

**TOWN OF BERLIN, MARYLAND**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

# TOWN OF BERLIN, MARYLAND

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## INDEPENDENT AUDITORS' REPORT

To the Mayor and Council  
Town of Berlin, Maryland

[www.pkscpa.com](http://www.pkscpa.com)

### Report on the Financial Statements

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland as of and for the year ended June 30, 2017, 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.

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### 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.

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### 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.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison and pension plan information on pages 4 through 11 and pages 46 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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 schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR), Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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 the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017 on our consideration of the Town of Berlin, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Berlin, Maryland's internal control over financial reporting and compliance.

**CERTIFIED PUBLIC ACCOUNTANTS**

Salisbury, Maryland  
November 9, 2017

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

**JUNE 30, 2017**

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, 2017. Please read it in conjunction with the Town’s financial statements, which follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

## Government-wide financial statements

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

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

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

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

## Fund financial statements

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

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

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

## FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town’s combined net position at June 30, 2017 was \$30,518,000. Of this total, \$27,496,000 was invested in capital assets and \$1,821,000 was restricted which leaves an unrestricted balance of \$2,202,000. The Town’s net position increased \$2,241,000 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	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 7,550	\$ 8,847	\$ 2,841	\$ 3,823	\$ 10,391	\$ 12,670
Capital assets	9,418	7,479	36,034	36,220	45,452	43,699
Total assets	16,968	16,326	38,875	40,043	55,843	56,369
Deferred outflows of resources	617	459	381	285	998	744
Long-term liabilities	6,155	5,949	16,756	18,701	22,911	24,650
Other liabilities	510	528	1,687	2,408	2,197	2,936
Total liabilities	6,665	6,477	18,443	21,109	25,108	27,586
Deferred inflows of resources	130	152	84	98	214	250
Net position						
Net investment in capital assets	5,432	3,307	22,064	19,542	27,496	22,849
Restricted	691	1,047	1,130	165	1,821	1,212
Unrestricted	4,667	5,802	(2,465)	(586)	2,202	5,216
Total net position	\$ 10,790	\$ 10,156	\$ 20,729	\$ 19,121	\$ 31,519	\$ 29,277

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	
	2017	2016	2017	2016	2017	2016
<b>REVENUES</b>						
Program services						
Charges for services	\$ 640	\$ 561	\$ 8,160	\$ 7,789	\$ 8,800	\$ 8,350
Operating grants and contributions	228	203			228	203
Capital grants and contributions	346	56	2,916	223	3,262	279
General revenues						
Property taxes	3,036	3,020			3,036	3,020
Other taxes and fees	680	587			680	587
Unrestricted grants	450	450			450	450
Overhead allocation	770	710	(770)	(710)		
Other	51	251	(7)	15	44	266
Total revenues	<u>6,201</u>	<u>5,838</u>	<u>10,299</u>	<u>7,317</u>	<u>16,500</u>	<u>13,155</u>
<b>EXPENSES</b>						
General government	1,475	1,540			1,475	1,540
Public safety	2,069	2,047			2,069	2,047
Public works	1,201	1,183			1,201	1,183
Planning and economic development	520	500			520	500
Recreation and parks	100	97			100	97
Interest on long-term debt	152	97			152	97
Electric			4,959	4,825	4,959	4,825
Water			822	638	822	638
Sewer			2,704	2,700	2,704	2,700
Stormwater			257	205	257	205
Total expenses	<u>5,517</u>	<u>5,464</u>	<u>8,742</u>	<u>8,368</u>	<u>14,259</u>	<u>13,832</u>
Excess (deficit) before transfers	684	374	1,557	(1,051)	2,241	(677)
Transfers	(50)	(100)	50	100		
Change in net position	<u>\$ 634</u>	<u>\$ 274</u>	<u>\$ 1,607</u>	<u>\$ (951)</u>	<u>\$ 2,241</u>	<u>\$ (677)</u>

### Governmental activities

Net position for the Town's governmental activities increased \$634,000 during the fiscal year. The primary reasons for this increase mirror those highlighted in the following analysis of the Governmental Funds.

### Business-type activities

During the fiscal year, the Town's net position for business-type activities increased \$1,607,000. Because the change in net position for the Enterprise Funds is an aggregate, for purposes of this management discussion and analysis, Electric, Water, Sewer, and Stormwater funds will be addressed individually below.

The Electric Fund had an operating income of \$312,000 and a total increase in net position of \$130,000 compared to a net decrease of \$75 last year.

Service charges were up 6% from last year. It should be noted that revenues in a given fiscal year are not a true representation of kilowatts sold in that same fiscal year because you are always recovering power costs from prior years.

Operating expenses were up from last year by \$208,000 or 4%. Purchased power increased 2%. Purchased power is the wholesale price of electric power that is resold to ratepayers through a Power Cost Adjustment (PCA) factor. Wholesale power is forecast for a twelve month period and then adjusted to the actual number in December of each year known as the Actual Cost Adjustment ("ACA").

The Water Fund had an operating loss of \$176,000 and a total increase in net position of \$341,000 compared to a net increase last year of \$48,000. Special connection fees were \$531,000 which is a substantial increase compared to last year's fees of \$48,000. Operating revenues increased \$45,000 or 6% from last year with a \$187,000 increase in expenses due mainly to increases in personnel expenses, supplies and operating costs, and repairs and maintenance.

The Sewer Fund had an operating loss of \$839,000 and a total increase in net position of \$305,000 compared to a decrease in net position last year of \$1,032,000. Special connection fees of \$1,468,000 were received in the current year which is a substantial increase compared to last year's fees of \$127,000. Operating revenues increase \$13,000. Operating expenses increased \$16,000 due to an increase in personnel expenses.

The Stormwater Fund had an operating loss of \$136,000 prior to capital grants of \$916,000 and a transfer from the general fund of \$50,000 resulting in an increase in net position of \$830,000 compared to an increase in net position last year of \$33,000. Operating revenues decreased \$1,900 from last year. Operating expenses increased \$56,000 due to increases in personnel expenses, supplies and operating costs, and contracted services.

Grants of \$916,000 were received from Community Development Block Grants and the Maryland Department of Natural Resources for flood and drainage projects in process during the fiscal year.

## FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of June 30, 2017, the Town's governmental funds reported a combined fund balance of \$7,101,000. This is a \$1,292,000 decrease in fund balance for the year.

Revenues increased from the prior year by \$482,000 or 8%.

The Town experienced a decrease in expenditures of \$735,000 mainly due to a decrease in capital outlay.

## BUDGETARY HIGHLIGHTS

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

Significant budget variances include:

- Intergovernmental revenues were less than the amount budgeted by \$116,000
- Capital outlay expense was less than the amount budgeted by \$1,422,000.

## CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

### Capital assets

At the end of the fiscal year, the Town had \$45,452,000, net of accumulated depreciation, invested in a broad range of capital assets.

