider additional nonfinancial factors such as changes in the property tax base and the condition of the Town's roads and electric, water, and sewer systems.

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

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

Fund financial statements

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

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

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

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position at June 30, 2020 was \$34,950,000. Of this total, \$32,169,000 was invested in capital assets, net of related debt, and \$998,000 was restricted which leaves an unrestricted balance of \$1,782,000. The Town's net position increased \$2,135,000 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	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 6,719	\$ 5,714	\$ 3,566	\$ 1,980	\$ 10,285	\$ 7,694
Capital assets	11,200	11,486	34,252	34,309	45,452	45,795
Total assets	17,919	17,200	37,818	36,289	55,737	53,489
Deferred outflows of resources	349	416	233	261	582	677
Long-term liabilities	5,449	5,629	12,637	13,369	18,086	18,998
Current and other liabilities	635	640	2,247	1,325	2,882	1,965
Total liabilities	6,084	6,269	14,884	14,694	20,968	20,963
Deferred inflows of resources	241	238	160	150	401	388
Net position						
Net investment in capital assets	7,766	7,870	24,403	23,733	32,169	31,603
Restricted	995	925	4	314	999	1,239
Unrestricted (deficit)	3,182	2,314	(1,400)	(2,341)	1,782	(27)
Total net position	\$ 11,943	\$ 11,109	\$ 23,007	\$ 21,706	\$ 34,950	\$ 32,815

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	
	2020	2019	2020	2019	2020	2019
REVENUES						
Program services						
Charges for services	\$ 510	\$ 665	\$ 8,614	\$ 8,480	\$ 9,124	\$ 9,145
Operating grants and contributions	308	283			308	283
Capital grants and contributions	36	302	2,114	1,351	2,150	1,653
General revenues						
Property taxes	4,041	3,327			4,041	3,327
Other taxes and fees	571	660			571	660
Unrestricted grants	465	465			465	465
Overhead allocation	821	826	(821)	(826)	-	-
Other	46	30	18	8	64	38
Total revenues	6,798	6,558	9,925	9,013	16,723	15,571
EXPENSES						
General government	1,581	1,716			1,581	1,716
Public safety	2,557	2,811			2,557	2,811
Public works	1,161	1,213			1,161	1,213
Planning and economic development	446	514			446	514
Recreation and parks	88	104			88	104
Interest on long-term debt	131	138			131	138
Electric			5,128	5,058	5,128	5,058
Water			808	810	808	810
Sewer			2,428	2,731	2,428	2,731
Stormwater			260	281	260	281
Total expenses	5,964	6,496	8,624	8,880	14,588	15,376
Change before transfers	834	62	1,301	133	2,135	195
Transfers		(64)		64		
Change in net position	\$ 834	\$ (2)	\$ 1,301	\$ 197	\$ 2,135	\$ 195

Governmental activities

Net position for the Town's governmental activities increased by \$2,135,000 during the fiscal year. The primary reasons for this increase mirror those highlighted in the following analysis of the General Fund.

Business-type activities

During the fiscal year, the Town's net position for business-type activities increased \$1,301,000. 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 under the analysis of the Town's funds.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

General Fund

For the year ended June 30, 2020, the general fund balance increased \$1,006,000. This was a significant change from the prior year which reported a \$92,000 decrease in the fund balance.

General fund revenues were \$6,797,000 which is an increase over the prior year of \$198,000. Significant changes for the year included increases in real estate taxes of \$676,000. State shared income taxes, license and permits, and intergovernmental revenues decreased a total of \$336,000.

General fund expenditures were \$5,791,000. The Town experienced a decrease in expenditures from the prior year of \$900,000. The large decrease is primarily due to the decrease in capital outlay and public safety expenses.

At the end of the year, the General fund had a fund balance of \$6,169,000. Of this amount, \$3,375,000 is reported as nonspendable and consists of amounts due from Enterprise funds (primarily the sewer fund) that are not expected to be collected within the next twelve months. In addition, \$1,786,000 was restricted, committed or assigned which leaves an unassigned fund balance of \$1,008,000.

A comparison of revenues and expenditures for a three-year period is shown on page 49 of the financial statements.

Electric Fund

The Electric Fund had an operating loss of \$144,000 and a total increase in net position of \$1,511,000 compared to a net increase of \$186,000 last year.

Service charges were down 8% 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 increased from last year by 2% due to increases in personnel expenses, contracted services, insurance, and general overhead.

The power plant's number two diesel generator failed during the year and was replaced by a natural gas generator. Insurance proceeds of \$1,798,992 were received.

A comparison of revenues and expenses for a three-year period is shown on page 51 of the financial statements.

Water Fund

The Water Fund had an operating loss of \$127,000 and a total decrease in net position (before special connection fees and transfers) of \$125,000 compared to a net decrease last year of \$201,000.

Service charge revenues increased by 8% due to a rate increase. Operating expenses decreased \$20,000 due mainly to decreases in personnel and general overhead costs.

Special connection fees of \$65,000 were received. These fees are restricted for capital projects and the repayment of debt.

A comparison of revenues and expenses for a three year period is shown on page 52 of the financial statements.

Sewer Fund

The Sewer Fund had an operating loss of \$141,000 and a total decrease in net position (before special connection fees) of \$325,000 compared to a decrease in net position last year of \$1,105,000.

Operating revenues increased \$511,000 due to a 30% increase in sewer rates, and operating expenses decreased \$278,000.

Special connection fees of \$179,000 were received in the current year. Special connection fees are restricted for capital projects and the repayment of debt.

A comparison of revenues and expenses for a three year period is shown on page 53 of the financial statements.

At June 30, 2020, the Sewer Fund owes the General Fund \$3,158,000. A decrease of \$226,000 from last year.

Stormwater Fund

The Stormwater Fund had an operating loss of \$74,000 compared to a loss in the prior year of \$99,000.

A grant of \$71,000 was received from the Chesapeake Bay Trust for the Graham Avenue submerged gravel wetlands.

A comparison of revenues and expenses for a three year period is shown on page 54 of the financial statements.

BUDGETARY HIGHLIGHTS – GENERAL FUND

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

Actual revenues exceeded the amount budgeted by \$398,000 due to favorable variances in taxes, licenses and permits, service charges, and earnings on investments. Actual expenditures were less than the amount budgeted by \$658,000.

A budgetary comparison schedule is included in the financial statements on page 45.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets

At the end of the fiscal year, the Town had \$45,453,000, 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		Business-type		Total	
	Activities		Activities			
	2020	2019	2020	2019	2020	2019
Land	\$ 4,143	\$ 4,143	\$ 6,900	\$ 6,525	\$ 11,043	\$ 10,668
Infrastructure	5,736	5,139	58,647	58,621	64,383	63,760
Buildings and improvements	4,390	4,390	780	779	5,170	5,169
Equipment	901	892	5,207	3,606	6,108	4,498
Vehicles	1,819	1,971	1,688	1,774	3,507	3,745
Construction in progress	183	524	19	209	202	733
Less: accumulated depreciation	(5,971)	(5,573)	(38,989)	(37,155)	(44,960)	(42,728)
Total	<u>\$ 11,201</u>	<u>\$ 11,486</u>	<u>\$ 34,252</u>	<u>\$ 34,359</u>	<u>\$ 45,453</u>	<u>\$ 45,845</u>

This year's major capital asset additions included:

Governmental activities

- Two HVAC units at Town Hall
- Henry Park swing

Business-type activities

- 2000 KW Natural Gas Engine
- Completion of Graham Avenue submerged wetland improvements

Long-term debt

At the end of the fiscal year, the Town had \$15,405,000 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
	2020	2019	2020	2019	2020	2019	
General obligation bonds	\$ 3,434	\$ 3,616	\$ 11,971	\$ 12,748	\$ 15,405	\$ 16,364	-6%
Total	\$ 3,434	\$ 3,616	\$ 11,971	\$ 12,748	\$ 15,405	\$ 16,364	-6%

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

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Town approved a \$5.9 million general fund budget for fiscal year 2021. The tax rate remains at \$.80 per \$100 of assessed value. The budget represented a decrease of 4% over the 2020 budget.

In August 2020, the council approved an equity transfer of \$1.7 million to reduce the amount that the sewer fund owes the general fund. In addition, the Town plans to establish a ten-year repayment schedule to repay the balance.

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, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 784,666	\$	\$ 784,666
Pooled cash and investments	1,211,673	4,579,165	5,790,838
Taxes receivable	118,540		118,540
Accounts receivable, net	56,629	2,164,610	2,221,239
Internal balances	3,375,304	(3,375,304)	
Due from other governments	177,286	7,500	184,786
Inventories		186,616	186,616
Total current assets	<u>5,724,098</u>	<u>3,562,587</u>	<u>9,286,685</u>
Noncurrent assets			
Restricted cash	994,629	3,733	998,362
Capital assets, net of accumulated depreciation	11,200,472	34,252,139	45,452,611
Total noncurrent assets	<u>12,195,101</u>	<u>34,255,872</u>	<u>46,450,973</u>
Total assets	<u>17,919,199</u>	<u>37,818,459</u>	<u>55,737,658</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred financing outflows - retirement	349,236	232,710	581,946
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	302,582	1,182,151	1,484,733
Current portion of accrued compensated absences	137,195	88,362	225,557
Accrued interest payable	12,924	65,843	78,767
Customer deposits		115,897	115,897
Current portion of bonds payable	182,681	794,669	977,350
Total current liabilities	<u>635,382</u>	<u>2,246,922</u>	<u>2,882,304</u>
Noncurrent liabilities			
Bonds payable, less current portion	3,251,562	11,175,780	14,427,342
Net pension liability	2,043,728	1,361,813	3,405,541
Accrued compensated absences, less current portion	153,525	99,460	252,985
Total noncurrent liabilities	<u>5,448,815</u>	<u>12,637,053</u>	<u>18,085,868</u>
Total liabilities	<u>6,084,197</u>	<u>14,883,975</u>	<u>20,968,172</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred financing inflows - retirement	241,107	160,659	401,766
NET POSITION			
Net investment in capital assets	7,766,229	24,402,690	32,168,919
Restricted	994,629	3,733	998,362
Unrestricted (deficit)	3,182,273	(1,399,888)	1,782,385
Total net position	<u>\$ 11,943,131</u>	<u>\$ 23,006,535</u>	<u>\$ 34,949,666</u>

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

TOWN OF BERLIN, MARYLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	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	\$ 1,580,761	\$ 382,717	\$	\$ 35,890	\$ (1,162,154)	\$	\$ (1,162,154)
Public safety	2,557,337	18,163	87,432		(2,451,742)		(2,451,742)
Public works	1,160,948	21,293	197,872		(941,783)		(941,783)
Planning and economic development	445,887	87,591	22,931		(335,365)		(335,365)
Recreation and parks	87,959				(87,959)		(87,959)
Interest on long-term debt	131,283				(131,283)		(131,283)
Total governmental activities	<u>5,964,175</u>	<u>509,764</u>	<u>308,235</u>	<u>35,890</u>	<u>(5,110,286)</u>		<u>(5,110,286)</u>
BUSINESS-TYPE ACTIVITIES							
Electric	5,128,185	5,209,930		1,798,992		1,880,737	1,880,737
Water	807,526	840,086		65,325		97,885	97,885
Sewer	2,462,865	2,412,499		178,693		128,327	128,327
Stormwater	259,998	185,568		71,000		(3,430)	(3,430)
Total business-type activities	<u>8,658,574</u>	<u>8,648,083</u>		<u>2,114,010</u>		<u>2,103,519</u>	<u>2,103,519</u>
Total	<u>\$ 14,622,749</u>	<u>\$ 9,157,847</u>	<u>\$ 308,235</u>	<u>\$ 2,149,900</u>	<u>(5,110,286)</u>	<u>2,103,519</u>	<u>(3,006,767)</u>
GENERAL REVENUES							
Taxes							
Property taxes					4,040,553		4,040,553
Public service taxes					35,110		35,110
State income taxes					429,195		429,195
Franchise fees					107,134		107,134
Grants and contributions not restricted to specific programs					465,000		465,000
Unrestricted investment earnings					38,782	6,866	45,648
Overhead allocation					820,688	(820,688)	
Gain on disposal of assets					7,630	10,937	18,567
Total general revenues and transfers					<u>5,944,092</u>	<u>(802,885)</u>	<u>5,141,207</u>
Change in net position					833,806	1,300,634	2,134,440
NET POSITION, BEGINNING OF YEAR					11,109,325	21,705,901	32,815,226
NET POSITION, END OF YEAR					<u>\$ 11,943,131</u>	<u>\$ 23,006,535</u>	<u>\$ 34,949,666</u>

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

TOWN OF BERLIN, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2020

ASSETS

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 784,667	\$	\$ 784,667
Pooled cash and investments	1,192,111	19,562	1,211,673
Taxes receivable	118,540		118,540
Accounts and notes receivable, net	56,629		56,629
Due from other governments	176,696	589	177,285
Due from other funds	3,375,304		3,375,304
Restricted cash	994,629		994,629
Total assets	<u>\$ 6,698,576</u>	<u>\$ 20,151</u>	<u>\$ 6,718,727</u>