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 4,143	\$ 4,053	\$ 4,091	\$ 4,065	\$ 8,234	\$ 8,118
Infrastructure	4,498	4,227	58,348	56,542	62,846	60,769
Buildings and improvements	1,047	1,021	771	633	1,818	1,654
Equipment	963	924	3,384	3,572	4,347	4,496
Vehicles	1,477	1,474	1,513	1,374	2,990	2,848
Construction in progress	2,129	495	1,469	2,008	3,598	2,503
Less: accumulated depreciation	(4,839)	(4,715)	(33,542)	(31,974)	(38,381)	(36,689)
Total	\$ 9,418	\$ 7,479	\$ 36,034	\$ 36,220	\$ 45,452	\$ 43,699

This year's major capital asset additions included:

Governmental activities

- Cannery village property
- Two 2016 Chevy Tahoe's, one 2016 Ford Escape, and one 2017 Ford F350
- Improvements to East Branch Street sidewalk
- 2016 Mini Excavator
- 2015 John Deere cab tractor and 2016 John Deere bush hog
- Visitor Center improvements
- Projection system
- Construction of Berlin police department

Business-type activities

- Accounting and billing software
- Four 2017 Ford pickup trucks
- Flower Street wetlands
- Power plant improvements
- Route 818 North Main Street Extension
- Branch Street Well WWT project
- Various maintenance equipment

Long-term debt

At the end of the fiscal year, the Town had \$20,076,000 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
	2017	2016	2017	2016	2017	2016	
General obligation bonds	\$ 3,985	\$ 4,172	\$ 16,091	\$ 18,894	\$20,076	\$23,066	-13%
Total	<u>\$ 3,985</u>	<u>\$ 4,172</u>	<u>\$ 16,091</u>	<u>\$ 18,894</u>	<u>\$20,076</u>	<u>\$23,066</u>	-13%

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

The Town has established a stormwater management program and is committed to improving surface water quality, enhance surface water drainage, and reduce pollutant. The implementation of these projects began in 2016 and is being funded by various government agencies. The Town has been approved for grants totaling \$1.9 million from the Federal Emergency Management Agency (FEMA), Community Development Block Grants (CDBG), and the Maryland Department of Natural Resources (MDNR).

The Town's new Police Department is currently being constructed.

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

## **REQUESTS FOR INFORMATION**

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

**TOWN OF BERLIN, MARYLAND**

**STATEMENT OF NET POSITION**

**JUNE 30, 2017**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 1,084,238	\$	\$ 1,084,238
Pooled cash and investments	2,567,114	2,864,523	5,431,637
Taxes receivable	162,621		162,621
Accounts receivable, net	53,151	1,467,318	1,520,469
Internal balances	2,853,376	(2,853,376)	
Due from other governments	139,424	127,395	266,819
Inventories		105,440	105,440
Total current assets	<u>6,859,924</u>	<u>1,711,300</u>	<u>8,571,224</u>
Noncurrent assets			
Restricted cash	690,544	1,130,492	1,821,036
Capital assets, net of accumulated depreciation	9,417,540	36,033,543	45,451,083
Total noncurrent assets	<u>10,108,084</u>	<u>37,164,035</u>	<u>47,272,119</u>
Total assets	<u>16,968,008</u>	<u>38,875,335</u>	<u>55,843,343</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred financing outflows - retirement	617,078	380,927	998,005
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	174,361	521,127	695,488
Accrued compensated absences	136,720	69,289	206,009
Accrued interest payable	11,781	121,564	133,345
Customer deposits		115,345	115,345
Current portion of long-term debt	187,518	859,599	1,047,117
Total current liabilities	<u>510,380</u>	<u>1,686,924</u>	<u>2,197,304</u>
Noncurrent liabilities			
Bonds payable	3,797,905	15,231,025	19,028,930
Net pension liability	2,242,564	1,406,727	3,649,291
Accrued compensated absences	114,124	118,531	232,655
Total noncurrent liabilities	<u>6,154,593</u>	<u>16,756,283</u>	<u>22,910,876</u>
Total liabilities	<u>6,664,973</u>	<u>18,443,207</u>	<u>25,108,180</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred financing inflows - retirement	130,394	84,292	214,686
<b>NET POSITION</b>			
Net investment in capital assets	5,432,117	22,063,919	27,496,036
Restricted	690,544	1,130,492	1,821,036
Unrestricted (deficit)	4,667,058	(2,465,648)	2,201,410
Total net position	<u>\$ 10,789,719</u>	<u>\$ 20,728,763</u>	<u>\$ 31,518,482</u>

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

**TOWN OF BERLIN, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2017**

	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
<b>FUNCTIONS/PROGRAMS</b>							
<b>GOVERNMENTAL ACTIVITIES</b>							
General government	\$ 1,474,719	\$ 452,888	\$	\$ 265,742	\$ (756,089)	\$	\$ (756,089)
Public safety	2,068,906	20,560	60,070		(1,988,276)		(1,988,276)
Public works	1,201,407	21,832	147,046		(1,032,529)		(1,032,529)
Planning and economic development	519,744	144,558	20,717		(354,469)		(354,469)
Recreation and parks	100,122			80,320	(19,802)		(19,802)
Interest on long-term debt	151,876				(151,876)		(151,876)
Total governmental activities	<u>5,516,774</u>	<u>639,838</u>	<u>227,833</u>	<u>346,062</u>	<u>(4,303,041)</u>		<u>(4,303,041)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Electric	4,958,859	5,440,047				481,188	481,188
Water	821,660	763,160		531,300		472,800	472,800
Sewer	2,703,961	1,784,316		1,468,176		548,531	548,531
Stormwater	257,051	172,601		916,249		831,799	831,799
Total business-type activities	<u>8,741,531</u>	<u>8,160,124</u>		<u>2,915,725</u>		<u>2,334,318</u>	<u>2,334,318</u>
Total	<u>\$ 14,258,305</u>	<u>\$ 8,799,962</u>	<u>\$ 227,833</u>	<u>\$ 3,261,787</u>	<u>(4,303,041)</u>	<u>2,334,318</u>	<u>(1,968,723)</u>
<b>GENERAL REVENUES</b>							
Taxes							
Property taxes					3,035,510		3,035,510
Public service taxes					64,911		64,911
State income taxes					526,039		526,039
Franchise fees					89,381		89,381
Grants and contributions not restricted to specific programs					450,000		450,000
Unrestricted investment earnings					51,944	1,888	53,832
Overhead allocation					769,743	(769,743)	
Loss on disposal of assets					(473)	(9,290)	(9,763)
Transfers					(50,000)	50,000	
Total general revenues and transfers					<u>4,937,055</u>	<u>(727,145)</u>	<u>4,209,910</u>
Change in net position					634,014	1,607,173	2,241,187
<b>NET POSITION, BEGINNING OF YEAR</b>					10,155,705	19,121,590	29,277,295
<b>NET POSITION, END OF YEAR</b>					<u>\$ 10,789,719</u>	<u>\$ 20,728,763</u>	<u>\$ 31,518,482</u>

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

**TOWN OF BERLIN, MARYLAND**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**JUNE 30, 2017**

**ASSETS**

	General Fund	Special Revenue Fund	Total Governmental Funds
Cash and cash equivalents	\$ 1,084,238	\$	\$ 1,084,238
Pooled cash and investments	2,546,313	20,801	2,567,114
Taxes receivable	162,621		162,621
Accounts and notes receivable, net	53,151		53,151
Due from other governments	139,424		139,424
Due from other funds	2,853,376		2,853,376
Restricted cash	690,544		690,544
Total assets	<u>\$ 7,529,667</u>	<u>\$ 20,801</u>	<u>\$ 7,550,468</u>

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

**LIABILITIES**

Accounts payable and accrued expenses	\$ 153,731	\$ 20,630	\$ 174,361
Accrued compensated absences	136,720		136,720
Total liabilities	<u>290,451</u>	<u>20,630</u>	<u>311,081</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred property taxes	<u>138,631</u>		<u>138,631</u>
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**FUND BALANCES**