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

LIABILITIES

Accounts payable and accrued expenses	\$ 282,595	\$ 19,987	\$ 302,582
Accrued compensated absences	137,195		137,195
Total liabilities	<u>419,790</u>	<u>19,987</u>	<u>439,777</u>

DEFERRED INFLOWS OF RESOURCES

Deferred property taxes	<u>109,804</u>		<u>109,804</u>
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FUND BALANCES

Nonspendable	3,375,304		3,375,304
Restricted	994,629	164	994,793
Assigned	791,005		791,005
Unassigned	1,008,044		1,008,044
Total fund balance	<u>6,168,982</u>	<u>164</u>	<u>6,169,146</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 6,698,576</u>	<u>\$ 20,151</u>	<u>\$ 6,718,727</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, 2020

Total fund balances, governmental funds	\$ 6,169,146
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	11,200,472
Certain expenditures that reduce current financial resources are reported as expenditures in the fund financial statements, but are reported as deferred outflows of resources in the governmental activities of the Statement of Net Position: Deferred financing outflows - retirement.	349,236
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.	109,804
Some liabilities and deferred inflows of resources are not due and payable in the current period and therefore are not reported in the fund financial statements, but are included in the governmental activities in the Statement of Net Position.	
Bonds payable and accrued interest	(3,447,167)
Compensated absences	(153,525)
Deferred financing inflows - retirement	(241,107)
Net pension liability	<u>(2,043,728)</u>
Net position, governmental activities	<u>\$ 11,943,131</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, 2020

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 4,501,374	\$	\$ 4,501,374
Licenses and permits	229,377		229,377
Intergovernmental revenues	1,086,004	4,416	1,090,420
Service charges	885,940		885,940
Impact fees	35,890		35,890
Earnings on investments	38,780		38,780
Miscellaneous	19,369		19,369
Total revenues	6,796,734	4,416	6,801,150
EXPENDITURES			
Current			
General government	1,530,826		1,530,826
Public safety	2,254,313	5,005	2,259,318
Public works	928,387		928,387
Planning and economic development	417,103		417,103
Recreation and parks	61,266		61,266
Debt service	314,217		314,217
Capital outlay	284,554		284,554
Total expenditures	5,790,666	5,005	5,795,671
Net change in fund balance	1,006,068	(589)	1,005,479
FUND BALANCE, BEGINNING OF YEAR	5,162,914	753	5,163,667
FUND BALANCE, END OF YEAR	\$ 6,168,982	\$ 164	\$ 6,169,146

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, 2020

Net change in fund balances, governmental funds	\$ 1,005,479
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 (\$284,554) exceeded depreciation (\$569,991) in the current period.	(285,437)
Changes in deferred outflows of resources presented in the governmental activities of the Statement of Activities.	(66,861)
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	809
Change in long-term compensated absences	(29,155)
Change in net pension liability	26,922
Change in deferred financing inflows	(3,562)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned:	
Change in deferred property taxes	3,484
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>182,127</u>
Change in net position, governmental activities	<u>\$ 833,806</u>

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

TOWN OF BERLIN, MARYLAND

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2020

ASSETS	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
Current assets					
Pooled cash and investments	\$ 3,192,150	\$ 1,370,233	\$ 16,782	\$	\$ 4,579,165
Accounts receivable, net of allowance	1,520,313	145,958	474,071	24,268	2,164,610
Due from other governments				7,500	7,500
Inventory	151,706	27,719	7,191		186,616
Total current assets	<u>4,864,169</u>	<u>1,543,910</u>	<u>498,044</u>	<u>31,768</u>	<u>6,937,891</u>
Noncurrent assets					
Restricted cash		1,005	2,728		3,733
Capital assets, net of accumulated depreciation	5,335,478	1,904,208	24,315,984	2,696,469	34,252,139
Total noncurrent assets	<u>5,335,478</u>	<u>1,905,213</u>	<u>24,318,712</u>	<u>2,696,469</u>	<u>34,255,872</u>
Total assets	<u>10,199,647</u>	<u>3,449,123</u>	<u>24,816,756</u>	<u>2,728,237</u>	<u>41,193,763</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred financing outflows - retirement	110,283	36,041	76,150	10,236	232,710
LIABILITIES					
Current liabilities					
Accounts payable and accrued expenses	1,046,521	36,019	93,679	5,932	1,182,151
Accrued compensated absences	42,443	14,574	28,862	2,483	88,362
Accrued interest payable	19,315		46,528		65,843
Customer deposits	115,897				115,897
Current portion of bonds payable	335,800		458,869		794,669
Total current liabilities	<u>1,559,976</u>	<u>50,593</u>	<u>627,938</u>	<u>8,415</u>	<u>2,246,922</u>
Noncurrent liabilities					
Bonds payable	3,542,300		7,633,480		11,175,780
Due to other funds			3,157,454	217,850	3,375,304
Net pension liability	645,380	210,909	445,628	59,896	1,361,813
Accrued compensated absences	59,378	17,193	21,573	1,316	99,460
Total noncurrent liabilities	<u>4,247,058</u>	<u>228,102</u>	<u>11,258,135</u>	<u>279,062</u>	<u>16,012,357</u>
Total liabilities	<u>5,807,034</u>	<u>278,695</u>	<u>11,886,073</u>	<u>287,477</u>	<u>18,259,279</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred financing inflows - retirement	76,138	24,882	52,573	7,066	160,659
NET POSITION					
Net investment in capital assets	3,578,378	1,904,208	16,223,635	2,696,469	24,402,690
Restricted for capital projects		1,005	2,728		3,733
Unrestricted (deficit)	848,380	1,276,374	(3,272,103)	(252,539)	(1,399,888)
Total net position	<u>\$ 4,426,758</u>	<u>\$ 3,181,587</u>	<u>\$ 12,954,260</u>	<u>\$ 2,443,930</u>	<u>\$ 23,006,535</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, 2020

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
REVENUES					
Service charges	\$ 5,038,792	\$ 728,576	\$ 2,291,510	\$ 184,746	\$ 8,243,624
Sales and services	150,500	38,536			189,036
Hauler fees			101,583		101,583
Interest on delinquent accounts	19,783	5,792	17,306	738	43,619
Miscellaneous	855	67,182	2,100	84	70,221
Total revenues	<u>5,209,930</u>	<u>840,086</u>	<u>2,412,499</u>	<u>185,568</u>	<u>8,648,083</u>
EXPENSES					
Purchased power	2,392,457				2,392,457
Personnel expenses	1,088,987	339,254	714,359	78,690	2,221,290
Supplies and operating	334,265	141,470	369,448	11,428	856,611
Professional services	113,184			22,749	135,933
Contracted services	453,264	58,590	35,429	3,662	550,945
Insurance	24,570	9,193	20,514	1,365	55,642
Repairs and maintenance	62,503	62,716	59,308		184,527
Depreciation	503,894	196,303	1,074,591	142,104	1,916,892
General overhead	380,860	160,054	279,774		820,688
Total expenses	<u>5,353,984</u>	<u>967,580</u>	<u>2,553,423</u>	<u>259,998</u>	<u>9,134,985</u>
Operating loss	<u>(144,054)</u>	<u>(127,494)</u>	<u>(140,924)</u>	<u>(74,430)</u>	<u>(486,902)</u>
NONOPERATING REVENUES (EXPENSES)					
Capital grants				71,000	71,000
Interest income		2,084	4,782		6,866
Interest expense	(155,061)		(189,216)		(344,277)
Insurance proceeds	1,798,992				1,798,992
Gain on disposal of assets	10,937				10,937
Net nonoperating revenues (expenses)	<u>1,654,868</u>	<u>2,084</u>	<u>(184,434)</u>	<u>71,000</u>	<u>1,543,518</u>
Income (loss) before contributions and transfers	1,510,814	(125,410)	(325,358)	(3,430)	1,056,616
Capital contributions - special connection fees		65,325	178,693		244,018
Change in net position	1,510,814	(60,085)	(146,665)	(3,430)	1,300,634
NET POSITION, BEGINNING OF YEAR	<u>2,915,944</u>	<u>3,241,672</u>	<u>13,100,925</u>	<u>2,447,360</u>	<u>21,705,901</u>
NET POSITION, END OF YEAR	<u>\$ 4,426,758</u>	<u>\$ 3,181,587</u>	<u>\$ 12,954,260</u>	<u>\$ 2,443,930</u>	<u>\$ 23,006,535</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, 2020

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Stormwater Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 5,108,275	\$ 790,014	\$ 2,360,225	\$ 191,431	\$ 8,449,945
Other receipts	855	67,182	2,100	84	70,221
Payments to suppliers	(3,160,111)	(275,149)	(503,466)	(52,691)	(3,991,417)
Payments to employees	(964,269)	(329,010)	(726,080)	(94,366)	(2,113,725)
Payments for interfund services	(380,860)	(160,054)	(279,774)		(820,688)
Net cash provided by operating activities	<u>603,890</u>	<u>92,983</u>	<u>853,005</u>	<u>44,458</u>	<u>1,594,336</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Interfund borrowings	<u>7,448</u>	<u>448,847</u>	<u>(600,000)</u>	<u>95,527</u>	<u>(48,178)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income		<u>2,084</u>	<u>4,782</u>		<u>6,866</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(906,373)	(930)	(6,932)	(203,733)	(1,117,968)
Proceeds from capital grants				63,500	63,500
Insurance proceeds	988,000				
Principal paid on long-term debt	(327,500)		(449,539)		(777,039)
Interest paid on long-term debt	(145,739)		(192,036)		(337,775)
Capital contributions - special connection fees		<u>65,325</u>	<u>178,693</u>		<u>244,018</u>
Net cash provided (used) by capital and related financing activities	<u>(391,612)</u>	<u>64,395</u>	<u>(469,814)</u>	<u>(140,233)</u>	<u>(1,925,264)</u>
Net increase (decrease) in cash	219,726	608,309	(212,027)	(248)	(372,240)
CASH, BEGINNING OF YEAR	<u>2,972,424</u>	<u>762,929</u>	<u>231,537</u>	<u>248</u>	<u>3,967,138</u>
CASH, END OF YEAR	<u>\$ 3,192,150</u>	<u>\$ 1,371,238</u>	<u>\$ 19,510</u>	<u>\$</u>	<u>\$ 3,594,898</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating loss	\$ (144,054)	\$ (127,494)	\$ (140,924)	\$ (74,430)	\$ (486,902)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	503,894	196,303	1,074,591	142,104	1,916,892
Deferred financing outflows - retirement	(3,863)	6,045	14,981	11,618	28,781
Deferred financing inflows - retirement	14,819	778	(921)	(3,548)	11,128
(Increase) decrease in assets					
Accounts receivable	(99,035)	17,110	(50,174)	5,947	(126,152)
Inventory	(11,194)	(15,192)	(2,519)		(28,905)
Increase (decrease) in liabilities					
Accounts payable and accrued expenses	345,088	15,433	(42,029)	(37,233)	281,259
Customer deposits	(1,765)				(1,765)
Net cash provided by operating activities	<u>\$ 603,890</u>	<u>\$ 92,983</u>	<u>\$ 853,005</u>	<u>\$ 44,458</u>	<u>\$ 1,594,336</u>

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

**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, 2020

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

Basis of Presentation (continued)

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

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

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

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

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

Measurement Focus, Basis of Accounting

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

**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, 2020

**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, 2020, the allowance in the General Fund was \$21,890 and the Enterprise Fund was \$109,819.

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, 2020

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

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

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

Accrued Compensated Absences

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

Capital Contributions - Enterprise Funds

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

**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, 2020

**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, 2020, \$2,164,178 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, but not in the Town's name.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
<i>Capital assets not being depreciated</i>				
Land	\$ 4,142,914	\$	\$	\$ 4,142,914
Construction in progress	524,370	256,740	598,065	183,045
Total capital assets not being depreciated	<u>4,667,284</u>	<u>256,740</u>	<u>598,065</u>	<u>4,325,959</u>
<i>Capital assets being depreciated</i>				
Infrastructure	5,138,530	598,065		5,736,595
Buildings and improvements	4,389,795			4,389,795
Equipment	891,841	27,815	19,376	900,280
Vehicles	1,971,226		152,355	1,818,871
Total capital assets being depreciated	<u>12,391,392</u>	<u>625,880</u>	<u>171,731</u>	<u>12,845,541</u>
Less accumulated depreciation for:				
Infrastructure	2,766,599	154,148		2,920,747
Buildings and improvements	955,854	201,328		1,157,182
Equipment	647,090	40,138	19,376	667,852
Vehicles	1,203,225	174,377	152,355	1,225,247
Total accumulated depreciation	<u>5,572,768</u>	<u>569,991</u>	<u>171,731</u>	<u>5,971,028</u>
Total capital assets being depreciated, net	<u>6,818,624</u>	<u>55,889</u>		<u>6,874,513</u>
Governmental activities capital assets, net	<u>\$ 11,485,908</u>	<u>\$ 312,629</u>	<u>\$ 598,065</u>	<u>\$ 11,200,472</u>

Construction in progress in the governmental activities includes the Decatur Street realignment, Berlin roadway resurfacing, Showell, Grace, and Bottle Branch roadway reconstruction and utility upgrades.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