Restricted	39,082		39,082
Committed	383,769		383,769
Assigned	775,247		775,247
Unassigned	5,902,487	171	5,902,658
Total fund balance	<u>7,100,585</u>	<u>171</u>	<u>7,100,756</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,529,667</u>	<u>\$ 20,801</u>	<u>\$ 7,550,468</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, 2017**

Total fund balances, governmental funds	\$ 7,100,756
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.	9,417,540
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.	617,078
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.	138,631
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	(3,997,204)
Compensated absences	(114,124)
Deferred financing inflows - retirement	(130,394)
Net pension liability	<u>(2,242,564)</u>
Net position, governmental activities	<u>\$ 10,789,719</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, 2017**

	General Fund	Special Revenue Fund	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 3,616,359	\$	\$ 3,616,359
Licenses and permits	303,245		303,245
Intergovernmental revenues	1,119,357	4,856	1,124,213
Service charges	831,523		831,523
Impact fees	265,742		265,742
Earnings on investments	51,944		51,944
Miscellaneous	9,386		9,386
Total revenues	6,197,556	4,856	6,202,412
<b>EXPENDITURES</b>			
Current			
General government	1,366,065		1,366,065
Public safety	1,911,504	1,640	1,913,144
Public works	961,242		961,242
Planning and economic development	477,093		477,093
Recreation and parks	71,421		71,421
Debt service	339,483		339,483
Capital outlay	2,312,531		2,312,531
Total expenditures	7,439,339	1,640	7,440,979
Excess of expenditures (over) under revenues	(1,241,783)	3,216	(1,238,567)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(50,000)		(50,000)
Net other financing uses	(50,000)		(50,000)
Net change in fund balance	(1,291,783)	3,216	(1,288,567)
<b>FUND BALANCE (DEFICIT), BEGINNING OF YEAR</b>	8,392,368	(3,045)	8,389,323
<b>FUND BALANCE, END OF YEAR</b>	\$ 7,100,585	\$ 171	\$ 7,100,756

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, 2017**

Net change in fund balances, governmental funds	\$ (1,288,567)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expense (\$2,312,531) exceeded depreciation (\$373,841) in the current period.	1,938,690
Changes in deferred outflows of resources presented in the governmental activities of the Statement of Activities.	157,742
In the Statement of Activities, the gain or loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the book value of the assets sold.	(473)
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	728
Change in long-term compensated absences	(7,509)
Change in net pension liability	(385,637)
Change in deferred financing inflows	22,061
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	10,101
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>186,878</u>
Change in net position, governmental activities	<u><u>\$ 634,014</u></u>

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

**TOWN OF BERLIN, MARYLAND**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**JUNE 30, 2017**

<b>ASSETS</b>	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Stormwater Fund</u>	<u>Total</u>
Current assets					
Pooled cash and investments	\$ 2,360,906	\$ 469,608	\$ 34,009	\$	\$ 2,864,523
Accounts receivable, net of allowance	633,641	241,558	563,691	28,428	1,467,318
Due from other governments				127,395	127,395
Inventory	98,606	5,059	1,775		105,440
Total current assets	<u>3,093,153</u>	<u>716,225</u>	<u>599,475</u>	<u>155,823</u>	<u>4,564,676</u>
Noncurrent assets					
Restricted cash		688,112	442,380		1,130,492
Capital assets, net of accumulated depreciation	4,865,669	2,151,130	27,352,650	1,664,094	36,033,543
Total noncurrent assets	<u>4,865,669</u>	<u>2,839,242</u>	<u>27,795,030</u>	<u>1,664,094</u>	<u>37,164,035</u>
Total assets	<u>7,958,822</u>	<u>3,555,467</u>	<u>28,394,505</u>	<u>1,819,917</u>	<u>41,728,711</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred financing outflows - retirement	156,507	61,898	132,973	29,549	380,927
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and accrued expenses	154,128	166,108	126,554	74,337	521,127
Accrued compensated absences	41,179	14,940	11,289	1,881	69,289
Accrued interest payable	24,727		96,837		121,564
Customer deposits	115,345				115,345
Current portion of long-term debt	468,688		390,911		859,599
Total current liabilities	<u>804,067</u>	<u>181,048</u>	<u>625,591</u>	<u>76,218</u>	<u>1,686,924</u>
Noncurrent liabilities					
Bonds payable	4,524,100		10,706,925		15,231,025
Due to other funds			2,771,320	82,056	2,853,376
Net pension liability	578,368	227,234	504,597	96,528	1,406,727
Accrued compensated absences	52,411	17,912	48,208		118,531
Total noncurrent liabilities	<u>5,154,879</u>	<u>245,146</u>	<u>14,031,050</u>	<u>178,584</u>	<u>19,609,659</u>
Total liabilities	<u>5,958,946</u>	<u>426,194</u>	<u>14,656,641</u>	<u>254,802</u>	<u>21,296,583</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred financing inflows - retirement	34,700	13,468	31,723	4,401	84,292
<b>NET POSITION</b>					
Net investment in capital assets	1,993,881	2,151,130	16,254,814	1,664,094	22,063,919
Restricted for capital projects		688,112	442,380		1,130,492
Unrestricted (deficit)	127,802	338,461	(2,858,080)	(73,831)	(2,465,648)
Total net position	<u>\$ 2,121,683</u>	<u>\$ 3,177,703</u>	<u>\$ 13,839,114</u>	<u>\$ 1,590,263</u>	<u>\$ 20,728,763</u>

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, 2017**

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
<b>REVENUES</b>					
Service charges	\$ 5,310,718	\$ 674,940	\$ 1,651,884	\$ 171,356	\$ 7,808,898
Sales and services	70,726	30,453	1,902		103,081
Hauler fees			107,328		107,328
Interest on delinquent accounts	33,558	7,369	21,610	1,126	63,663
Miscellaneous	25,045	50,398	1,592	119	77,154
Total revenues	<u>5,440,047</u>	<u>763,160</u>	<u>1,784,316</u>	<u>172,601</u>	<u>8,160,124</u>
<b>EXPENSES</b>					
Purchased power	2,685,862				2,685,862
Personnel expenses	850,068	364,316	771,857	170,253	2,156,494
Supplies and operating	439,063	173,127	382,039	36,036	1,030,265
Professional services	99,766		2,234	10,882	112,882
Contracted services	124,403	10,464	23,925	26,141	184,933
Insurance	19,819	8,712	18,695	1,186	48,412
Repairs and maintenance	32,442	80,496	78,808		191,746
Depreciation	526,752	177,982	1,101,826	12,553	1,819,113
General overhead	349,710	124,259	244,251	51,523	769,743
Total expenses	<u>5,127,885</u>	<u>939,356</u>	<u>2,623,635</u>	<u>308,574</u>	<u>8,999,450</u>
Operating income (loss)	<u>312,162</u>	<u>(176,196)</u>	<u>(839,319)</u>	<u>(135,973)</u>	<u>(839,326)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Capital grants				916,249	916,249
Interest income		958	930		1,888
Interest expense	(180,684)	(6,563)	(324,577)		(511,824)
Loss on disposal of assets	(1,106)	(8,184)			(9,290)
Net nonoperating revenues (expenses)	<u>(181,790)</u>	<u>(13,789)</u>	<u>(323,647)</u>	<u>916,249</u>	<u>397,023</u>
Income (loss) before contributions and transfers	130,372	(189,985)	(1,162,966)	780,276	(442,303)
Transfers in				50,000	50,000
Capital contributions - special connection fees		531,300	1,468,176		1,999,476
Change in net position	130,372	341,315	305,210	830,276	1,607,173
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>1,991,311</u>	<u>2,836,388</u>	<u>13,533,904</u>	<u>759,987</u>	<u>19,121,590</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 2,121,683</u>	<u>\$ 3,177,703</u>	<u>\$ 13,839,114</u>	<u>\$ 1,590,263</u>	<u>\$ 20,728,763</u>