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	15,079,675	6,708		15,086,383
Buildings and improvements	766,456			766,456
Equipment	2,235,380	1,584,912		3,820,292
Vehicles	874,647	8,400	106,264	776,783
Total capital assets being depreciated	18,956,158	1,600,020	106,264	20,449,914
Less accumulated depreciation for:				
Infrastructure	12,302,479	334,400		12,636,879
Buildings and improvements	523,334	23,450		546,784
Equipment	1,692,934	85,292		1,778,226
Vehicles	502,569	60,752	106,264	457,057
Total accumulated depreciation	15,021,316	503,894	106,264	15,418,946
Total capital assets being depreciated, net	3,934,842	1,096,126		5,030,968
Electric activities, capital assets, net	4,239,352	1,096,126		5,335,478

During the year, the Town received insurance proceeds of \$1,798,992 to replace the power plant's number two generator that failed. The new generator operates using natural gas as opposed to the old diesel generator.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

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	12,328	559	9,508	3,379
Total capital assets not being depreciated	3,507,561	559	9,508	3,498,612
<i>Capital assets being depreciated</i>				
Infrastructure	38,258,993	9,508		38,268,501
Buildings and improvements	1,510			1,510
Equipment	1,042,946	6,373		1,049,319
Vehicles	693,734			693,734
Total capital assets being depreciated	39,997,183	15,881		40,013,064
Less accumulated depreciation for:				
Infrastructure	16,764,432	997,472		17,761,904
Buildings and improvements	1,510			1,510
Equipment	766,612	38,430		805,042
Vehicles	588,547	38,689		627,236
Total accumulated depreciation	18,121,101	1,074,591		19,195,692
Total capital assets being depreciated, net	21,876,082	(1,058,710)		20,817,372
Sewer, capital assets, net	25,383,643	(1,058,151)	9,508	24,315,984

Construction in progress in the Sewer Fund includes the William Street pump station project.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

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	25,068	930	9,507	16,491
Total capital assets not being depreciated	<u>107,107</u>	<u>930</u>	<u>9,507</u>	<u>98,530</u>
<i>Capital assets being depreciated</i>				
Infrastructure	5,282,466	9,506		5,291,972
Buildings and improvements	11,781			11,781
Equipment	338,380			338,380
Vehicles	213,022		22,350	190,672
Total capital assets being depreciated	<u>5,845,649</u>	<u>9,506</u>	<u>22,350</u>	<u>5,832,805</u>
Less accumulated depreciation for:				
Infrastructure	3,513,787	155,100		3,668,887
Buildings and improvements	9,713	276		9,989
Equipment	171,637	18,025		189,662
Vehicles	158,037	22,902	22,350	158,589
Total accumulated depreciation	<u>3,853,174</u>	<u>196,303</u>	<u>22,350</u>	<u>4,027,127</u>
Total capital assets being depreciated, net	<u>1,992,475</u>	<u>(186,797)</u>		<u>1,805,678</u>
Water, capital assets, net	<u>2,099,582</u>	<u>(185,867)</u>	<u>9,507</u>	<u>1,904,208</u>

Construction in progress in the Water Fund includes the Powellton Avenue well building addition, and the Broad Street lift station pump.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

CAPITAL ASSETS (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Stormwater:</u>				
<i>Capital asset not being depreciated</i>				
Construction in progress	171,959	203,732	375,691	
Total capital assets not being depreciated	171,959	203,732	375,691	
<i>Capital assets being depreciated</i>				
Land improvements	2,642,750	375,692		3,018,442
Vehicles	26,352			26,352
Total capital assets being depreciated	2,669,102	375,692		3,044,794
Less accumulated depreciation for:				
Land improvements	192,607	136,833		329,440
Vehicles	13,614	5,271		18,885
Total accumulated depreciation	206,221	142,104		348,325
Total capital assets being depreciated, net	2,462,881	233,588		2,696,469
Stormwater, capital asset, net	2,634,840	437,320	375,691	2,696,469
Business-type activities				
Capital assets, net	<u>\$ 34,357,417</u>	<u>\$ 289,428</u>	<u>\$ 394,706</u>	<u>\$ 34,252,139</u>

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

General government	\$ 30,492
Public safety	250,139
Public works	254,034
Planning and community development	8,634
Recreation and parks	26,692
	<u>\$ 569,991</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

FUND BALANCES

Nonspendable funds are the net of amounts due from/due to other funds as these will not be available to pay current expenditures.

Restricted fund balances are state slots revenue that is restricted by the State of Maryland and impact fees that are restricted for use on capital projects and debt service by Town ordinance.

Assigned fund balances are monies that the Mayor and Council have designed for the payment of employee insurance premiums and Community Center construction costs. In addition, police forfeiture funds are assigned for drug use prevention.

INTERNAL BALANCES AND ACTIVITY

Balances due to/from other funds at June 30, 2020 consist of the following:

	<u>June 30, 2019</u>	<u>Increase (Decrease)</u>	<u>June 30, 2020</u>
Due to the general fund from the sewer fund	<u>\$ 3,383,561</u>	<u>\$ (226,107)</u>	<u>\$ 3,157,454</u>
Due to the general fund from the stormwater fund	<u>\$ 122,323</u>	<u>\$ 95,527</u>	<u>\$ 217,850</u>
Due to the water fund from the sewer fund	<u>\$ 373,893</u>	<u>\$ (373,893)</u>	<u>\$</u>
Due to the water fund from the general fund	<u>\$ 74,954</u>	<u>\$ (74,954)</u>	<u>\$</u>

In August, 2020, the Mayor and Council approved an equity transfer of \$1,691,781, 50% of the balance due from the sewer fund, to the general fund in order to reduce the amount owed.

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

LONG-TERM DEBT

Changes in long-term obligations for the year June 30, 2020 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
General obligation bonds	<u>\$ 3,616,368</u>	<u>\$</u>	<u>\$ 182,125</u>	<u>\$ 3,434,243</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

LONG-TERM DEBT (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Electric				
General obligation bonds	\$ 4,205,600	\$	\$ 327,500	\$ 3,878,100
Sewer				
General obligation bonds	8,541,888		449,539	8,092,349
	<u>\$ 12,747,488</u>	<u>\$</u>	<u>\$ 777,039</u>	<u>\$ 11,970,449</u>

Governmental Activities

Bonds payable consists of the following:

	<u>Principal Balance Outstanding at June 30, 2020</u>
Public improvement bonds of 2002 payable to the U.S. Department of Agriculture. The original obligations are dated September 26, 2002. Debt is amortized over 40 years at an interest rate of 4.75%. Interest and principal is due quarterly, with payments ranging from \$362 to \$1,026 through September 26, 2042.	\$ 484,273
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.	349,970
Public improvement bonds of 2016 payable to the Bank of Ocean City for the purchase of property. The original obligations are dated January 22, 2016. Debt is amortized over 30 years at an interest rate of 3.50%. Interest and principal is due annually, with principal payments of \$100,000 through December 1, 2045.	<u>2,600,000</u>
Total Governmental Activities	<u>\$ 3,434,243</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

LONG-TERM DEBT (continued)

Business-type Activities – Electric Fund

	<u>Principal Balance Outstanding at June 30, 2020</u>
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.	\$ 1,825,500
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.	210,900
Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1999. The original obligations are dated May 17, 2012 in the amount of \$1,431,232. Debt is amortized over 17 years. Interest rates range from 1.41% to 3.94%. Interest is due semi-annually with principal payments due annually, ranging from \$2,098 to \$106,500 through May 1, 2029.	836,900
Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 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>1,004,800</u>
Total Electric Fund	<u>3,878,100</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

LONG-TERM DEBT (continued)

Business-type Activities – Sewer Fund

	Principal Balance Outstanding at June 30, 2020
Real property acquisition bond payable to an individual. This obligation is being used to finance the purchase of real property for use in the spray irrigation project. The original obligation is dated December 15, 2010 in the amount of \$500,000. Debt is amortized over 25 years at an interest rate of 8.422%. Interest and principal is due monthly with payments in the amount of \$4,045. The maturity date is January 2036.	406,892
Bond payable to the U.S. Department of Agriculture. This obligation was used to fund the lagoon liner and wastewater treatment plant projects. The original obligation is dated November 16, 2010 in the amount of \$5,988,000. Interest and principal is due in semi-annual payments of \$113,952 at an interest rate of 2.25%. The maturity date is November 2050.	5,007,225
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.	361,725
Loan payable to Maryland Department of the Environment. This loan is being used to fund construction of Phase II of the spray irrigation project. Total amount available to draw is \$3,207,000. Interest payments at .80% are due in semi-annual payments. Principal payments begin annually February 2015. The maturity date is February 2033.	2,245,507

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

LONG-TERM DEBT (continued)

Business-type Activities – Sewer Fund (continued)

	<u>Principal Balance Outstanding at June 30, 2020</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 1991. The original obligations are dated May 17, 2012 in the amount of \$587,420. Debt is amortized over 16 years. Interest rates range from 1.41% to 3.94%. Interest is due semi-annually with principal payments due annually, ranging from \$980 to \$71,000 through May 2021.	71,000
Total Sewer Fund	8,092,349
Total long-term debt - Business-type Activities	\$ 11,970,449

Debt Service Requirements

Principal and interest requirements to amortize bond obligations as of June 30, 2020 are as follows:

Governmental Activities			
Year Ending	Principal	Interest	Totals
2021	\$ 182,681	\$ 124,854	\$ 307,535
2022	183,294	117,892	301,186
2023	183,937	110,900	294,837
2024	184,611	104,088	288,699
2025	185,287	96,822	282,109
2026 - 2030	588,439	412,808	1,001,247
2031 - 2035	611,990	301,718	913,708
2036 - 2040	641,813	184,414	826,227
2041 - 2045	572,191	65,588	637,779
2046	100,000	1,755	101,755
	\$ 3,434,243	\$ 1,520,840	\$ 4,955,083

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

LONG-TERM DEBT (continued)

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of June 30, 2020 are as follows:

Year Ending	Business-Type Activities		
	Principal	Interest	Totals
2021	\$ 794,669	\$ 324,372	\$ 1,119,041
2022	743,648	300,731	1,044,379
2023	761,268	283,021	1,044,289
2024	760,400	262,875	1,023,275
2025	698,918	243,597	942,515
2026 - 2030	3,151,483	919,526	4,071,009
2031 - 2035	2,095,428	514,664	2,610,092
2036 - 2040	848,043	291,477	1,139,520
2041 - 2045	948,426	191,094	1,139,520
2046 - 2050	1,060,689	78,831	1,139,520
2051 - 2052	107,477	1,230	108,707
	\$ 11,970,449	\$ 3,411,418	\$ 15,381,867

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, 2020, total interest incurred and paid in the Enterprise Fund was \$343,681 all of which was charged to operations.

CONDUIT DEBT

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020 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>\$ 380,860</u>	<u>\$ 160,054</u>	<u>\$ 279,774</u>	<u>\$</u>	<u>\$ 820,688</u>

LEASE AGREEMENTS

The Town has entered into lease agreements expiring in 2032 and 2026 with AT&T Wireless and T-mobile for the use of the Town’s water tower for wireless antennas and transmission lines.

The Town has entered into a lease agreement expiring in 2023 with Bryan Brushmiller for use of a room and parking lot at the Town’s old Tyson building. Total lease payments billed for the year ended June 30, 2020 were \$67,108.

Future lease payment terms to be received are:

<u>Year Ending June 30,</u>	<u>Total Payment</u>
2021	\$ 88,796
2022	92,554
2023	91,908
2024	72,300
2025	73,631
All subsequent years	<u>369,812</u>
Total minimum lease payments to be received	<u>\$ 789,001</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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 <https://sra.maryland.gov/annual-financial-reports>.

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

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

Fiscal Year Ending	Annual Pension Cost	Percentage Funded
6/29/2018	\$ 320,331	100%
6/29/2019	\$ 339,058	100%
6/30/2020	\$ 369,184	100%

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

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, 2020, the Town reported a liability of \$3,405,541 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the Town's proportion was .01651%.

For the year ended June 30, 2020, the Town recognized pension expense of \$433,441. At June 30, 2020, 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	\$ 52,251	\$ 92,683
Net difference between projected and actual earnings on pension plan investments	160,511	88,909
Differences between expected and actual experience		220,174
Contributions subsequent to measurement date	369,184	
	\$ 581,946	\$ 401,766

The Town's contribution subsequent to the measurement date of \$369,184, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

Deferred financial inflows and outflows are made up of changes in actuarial assumptions, differences in actual and expected experience, and net difference in the projected and actual investment earnings. The deferred outflows and inflows related to non-investment activity are being amortized over the remaining service life ranging from 5.68 to 5.87 years. The net difference in investment earnings are being amortized over a closed five-year period for each of the years presented. The following table shows the amortization of these balances:

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

RETIREMENT AND PENSION PLANS (Continued)

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

Year Ending June 30	Deferred Inflows	Deferred Outflows
2021	\$ 137,585	\$ 142,576
2022	125,459	25,146
2023	79,559	24,418
2024	40,677	20,622
2025	18,486	
Total	\$ 401,766	\$ 212,762

Actuarial assumptions. The actuarial assumption for the Pension Plan as a whole and based on the June 30, 2019 annual actuarial valuation report for Maryland Municipal Corporation are as follows:

Inflation	2.65% general
Salary increases	3.15%, including inflation
Investment rate of return	7.40%

Mortality rates were based on the RP-2018 Combined Healthy Mortality table projected to the year 2028.