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, 2017**

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 5,381,651	\$ 695,676	\$ 1,957,366	\$ 154,924	\$ 8,189,617
Other receipts	25,045	50,398	1,592	119	77,154
Payments to suppliers	(3,617,327)	(156,180)	(531,880)	(36,384)	(4,341,771)
Payments to employees	(790,537)	(346,109)	(719,209)	(158,170)	(2,014,025)
Payments for interfund services	(349,710)	(124,259)	(244,251)	(51,523)	(769,743)
Net cash provided (used) by operating activities	<u>649,122</u>	<u>119,526</u>	<u>463,618</u>	<u>(91,034)</u>	<u>1,141,232</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Interfund borrowings			859,078	82,056	941,134
Interfund transfers				50,000	50,000
Net cash provided by noncapital financing activities			<u>859,078</u>	<u>132,056</u>	<u>991,134</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest income		958	930		1,888
Net cash provided by investing activities		<u>958</u>	<u>930</u>		<u>1,888</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchases of capital assets	(172,409)	(59,735)	(111,672)	(1,298,062)	(1,641,878)
Proceeds from capital grants				788,854	788,854
Principal paid on long-term debt	(458,320)	(352,467)	(1,992,665)		(2,803,452)
Interest paid on long-term debt	(182,861)	(6,928)	(335,921)		(525,710)
Capital contributions - special connection fees		531,300	1,468,176		1,999,476
Net cash provided (used) by capital and related financing activities	<u>(813,590)</u>	<u>112,170</u>	<u>(972,082)</u>	<u>(509,208)</u>	<u>(2,182,710)</u>
Net increase (decrease) in cash	<u>(164,468)</u>	<u>232,654</u>	<u>351,544</u>	<u>(468,186)</u>	<u>(48,456)</u>
<b>CASH, BEGINNING OF YEAR</b>	<u>2,525,374</u>	<u>925,066</u>	<u>124,845</u>	<u>468,186</u>	<u>4,043,471</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 2,360,906</u></u>	<u><u>\$ 1,157,720</u></u>	<u><u>\$ 476,389</u></u>	<u><u>\$</u></u>	<u><u>\$ 3,995,015</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 312,162	\$ (176,196)	\$ (839,319)	\$ (135,973)	\$ (839,326)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	526,752	177,982	1,101,826	12,553	1,819,113
Deferred financing outflows - retirement	(39,214)	(15,634)	(32,227)	(8,451)	(95,526)
Deferred financing inflows - retirement	(5,484)	(2,186)	(4,507)	(1,182)	(13,359)
(Increase) decrease in assets					
Accounts receivable	(50,652)	(17,086)	174,642	(17,558)	89,346
Inventory	26,121	4,048	(381)		29,788
Increase (decrease) in liabilities					
Accounts payable and accrued expenses	(137,864)	148,598	63,584	59,577	133,895
Deposits	17,301				17,301
Net cash provided (used) by operating activities	<u>\$ 649,122</u>	<u>\$ 119,526</u>	<u>\$ 463,618</u>	<u>\$ (91,034)</u>	<u>\$ 1,141,232</u>

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

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

**JUNE 30, 2017**

**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, 2017**

**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, 2017**

**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, 2017**

**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, 2017, the allowance in the General Fund was \$13,912 and the Enterprise Fund was \$40,474.

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, 2017**

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

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. General infrastructure assets, such as streets, curbs, gutters, storm drains, traffic lighting systems and similar assets, acquired after June 30, 2000 are capitalized in the government-wide financial statements. The Town established a \$5,000 minimum threshold amount for capitalization in 2014. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20 - 50 years
Buildings and improvements	20 - 40 years
Machinery and equipment	5 - 10 years
Transportation equipment	5 - 15 years

Accrued Compensated Absences

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

Capital Contributions - Enterprise Funds

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

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

**JUNE 30, 2017**

**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, 2017**

**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, 2017, \$2,652,296 of the Town's deposits were exposed to custodial credit risk. These amounts were not covered by the Federal Deposit Insurance Corporation (FDIC) but were collateralized with securities held by the pledging financial institution's trust department, not in the Town's name.

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

**JUNE 30, 2017**

**CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 4,052,872	\$ 90,042	\$	\$ 4,142,914
Construction in progress	494,840	1,668,592	34,587	2,128,845
Total capital assets not being depreciated	<u>4,547,712</u>	<u>1,758,634</u>	<u>34,587</u>	<u>6,271,759</u>
<i>Capital assets being depreciated</i>				
Infrastructure	4,227,433	270,444		4,497,877
Buildings and improvements	1,020,613	26,500		1,047,113
Equipment	924,295	159,071	120,267	963,099
Vehicles	1,473,884	132,468	128,971	1,477,381
Total capital assets being depreciated	<u>7,646,225</u>	<u>588,483</u>	<u>249,238</u>	<u>7,985,470</u>
Less accumulated depreciation for:				
Infrastructure	2,316,391	156,771		2,473,162
Buildings and improvements	682,939	35,249		718,188
Equipment	707,232	62,899	120,219	649,912
Vehicles	1,008,053	118,921	128,547	998,427
Total accumulated depreciation	<u>4,714,615</u>	<u>373,840</u>	<u>248,766</u>	<u>4,839,689</u>
Total capital assets being depreciated, net	<u>2,931,610</u>	<u>214,643</u>	<u>472</u>	<u>3,145,781</u>
Governmental activity capital assets, net	<u>\$ 7,479,322</u>	<u>\$ 1,973,277</u>	<u>\$ 35,059</u>	<u>\$ 9,417,540</u>

Construction in progress in the governmental activities includes costs incurred to date on the Berlin police department building and Berlin Falls Park.

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

**JUNE 30, 2017**

**CAPITAL ASSETS (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
<b><u>Electric:</u></b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 304,510	\$	\$	\$ 304,510
Total capital assets not being being depreciated	304,510			304,510
<i>Capital assets being depreciated</i>				
Infrastructure	14,979,673	8,194		14,987,867
Buildings and improvements	617,463	137,613		755,076
Equipment	2,368,069		149,955	2,218,114
Vehicles	594,899	26,602		621,501
Total capital assets being depreciated	18,560,104	172,409	149,955	18,582,558
Less accumulated depreciation for:				
Infrastructure	11,206,256	377,645		11,583,901
Buildings and improvements	458,978	17,835		476,813
Equipment	1,586,889	85,404	148,849	1,523,444
Vehicles	391,373	45,868		437,241
Total accumulated depreciation	13,643,496	526,752	148,849	14,021,399
Total capital assets being depreciated, net	4,916,608	(354,343)	1,106	4,561,159
Electric activities, capital assets, net	5,221,118	(354,343)	1,106	4,865,669

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

**JUNE 30, 2017**

**CAPITAL ASSETS (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Sewer:</b>				
<i>Capital assets not being depreciated</i>				
Land	3,495,233			3,495,233
Construction in progress	705,652	1,255	706,907	
Total capital assets not being depreciated	4,200,885	1,255	706,907	3,495,233
<i>Capital assets being depreciated</i>				
Infrastructure	37,536,754	731,757		38,268,511
Buildings and improvements	1,510			1,510
Equipment	865,051	41,466	9,758	896,759
Vehicles	678,826	44,101	18,477	704,450
Total capital assets being depreciated	39,082,141	817,324	28,235	39,871,230
Less accumulated depreciation for:				
Infrastructure	13,766,268	1,003,026		14,769,294
Buildings and improvements	1,510			1,510
Equipment	681,955	44,934	9,758	717,131
Vehicles	490,489	53,866	18,477	525,878
Total accumulated depreciation	14,940,222	1,101,826	28,235	16,013,813
Total capital assets being depreciated, net	24,141,919	(284,502)		23,857,417
Sewer, capital assets, net	28,342,804	(283,247)	706,907	27,352,650

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

**JUNE 30, 2017**

**CAPITAL ASSETS (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Water:</u></b>				
<i>Capital assets not being depreciated</i>				
Land	82,039			82,039
Construction in progress	1,079,445		1,079,445	
Total capital assets not being depreciated	1,161,484		1,079,445	82,039
<i>Capital assets being depreciated</i>				
Infrastructure	4,026,412	1,079,445	13,748	5,092,109
Buildings and improvements	14,206			14,206
Equipment	338,592	33,383	102,980	268,995
Vehicles	100,393	26,352		126,745
Total capital assets being depreciated	4,479,603	1,139,180	116,728	5,502,055
Less accumulated depreciation for:				
Infrastructure	3,066,263	149,970	6,324	3,209,909
Buildings and improvements	11,313	276		11,589
Equipment	226,189	12,805	102,220	136,774
Vehicles	59,761	14,931		74,692
Total accumulated depreciation	3,363,526	177,982	108,544	3,432,964
Total capital assets being depreciated, net	1,116,077	961,198	8,184	2,069,091
Water, capital assets, net	2,277,561	961,198	1,087,629	2,151,130

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

**JUNE 30, 2017**

**CAPITAL ASSETS (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Stormwater:</u></b>				
<i>Capital asset not being depreciated</i>				
Construction in progress	222,761	1,271,710	25,404	1,469,067
Total capital assets not being depreciated	222,761	1,271,710	25,404	1,469,067
<i>Capital assets being depreciated</i>				
Land improvements	183,229	25,404		208,633
Vehicles		26,352		26,352
Total capital assets being depreciated	183,229	51,756		234,985
Less accumulated depreciation for:				
Land improvements	27,405	9,479		36,884
Vehicles		3,074		3,074
Total accumulated depreciation	27,405	12,553		39,958
Total capital assets being depreciated, net	155,824	39,203		195,027
Stormwater, capital asset, net	378,585	1,310,913	25,404	1,664,094
Business-type activities				
Capital assets, net	\$ 36,220,068	\$ 1,634,521	\$ 1,821,046	\$ 36,033,543

Construction in progress in the Stormwater Fund includes flood and drainage projects on West Street and Hudson Branch. These projects are being funded with grants from Community Development Block Grants of \$800,000, Maryland Department of Natural Resources of \$964,603, and Federal Emergency Management Agency of \$124,048.

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

General government	\$ 39,518
Public safety	61,363
Public works	240,750
Planning and community development	3,508
Recreation and parks	28,701
	<u>\$ 373,840</u>

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

**JUNE 30, 2017**

**FUND BALANCES**

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

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

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

**INTERNAL BALANCES AND ACTIVITY**

Balances due to/from other funds at June 30, 2017 consist of the following:

	<u>June 30, 2016</u>	<u>Increase</u>	<u>June 30, 2017</u>
Due to the general fund from the sewer fund	<u>\$ 1,912,242</u>	<u>\$ 859,078</u>	<u>\$ 2,771,320</u>
Due to the general fund from the stormwater fund	<u>\$</u>	<u>\$ 82,056</u>	<u>\$ 82,056</u>

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

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

**LONG-TERM DEBT**

Changes in long-term obligations for the year June 30, 2017 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
General obligation bonds	<u>\$ 4,172,300</u>	<u>\$</u>	<u>\$ 186,877</u>	<u>\$ 3,985,423</u>

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

**JUNE 30, 2017**

**LONG-TERM DEBT (continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type Activities:</b>				
<b>Electric</b>				
General obligation bonds	\$ 5,451,108	\$	\$ 458,320	\$ 4,992,788
<b>Water</b>				
General obligation bonds	352,467		352,467	
<b>Sewer</b>				
General obligation bonds	13,090,501		1,992,665	11,097,836
	<u>\$ 18,894,076</u>	<u>\$</u>	<u>\$ 2,803,452</u>	<u>\$ 16,090,624</u>

**Governmental Activities**

Notes payable and general obligation bonds consist of the following:

	<u>Principal Balance Outstanding at June 30, 2017</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.	\$ 518,911
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.	560,000
Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1998. The original obligations are dated May 17, 2012 in the amount of \$37,484. Debt is being amortized over 6 years. Interest rates range from 1.41% to 1.94%. Interest is due semi-annually with principal payments due annually and maturing May 1, 2018.	6,512

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

**JUNE 30, 2017**

**LONG-TERM DEBT (continued)**

**Governmental Activities (continued)**

	<u>Principal Balance Outstanding at June 30, 2017</u>
Public improvement bonds of 2016 payable to the Bank of Ocean City for the purchase of property. The original obligations are dated January 22, 2016. Debt is amortized over 30 years at an interest rate of 3.50%. Interest and principal is due annually, with principal payments of \$100,000 through December 1, 2045.	2,900,000
Total Governmental Activities	<u>\$ 3,985,423</u>

**Business-type Activities – Electric Fund**

	<u>Principal Balance Outstanding at June 30, 2017</u>
Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1988. The original obligations are dated May 17, 2012 in the amount of \$899,618. Debt is amortized over 6 years. Interest rates range from 1.41% to 1.94%. Interest is due semi-annually with principal payments due annually, ranging from \$1,484 to \$157,804 through May 1, 2018.	\$ 156,288
2015 bonds payable to the Maryland Department of Housing and Community Development dated August 27, 2015 for \$2,288,100. Proceeds were used to refinance 2004 bonds payable. Debt is amortized over 19 years at an interest rate averaging 3.24%. Interest and principal is due semi-annually, with total annual payments ranging from \$19,251 to \$165,546 through April 1, 2034.	2,121,000

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

**JUNE 30, 2017**

**LONG-TERM DEBT (continued)**

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

	Principal Balance Outstanding at <u>June 30, 2017</u>
<p>Infrastructure financing bonds of 2007 payable to the Maryland Department of Community Development. This obligation was used to refinance general obligation bonds for 1995. The original obligation is dated November 14, 2007 in the amount of \$944,200. Debt is amortized from 8 to 20 years at an interest rate of 4.125%. Interest and principal is due semi-annually with total annual payments ranging from \$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.</p>	318,400
<p>Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 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.</p>	1,070,800
<p>Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 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.</p>	<u>1,326,300</u>
<p>Total Electric Fund</p>	<u>4,992,788</u>