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

Discount rate. The discount rate used to measure the total pension liability was 7.40%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contribution from the municipalities will be made at contractually required rates, actuarially determined.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

RETIREMENT AND PENSION PLANS (Continued)

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

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.40%, 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 (6.40%) or 1-percentage point higher (8.40%) than the current rate:

1% Decrease (6.40%)	\$ 4,929,172
Current discount rate (7.40%)	\$ 3,405,541
1% Increase (8.40%)	\$ 2,136,539

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

DEFERRED COMPENSATION PLAN

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

RISK MANAGEMENT

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

RELATED PARTY TRANSACTIONS

Ace Printing is owned by At-Large Councilmember Thom Gulyas. Ace Printing is responsible for minimal printing needs, utility bills forms, public works forms, signage, and other miscellaneous office supplies.

CONTINGENCIES

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

NEW GASB PRONOUNCEMENTS

GASB issued Statement No. 87, Leases, in June 2017. It is effective for reporting periods beginning after June 15, 2021. The new guidance requires recognition of certain lease assets and liabilities that were previously classified as operating leases. It also recognizes inflows of resources or outflows of resources based on the payment provisions of the contract.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*, requires interest cost incurred before the end of a construction period be recognized as an expense for financial statements prepared using the economic resources measurement focus. Previously, this interest was included in the historical cost of capital assets. It is effective for periods beginning after December 15, 2020.

COVID-19 IMPACT

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. There have been mandates from federal, state, and local authorities requiring forced closures of schools, businesses, and other facilities. All Town services continue to be provided with Town employees working modified schedules to minimize the number of people working at Town offices or utilities. Public events were postponed or cancelled and parks and playgrounds were closed. Meetings were held in accordance with state guidelines and were available to the public through electronic livestreaming.

Although most state and local governments have begun to ease restrictions, it is possible that a resurgence in COVID-19 cases could prompt a return to tighter restrictions. Therefore, significant uncertainty remains regarding the financial impact on the Town's financial condition and future results of operations.

REQUIRED SUPPLEMENTARY INFORMATION

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

YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes	\$ 4,172,000	\$ 4,172,000	\$ 4,501,374	\$ 329,374
Licenses and permits	192,500	192,500	229,377	36,877
Intergovernmental revenues	1,113,610	1,113,610	1,086,004	(27,606)
Service charges	858,988	858,988	885,940	26,952
Impact fees	40,000	40,000	35,890	(4,110)
Earnings on investments	15,000	15,000	38,780	23,780
Miscellaneous	7,000	7,000	19,369	12,369
Total revenues	<u>6,399,098</u>	<u>6,399,098</u>	<u>6,796,734</u>	<u>397,636</u>
EXPENDITURES				
Current				
General government	1,861,181	1,886,181	1,530,826	355,355
Public safety	2,364,931	2,364,931	2,254,313	110,618
Public works	989,262	989,262	928,387	60,875
Planning and economic development	449,216	449,216	417,103	32,113
Recreation and parks	63,700	63,700	61,266	2,434
Debt service	314,136	314,136	314,217	(81)
Capital outlay	406,672	381,672	284,554	97,118
Total expenditures	<u>6,449,098</u>	<u>6,449,098</u>	<u>5,790,666</u>	<u>658,432</u>
Excess of expenditures (over) under revenues	(50,000)	(50,000)	1,006,068	1,056,068
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of long-term debt	<u>50,000</u>	<u>50,000</u>	<u></u>	<u>(50,000)</u>
Net other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u></u>	<u>(50,000)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ 1,006,068</u>	<u>\$ 1,006,068</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>Fiscal year/ measurement date</u>	<u>Town's proportion of the net pension liability</u>	<u>Town's proportionate share of the net pension liability</u>	<u>Town's covered employee payroll</u>	<u>Town's proportionate share as a percentage of covered payroll</u>	<u>Plan fiduciary net position as a percentage of total pension liability</u>
General Employees' Plan					
2015/2014	0.1290%	\$ 2,290,390	\$ 2,984,932	76.73%	71.87%
2016/2015	0.1460%	3,030,119	3,212,440	94.32%	68.78%
2017/2016	0.1550%	3,649,291	3,069,300	118.90%	65.79%
2018/2017	0.1470%	3,175,235	3,390,716	93.64%	69.38%
2019/2018	0.1606%	3,370,512	3,416,307	98.66%	71.18%
2020/2019	0.1651%	3,405,541	3,582,239	95.07%	72.34%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information is available to present a ten-year trend.

TOWN OF BERLIN, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE TOWN'S CONTRIBUTIONS

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

<u>Fiscal Year</u>	<u>Contractually required contribution</u>	<u>Actual contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Town's covered payroll</u>	<u>Actual contribution as a percentage of covered payroll</u>
General Employees' Plan					
2015	\$ 300,756	\$ 300,756	\$	\$ 2,984,932	10.08%
2016	307,322	307,322		3,212,440	9.57%
2017	301,310	301,310		3,069,300	9.82%
2018	298,871	298,871		3,390,716	8.81%
2019	320,331	320,331		3,416,307	9.38%
2020	339,058	339,058		3,582,239	9.46%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information is available to present a ten-year trend.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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To the Mayor and Council
Town of Berlin, Maryland

Report on Supplementary Information

Our report on our audit of the financial statements that collectively comprise the Town of Berlin, Maryland's basic financial statements as of June 30, 2020, appears on pages one through three. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Berlin, Maryland's basic financial statements. The supplementary information presented on pages 49 through 54 is presented for purposes of additional analysis and is not a required part of the financial statements.