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

**JUNE 30, 2017**

**LONG-TERM DEBT (continued)**

**Business-type Activities – Sewer Fund**

	Principal Balance Outstanding at <u>June 30, 2017</u>
Real property acquisition bond payable to an individual. This obligation is being used to finance the purchase of real property for use in the spray irrigation project. The original obligation is dated December 15, 2010 in the amount of \$500,000. Debt is amortized over 25 years at an interest rate of 8.422%. Interest and principal is due monthly with payments in the amount of \$4,045. The maturity date is January 15, 2036.	444,610
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.	5,339,741
Loan payable to the U.S. Department of Agriculture to fund construction of Phase I of the spray irrigation project. The original obligation is dated August 24, 2011 in the amount of \$2,462,000. Debt is amortized over 40 years at an interest rate of 2.5%. Interest payments are due semi-annually with principal payments being due semi-annually beginning February 2013. Payments range from \$30,775 to \$50,373, maturing August 2050.	2,308,292

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

**JUNE 30, 2017**

**LONG-TERM DEBT (continued)**

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

	Principal Balance Outstanding at <u>June 30, 2017</u>
<p>Loan payable to Maryland Department of the Environment. This loan is being used to fund construction of Phase II of the spray irrigation project. Total amount available to draw is \$3,207,000. Interest payments at .80% are due in semi-annual payments. Principal payments begin annually February 2015. The maturity date is February 2033.</p>	2,731,493
<p>Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1991. The original obligations are dated May 17, 2012 in the amount of \$587,420. Debt is amortized over 16 years. Interest rates range from 1.41% to 3.94%. Interest is due semi-annually with principal payments due annually, ranging from \$980 to \$71,000 through May 1, 2021.</p>	<u>273,700</u>
Total Sewer Fund	<u>11,097,836</u>
Total long-term debt - Business-type Activities	<u><u>\$ 16,090,624</u></u>

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

**JUNE 30, 2017**

**LONG-TERM DEBT (continued)**

Debt Service Requirements

Principal and interest requirements to amortize the note and the general obligation and public improvements bonds as of June 30, 2017 are as follows:

<b>Governmental Activities</b>			
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 187,518	\$ 145,703	\$ 333,221
2019	181,538	138,695	320,233
2020	182,096	132,038	314,134
2021	182,681	124,854	307,535
2022	183,294	117,892	301,186
2023 - 2027	786,757	489,848	1,276,605
2028 - 2032	597,198	369,183	966,381
2033 - 2037	623,082	255,588	878,670
2038 - 2042	655,859	135,273	791,132
2043 - 2046	405,400	28,202	433,602
	<u>\$ 3,985,423</u>	<u>\$ 1,937,276</u>	<u>\$ 5,922,699</u>

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of June 30, 2017 are as follows:

<b>Business-Type Activities</b>			
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 859,599	\$ 425,446	\$ 1,285,045
2019	716,566	408,062	1,124,628
2020	733,105	392,048	1,125,153
2021	749,637	369,401	1,119,038
2022	697,471	346,906	1,044,377
2023 - 2027	3,672,371	1,454,081	5,126,452
2028 - 2032	3,104,070	951,478	4,055,548
2033 - 2037	1,741,165	556,278	2,297,443
2038 - 2042	1,268,017	375,233	1,643,250
2043 - 2047	1,423,410	219,840	1,643,250
2048 - 2051	1,125,213	51,312	1,176,525
	<u>\$ 16,090,624</u>	<u>\$ 5,550,085</u>	<u>\$ 21,640,709</u>

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

**JUNE 30, 2017**

**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, 2017, total interest incurred and paid in the Enterprise Fund was \$511,824 all of which was charged to operations.

**INTERNAL CHARGES AND SERVICES**

The Town provides administrative services to the proprietary funds for certain services paid in the general fund. Also, a payment in lieu of taxes of \$157,000 is charged to the Electric Fund. The total services billed for the year ended June 30, 2017 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>\$ 349,710</u>	<u>\$ 124,259</u>	<u>\$ 244,251</u>	<u>\$ 51,523</u>	<u>\$ 769,743</u>

**LEASE AGREEMENTS**

The Town has entered into lease agreements expiring in 2027 and 2026 with AT&T Wireless and T-mobile for the use of the Town's water tower for wireless antennas and transmission lines. Total lease payments billed for the year ended June 30, 2017 were \$50,248.

Future lease payment terms to be received are:

<u>Year Ending June 30,</u>	<u>Total Payment</u>
2018	\$ 62,552
2019	63,666
2020	64,814
2021	65,996
2022	69,754
All subsequent years	<u>586,751</u>
Total minimum lease payments to be received	<u>\$ 913,533</u>

**TOWN OF BERLIN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**RETIREMENT AND PENSION PLANS**

General information about the pension plan

*Plan description.* Employees of the Town are covered by the Pension System for Employees of the State of Maryland or the Employees’ Retirement System of the State of Maryland. These systems are part of the Maryland State Retirement and Pension System (MSRPS), and are cost-sharing multiple-employer public employee retirement systems. The plan is administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the MSRPS is vested in a 15-member Board of Trustees. The MSRPS was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issued a publicly available financial report that includes basic financial statements and required supplementary information for the MSRPS. This report can be found at [www.sra.state.md.us/Agency/Downloads/CAFR/CAFR-2016.pdf](http://www.sra.state.md.us/Agency/Downloads/CAFR/CAFR-2016.pdf).

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

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

Fiscal Year Ending	Annual Pension Cost	Percentage Funded
6/30/2015	\$ 307,322	100%
6/30/2016	\$ 301,310	100%
6/30/2017	\$ 298,871	100%

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

**JUNE 30, 2017**

**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, 2017, the Town reported a liability of \$3,649,291 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the Town's proportion was .0155%.

For the year ended June 30, 2017, the Town recognized pension expense of \$418,930. At June 30, 2017, 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	\$ 137,069	\$
Net difference between projected and actual earnings on pension plan investments	562,065	214,686
Contributions subsequent to measurement date	298,871	
	<u>\$ 998,005</u>	<u>\$ 214,686</u>

The Town's contribution subsequent to the measurement date of \$298,871, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Deferred financial inflows and outflows are made up of changes in actuarial assumptions, differences in actual and expected experience, and net difference in the project and actual investment earnings. The deferred outflows and inflows related to non-investment activity are being amortized over the remaining service life of 5.8647, 5.87, and 5 years for the years ended June 30, 2016, 2015, and 2014, respectively. The net difference in investment earnings for 2016, 2015, and 2014 are being amortized over a closed five-year period. The following table shows the amortization of these balances:

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

**JUNE 30, 2017**

**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
2018	\$ 83,623	\$ 196,773
2019	83,741	196,789
2020	20,978	188,141
2021	19,237	117,431
2022	7,107	
Total	<u>\$ 214,686</u>	<u>\$ 699,134</u>

*Actuarial assumptions.* The actuarial assumption for the Pension Plan as a whole and based on the June 30, 2016 annual actuarial valuation report for Maryland Municipal Corporation are as follows:

Inflation	2.70% general, 3.20% wage
Salary increases	3.3% to 9.2%, including inflation
Investment rate of return	7.55%

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

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

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

**JUNE 30, 2017**

**RETIREMENT AND PENSION PLANS (Continued)**

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

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

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

1% Decrease (6.55%)	\$ 5,012,614
Current discount rate (7.55%)	\$ 3,649,291
1% Increase (8.55%)	\$ 2,514,797

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

**DEFERRED COMPENSATION PLAN**

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

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

**JUNE 30, 2017**

**RISK MANAGEMENT**

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

**COMMITMENTS AND CONTINGENCIES**

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

**SUBSEQUENT EVENT – CONDUIT DEBT**

On June 26, 2017, the Town approved the issuance of bonds not to exceed \$10,000,000 and to loan the proceeds to Atlantic General Hospital Corporation (AGH) for the purpose of the acquisition and improvements to the Hospital.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

**YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 3,337,000	\$ 3,337,000	\$ 3,616,359	\$ 279,359
Licenses and permits	180,500	180,500	303,245	122,745
Intergovernmental revenues	1,235,595	1,235,595	1,119,357	(116,238)
Service charges	817,286	817,286	831,523	14,237
Impact fees	32,000	32,000	265,742	233,742
Earnings on investments	52,000	52,000	51,944	(56)
Miscellaneous	8,000	8,000	9,386	1,386
Total revenues	<u>5,662,381</u>	<u>5,662,381</u>	<u>6,197,556</u>	<u>535,175</u>
<b>EXPENDITURES</b>				
Current				
General government	1,561,083	1,561,083	1,366,065	195,018
Public safety	2,057,984	2,057,984	1,911,504	146,480
Public works	919,725	919,725	961,242	(41,517)
Planning and economic development	503,765	503,765	477,093	26,672
Recreation and parks	68,600	68,600	71,421	(2,821)
Debt service	339,900	339,900	339,483	417
Capital outlay	3,734,750	3,734,750	2,312,531	1,422,219
Total expenditures	<u>9,185,807</u>	<u>9,185,807</u>	<u>7,439,339</u>	<u>1,746,468</u>
Excess of expenditures (over) under revenues	(3,523,426)	(3,523,426)	(1,241,783)	2,281,643
<b>OTHER FINANCING SOURCES (USES)</b>				
Prior year surplus	2,423,426	2,423,426		(2,423,426)
Slots revenue carryforward	650,000	650,000		(650,000)
Transfers out	(50,000)	(50,000)	(50,000)	
Proceeds from issuance of long-term debt	500,000	500,000		(500,000)
Net other financing sources (uses)	<u>3,523,426</u>	<u>3,523,426</u>	<u>(50,000)</u>	<u>(3,573,426)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ (1,291,783)</u>	<u>\$ (1,291,783)</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>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	0.0155%	0.0146%	0.0129%
Town's proportionate share of the net pension liability	\$ 3,649,291	\$ 3,030,119	\$ 2,290,390
Town's covered-employee payroll	\$ 3,069,300	\$ 3,212,440	\$ 2,984,932
Town's proportionate share of the net pension liability as a percentage of its covered payroll	118.90%	94.32%	76.73%
Plan fiduciary net position as a percentage of the total pension liability	65.79%	68.78%	71.87%

**TOWN OF BERLIN, MARYLAND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS**

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

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

**SUPPLEMENTARY INFORMATION**



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JOHN M. STERN, JR., CPA

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Mayor and Council  
Town of Berlin, Maryland

[www.pkscpa.com](http://www.pkscpa.com)

### *Report on Supplementary Information*

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1801 SWEETBAY DRIVE  
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SALISBURY, MD 21803  
TEL: 410.546.5600  
FAX: 410.548.9576

Our report on our audit of the financial statements that collectively comprise the Town of Berlin, Maryland's basic financial statements as of June 30, 2017, 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 50 through 55 is presented for purposes of additional analysis and is not a required part of the financial statements.

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

### **Lewes**

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### *Other Matter*

The prior year comparative information has been derived from the Town's 2016 and 2015 financial statements and, in our reports dated October 14, 2016 and October 30, 2015, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

### MEMBERS OF:

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Salisbury, Maryland  
November 9, 2017

**TOWN OF BERLIN, MARYLAND**

**SCHEDULES OF REVENUES AND EXPENDITURES  
GENERAL FUND**

**YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>			
Taxes			
Berlin property	\$ 2,984,070	\$ 3,050,896	\$ 2,877,762
County shared	64,911	74,404	68,002
State shared	526,039	431,856	333,844
Penalties and interest	41,339	32,439	55,394
Licenses and permits	303,245	247,925	253,856
Intergovernmental			
State	669,357	513,012	489,689
County	450,000	450,000	450,000
Service charges to other funds	769,744	710,279	596,997
Service charges, other	61,779	73,195	69,096
Impact fees	265,742	56,659	102,000
Earnings on investments	51,944	57,079	53,036
Miscellaneous	9,386	17,403	7,092
Total revenues	<u>6,197,556</u>	<u>5,715,147</u>	<u>5,356,768</u>
<b>EXPENDITURES</b>			
Current			
General government	1,366,065	1,447,207	1,293,367
Public safety	1,911,504	1,927,569	1,872,440
Public works	961,242	954,089	832,697
Planning and economic development	477,093	463,123	425,536
Recreation and parks	71,421	56,057	57,326
Debt service	339,483	176,842	146,817
Capital outlay	2,312,531	3,149,134	531,132
Total expenditures	<u>7,439,339</u>	<u>8,174,021</u>	<u>5,159,315</u>
Revenues over (under) expenditures	(1,241,783)	(2,458,874)	197,453
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(50,000)	(100,000)	(260,000)
Proceeds from sale of assets		434,185	
Proceeds from issuance of long term debt		3,000,000	
Net other financing sources (uses)	<u>(50,000)</u>	<u>3,334,185</u>	<u>(260,000)</u>
Net change in fund balance	<u>\$ (1,291,783)</u>	<u>\$ 875,311</u>	<u>\$ (62,547)</u>

**TOWN OF BERLIN, MARYLAND**

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

**YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>			
Intergovernmental revenues	\$ 4,856	\$ 6,449	\$ 9,351
Total revenues	<u>4,856</u>	<u>6,449</u>	<u>9,351</u>
<b>EXPENDITURES</b>			
Salaries and related	<u>1,640</u>	<u>9,182</u>	<u>8,921</u>
Total expenditures	<u>1,640</u>	<u>9,182</u>	<u>8,921</u>
Net change in fund balance	<u>\$ 3,216</u>	<u>\$ (2,733)</u>	<u>\$ 430</u>

**TOWN OF BERLIN, MARYLAND**

**SCHEDULES OF REVENUES AND EXPENSES  
ELECTRIC FUND**

**YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)**

	2017	2016	2015
<b>REVENUES</b>			
Service charges	\$ 5,310,718	\$ 5,007,025	\$ 5,629,198
Sales and services	70,726	81,998	76,772
Interest on delinquent accounts	33,558	34,495	39,495
Miscellaneous	25,045	1,327	4,640
Total revenues	<u>5,440,047</u>	<u>5,124,845</u>	<u>5,750,105</u>
<b>EXPENSES</b>			
Purchased power	2,685,862	2,624,837	2,848,237
Personnel expenses	850,068	813,426	745,432
Supplies and operating	439,063	370,049	416,975
Professional services	99,766	88,360	140,378
Contracted services	124,403	129,519	31,961
Insurance	19,819	19,526	17,898
Repairs and maintenance	32,442	45,118	31,324
Depreciation	526,752	515,640	508,302
General overhead	349,710	313,771	280,290
Total expenses	<u>5,127,885</u>	<u>4,920,246</u>	<u>5,020,797</u>
Operating income	<u>312,162</u>	<u>204,599</u>	<u>729,308</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest expense	(180,684)	(218,336)	(233,078)
Gain (loss) on disposal of assets	(1,106)	13,662	5,550
Net nonoperating expenses	<u>(181,790)</u>	<u>(204,674)</u>	<u>(227,528)</u>
Change in net position	<u>\$ 130,372</u>	<u>\$ (75)</u>	<u>\$ 501,780</u>

**TOWN OF BERLIN, MARYLAND**

**SCHEDULES OF REVENUES AND EXPENSES  
WATER FUND**

**YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)**

	2017	2016	2015
<b>REVENUES</b>			
Service charges	\$ 674,940	\$ 639,979	\$ 655,105
Sales and services	30,453	10,745	9,819
Interest on delinquent accounts	7,369	9,001	14,064
Miscellaneous	50,398	58,264	63,680
Total revenues	<u>763,160</u>	<u>717,989</u>	<u>742,668</u>
<b>EXPENSES</b>			
Personnel expenses	364,316	315,195	318,465
Supplies and operating	173,127	126,601	160,157
Contracted services	10,464	12,014	7,231
Insurance	8,712	8,275	7,268
Repairs and maintenance	80,496	39,477	15,987
Depreciation	177,982	134,897	126,694
General overhead	124,259	115,950	103,016
Total expenses	<u>939,356</u>	<u>752,409</u>	<u>738,818</u>
Operating income (loss)	<u>(176,196)</u>	<u>(34,420)</u>	<u>3,850</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Capital grants		35,993	
Interest income	958	397	1,553
Interest expense	(6,563)	(1,791)	(4,735)
Loss on disposal of assets	(8,184)		
Net nonoperating revenues (expenses)	<u>(13,789)</u>	<u>34,599</u>	<u>(3,182)</u>
Income (loss) before contributions	(189,985)	179	668
Capital contribution - special connection fees	531,300	48,150	335,760
Change in net position	<u>\$ 341,315</u>	<u>\$ 48,329</u>	<u>\$ 336,428</u>

**TOWN OF BERLIN, MARYLAND**

**SCHEDULES OF REVENUES AND EXPENSES  
SEWER FUND**

**YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)**

	2017	2016	2015
<b>REVENUES</b>			
Service charges	\$ 1,651,884	\$ 1,642,275	\$ 1,669,216
Sales and services	1,902		1,448
Hauler fees	107,328	107,632	119,280
Interest on delinquent accounts	21,610	19,284	31,066
Miscellaneous	1,592	2,104	1,088
Total revenues	<u>1,784,316</u>	<u>1,771,295</u>	<u>1,822,098</u>
<b>EXPENSES</b>			
Personnel expenses	771,857	733,255	715,435
Supplies and operating	382,039	391,983	390,669
Professional services	2,234	2,674	1,100
Contracted services	23,925	16,593	16,522
Insurance	18,695	17,919	7,344
Repairs and maintenance	78,808	70,529	36,830
Depreciation	1,101,826	1,140,775	1,140,916
General overhead	244,251	233,429	162,733
Total expenses	<u>2,623,635</u>	<u>2,607,157</u>	<u>2,471,549</u>
Operating loss	<u>(839,319)</u>	<u>(835,862)</u>	<u>(649,451)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	930	391	1,991
Interest expense	(324,577)	(325,786)	(374,628)
Gain on disposal of assets		1,564	
Net nonoperating expenses	<u>(323,647)</u>	<u>(323,831)</u>	<u>(372,637)</u>
Loss before contributions	(1,162,966)	(1,159,693)	(1,022,088)
Capital contributions - special connection fees	<u>1,468,176</u>	<u>127,466</u>	<u>895,143</u>
Change in net position	<u>\$ 305,210</u>	<u>\$ (1,032,227)</u>	<u>\$ (126,945)</u>

**TOWN OF BERLIN, MARYLAND**

**SCHEDULES OF REVENUES AND EXPENSES  
STORMWATER FUND**

**YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>			
Service charges	\$ 171,356	\$ 173,245	\$ 160,677
Interest on delinquent accounts	1,126	933	753
Miscellaneous	119	334	154
Total revenues	<u>172,601</u>	<u>174,512</u>	<u>161,584</u>
<b>EXPENSES</b>			
Personnel expenses	170,253	160,237	112,402
Supplies and operating	36,036	19,825	36,438
Professional services	10,882	13,845	19,153
Contracted services	26,141	1,169	7,192
Insurance	1,186	1,106	1,050
Depreciation	12,553	9,161	9,161
General overhead	51,523	47,128	50,958
Total expenses	<u>308,574</u>	<u>252,471</u>	<u>236,354</u>
Operating loss	<u>(135,973)</u>	<u>(77,959)</u>	<u>(74,770)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Capital grants	916,249	11,145	
Net nonoperating revenues	<u>916,249</u>	<u>11,145</u>	
Gain (loss) before transfers	780,276	(66,814)	(74,770)
Transfers in	50,000	100,000	260,000
Change in net position	<u>\$ 830,276</u>	<u>\$ 33,186</u>	<u>\$ 185,230</u>

***GOVERNMENT AUDITING STANDARDS REPORT***



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

[www.pkscpa.com](http://www.pkscpa.com)

To the Mayor and Council  
Town of Berlin, Maryland

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of and for the year ended June 30, 2017, 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 9, 2017.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

Salisbury, Maryland  
November 9, 2017

**UNIFORM GUIDANCE REPORTS**

**TOWN OF BERLIN, MARYLAND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Award	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Pass through program from Maryland Department of Housing and Urban Development				
Community Development Block Grants	14.228	MD-15-CD-27	<u>\$ 800,000</u>	<u>\$ 788,855</u>
Total expenditures of federal awards			<u>\$ 800,000</u>	<u>\$ 788,855</u>

See accompanying notes to schedule of expenditures of federal awards.

## **TOWN OF BERLIN, MARYLAND**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**JUNE 30, 2017**

#### **BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Town of Berlin, Maryland under programs of the federal government for the year ended June 30, 2017. The information presented in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in assets, or cash flows of the Town.

#### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

#### **INDIRECT COSTS**

The Town of Berlin has elected not to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.



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ALLINIAL GLOBAL

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Mayor and Council  
Town of Berlin, Maryland

### Report on Compliance for Each Major Federal Program

We have audited the Town of Berlin, Maryland's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2017. The Town's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and terms and conditions of Federal awards applicable to its federal programs.

### Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, And Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## **Opinion on Each Major Federal Program**

In our opinion, the Town of Berlin, Maryland, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## **Report on Internal Control Over Compliance**

Management of the Town of Berlin, Maryland is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

## **Purpose of this Report**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

Salisbury, Maryland  
November 9, 2017

**TOWN OF BERLIN, MARYLAND**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**JUNE 30, 2017**

An audit in accordance with the Uniform Guidance was not required for the year ended June 30, 2016, and therefore, no findings relative to federal award programs were reported.

**TOWN OF BERLIN, MARYLAND**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2017**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of the Town of Berlin, Maryland.
2. No significant deficiencies related to the audit of the financial statements is reported in the "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*".
3. No instances of noncompliance material to the financial statements of the Town of Berlin, Maryland which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. There were no significant deficiencies relating to the audit of the major federal award programs reported in the "Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance required by the Uniform Guidance."
5. The auditors' report on compliance for the major federal award programs for the Town of Berlin, Maryland expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR 200.516(a).
7. The program tested as a major program is the U.S. Department of Housing and Urban Development; Community Development Block Grants, CFDA No. 14.228.
8. The threshold for distinguishing between Types A and B programs was \$750,000.
9. The Town of Berlin, Maryland does not qualify as a low-risk auditee.

**B. FINDINGS — FINANCIAL STATEMENTS AUDIT**

None

**C. FINDINGS AND QUESTIONED COSTS — MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None