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

Other Matter

The prior year comparative information has been derived from the Town's 2019 and 2018 financial statements and, in our reports dated October 30, 2019 and November 16, 2018, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
November 20, 2020

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENDITURES
GENERAL FUND**

**YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)**

	2020	2019	2018
REVENUES			
Taxes			
Berlin property	\$ 4,005,039	\$ 3,328,681	\$ 3,098,412
County shared	35,110	37,235	40,269
State shared	429,195	518,973	365,721
Penalties and interest	32,030	32,989	27,615
Licenses and permits	229,377	291,750	227,844
Intergovernmental			
State	621,004	799,455	736,074
County	465,000	465,000	455,000
Service charges to other funds	820,688	826,131	798,057
Service charges, other	65,252	62,508	56,958
Impact fees	35,890	166,987	96,070
Earnings on investments	38,780	29,776	35,768
Miscellaneous	19,369	39,693	22,835
Total revenues	6,796,734	6,599,178	5,960,623
EXPENDITURES			
Current			
General government	1,530,826	1,612,324	1,421,404
Public safety	2,254,313	2,461,294	2,111,513
Public works	928,387	976,773	1,048,370
Planning and economic development	417,103	471,750	470,596
Recreation and parks	61,266	70,215	68,675
Debt service	314,217	320,221	333,311
Capital outlay	284,554	779,032	2,301,994
Total expenditures	5,790,666	6,691,609	7,755,863
Revenues over (under) expenditures	1,006,068	(92,431)	(1,795,240)
OTHER FINANCING SOURCES (USES)			
Transfers out			(50,000)
Net other financing sources (uses)			(50,000)
Net change in fund balance	\$ 1,006,068	\$ (92,431)	\$ (1,845,240)

TOWN OF BERLIN, MARYLAND

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

**YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
REVENUES			
Intergovernmental revenues	\$ 4,416	\$ 3,442	\$ 5,305
Total revenues	<u>4,416</u>	<u>3,442</u>	<u>5,305</u>
EXPENDITURES			
Salaries and related	<u>5,005</u>	<u>3,935</u>	<u>4,230</u>
Total expenditures	<u>5,005</u>	<u>3,935</u>	<u>4,230</u>
Net change in fund balance	<u>\$ (589)</u>	<u>\$ (493)</u>	<u>\$ 1,075</u>

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
ELECTRIC FUND**

**YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)**

	2020	2019	2018
REVENUES			
Service charges	\$ 5,038,792	\$ 5,488,348	\$ 5,634,411
Sales and services	150,500	80,642	113,024
Interest on delinquent accounts	19,783	34,850	33,469
Miscellaneous	855	7,448	349
Total revenues	<u>5,209,930</u>	<u>5,611,288</u>	<u>5,781,253</u>
EXPENSES			
Purchased power	2,392,457	2,598,667	2,752,339
Personnel expenses	1,088,987	1,012,170	813,119
Supplies and operating	334,265	445,885	333,913
Professional services	113,184	134,389	92,468
Contracted services	453,264	64,253	97,972
Insurance	24,570	19,390	22,615
Repairs and maintenance	62,503	106,701	48,407
Depreciation	503,894	513,443	512,659
General overhead	380,860	367,014	331,399
Total expenses	<u>5,353,984</u>	<u>5,261,912</u>	<u>5,004,891</u>
Operating income (loss)	<u>(144,054)</u>	<u>349,376</u>	<u>776,362</u>
NONOPERATING REVENUES (EXPENSES)			
Interest expense	(155,061)	(163,365)	(172,839)
Insurance proceeds	1,798,992		
Gain on disposal of assets	10,937		4,727
Net nonoperating revenues (expenses)	<u>1,654,868</u>	<u>(163,365)</u>	<u>(168,112)</u>
Change in net position	<u>\$ 1,510,814</u>	<u>\$ 186,011</u>	<u>\$ 608,250</u>

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
WATER FUND**

**YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)**

	2020	2019	2018
REVENUES			
Service charges	\$ 728,576	\$ 675,643	\$ 599,577
Sales and services	38,536	38,396	38,096
Interest on delinquent accounts	5,792	5,915	8,141
Miscellaneous	67,182	65,139	62,092
Total revenues	840,086	785,093	707,906
EXPENSES			
Personnel expenses	339,254	355,469	357,105
Supplies and operating	141,470	147,076	188,468
Contracted services	58,590	33,307	107,208
Insurance	9,193	8,383	8,638
Repairs and maintenance	62,716	67,007	82,237
Depreciation	196,303	198,395	187,190
General overhead	160,054	177,504	126,703
Total expenses	967,580	987,141	1,057,549
Operating loss	(127,494)	(202,048)	(349,643)
NONOPERATING REVENUES (EXPENSES)			
Interest income	2,084	1,179	2,900
Net nonoperating revenues	2,084	1,179	2,900
Loss before contributions	(125,410)	(200,869)	(346,743)
Capital contribution - special connection fees	65,325	340,311	207,150
Transfers in	64,120		
Change in net position	\$ (60,085)	\$ 203,562	\$ (139,593)

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
SEWER FUND**

**YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)**

	2020	2019	2018
REVENUES			
Service charges	\$ 2,291,510	\$ 1,745,730	\$ 1,677,257
Hauler fees	101,583	125,655	164,221
Interest on delinquent accounts	17,306	16,116	24,127
Miscellaneous	2,100	13,059	105
Total revenues	2,412,499	1,900,560	1,865,710
EXPENSES			
Personnel expenses	714,359	879,698	760,085
Supplies and operating	369,448	412,939	452,319
Professional services		13,248	16,832
Contracted services	35,429	56,304	41,196
Insurance	20,514	16,380	18,902
Repairs and maintenance	59,308	84,504	114,762
Depreciation	1,074,591	1,086,514	1,082,233
General overhead	279,774	281,613	296,257
Total expenses	2,553,423	2,831,200	2,782,586
Operating loss	(140,924)	(930,640)	(916,876)
NONOPERATING REVENUES (EXPENSES)			
Interest income	4,782	1,179	5,599
Interest expense	(189,216)	(181,081)	(228,589)
Gain on disposal of assets		5,689	
Net nonoperating expenses	(184,434)	(174,213)	(222,990)
Loss before contributions	(325,358)	(1,104,853)	(1,139,866)
Capital contributions - special connection fees	178,693	934,524	572,006
Change in net position	\$ (146,665)	\$ (170,329)	\$ (567,860)

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
STORMWATER FUND**

**YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)**

	2020	2019	2018
REVENUES			
Service charges	\$ 184,746	\$ 181,266	\$ 167,404
Interest on delinquent accounts	738	1,348	1,326
Miscellaneous	84	63	105
Total revenues	185,568	182,677	168,835
EXPENSES			
Personnel expenses	78,690	105,931	151,289
Supplies and operating	11,428	15,744	19,260
Professional services	22,749	33,467	24,208
Contracted services	3,662	1,394	29,446
Insurance	1,365	812	1,245
Depreciation	142,104	124,125	42,138
General overhead			43,698
Total expenses	259,998	281,473	311,284
Operating loss	(74,430)	(98,796)	(142,449)
NONOPERATING REVENUES			
Capital grants	71,000	76,786	971,556
Net nonoperating revenues	71,000	76,786	971,556
Gain (loss) before transfers	(3,430)	(22,010)	829,107
Transfers in			50,000
Change in net position	\$ (3,430)	\$ (22,010)	\$ 879,107

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***

To the Mayor and Council
Town of Berlin, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Berlin, Maryland's basic financial statements and have issued our report thereon dated November 20, 2020.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
November 20, 2020