

TOWN OF BERLIN, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

TOWN OF BERLIN, MARYLAND

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council
Town of Berlin, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Berlin, Maryland's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Auditors' Responsibility (continued)

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019 on our consideration of the Town of Berlin, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 30, 2019

TOWN OF BERLIN, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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, 2019. 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, 2019 was \$32,815,000. Of this total, \$31,603,000 was invested in capital assets, net of related debt, and \$1,239,000 was restricted which leaves an unrestricted deficit balance of \$27,000. The Town’s net position increased \$195,000 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	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 5,714	\$ 5,826	\$ 1,980	\$ 2,841	\$ 7,694	\$ 8,667
Capital assets	11,486	11,334	34,309	35,611	45,795	46,945
Total assets	17,200	17,160	36,289	38,452	53,489	55,612
Deferred outflows of resources	416	518	261	321	677	839
Long-term liabilities	5,629	5,688	13,369	15,329	18,998	21,017
Current and other liabilities	640	625	1,325	1,776	1,965	2,401
Total liabilities	6,269	6,313	14,694	17,105	20,963	23,418
Deferred inflows of resources	238	253	150	159	388	412
Net position						
Net investment in capital assets	7,870	7,536	23,733	23,008	31,603	30,544
Restricted	925	752	314	778	1,239	1,530
Unrestricted (deficit)	2,314	2,824	(2,341)	(2,277)	(27)	547
Total net position	\$ 11,109	\$ 11,112	\$ 21,706	\$ 21,509	\$ 32,815	\$ 32,621

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	
	2019	2018	2019	2018	2019	2018
REVENUES						
Program services						
Charges for services	\$ 665	\$ 588	\$ 8,480	\$ 8,524	\$ 9,145	\$ 9,112
Operating grants and contributions	283	234			283	234
Capital grants and contributions	302	213	1,351	1,751	1,653	1,964
General revenues						
Property taxes	3,327	3,128			3,327	3,128
Other taxes and fees	660	496			660	496
Unrestricted grants	465	455			465	455
Overhead allocation	826	798	(826)	(798)		
Other	30	42	8	13	38	55
Total revenues	<u>6,558</u>	<u>5,954</u>	<u>9,013</u>	<u>9,490</u>	<u>15,571</u>	<u>15,444</u>
EXPENSES						
General government	1,716	1,430			1,716	1,430
Public safety	2,811	2,173			2,811	2,173
Public works	1,213	1,216			1,213	1,216
Planning and economic development	514	516			514	516
Recreation and parks	104	98			104	98
Interest on long-term debt	138	149			138	149
Electric			5,058	4,846	5,058	4,846
Water			810	931	810	931
Sewer			2,731	2,715	2,731	2,715
Stormwater			281	268	281	268
Total expenses	<u>6,496</u>	<u>5,582</u>	<u>8,880</u>	<u>8,760</u>	<u>15,376</u>	<u>14,342</u>
Change before transfers	62	372	133	730	195	1,102
Transfers	<u>(64)</u>	<u>(50)</u>	<u>64</u>	<u>50</u>		
Change in net position	<u>\$ (2)</u>	<u>\$ 322</u>	<u>\$ 197</u>	<u>\$ 780</u>	<u>\$ 195</u>	<u>\$ 1,102</u>

Governmental activities

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

Business-type activities

During the fiscal year, the Town's net position for business-type activities increased \$197,000. Because the change in net position for the Enterprise Funds is an aggregate, for purposes of this management discussion and analysis, Electric, Water, Sewer, and Stormwater funds will be addressed individually below under the analysis of the Town's funds.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

General Fund

For the year ended June 30, 2019, the general fund balance decreased \$92,000. This was a significant change from the prior year which reported a \$1,845,000 decrease in the fund balance.

General fund revenues were \$6,599,000 which is an increase over the prior year of \$645,000. Significant changes for the year included increases in real estate taxes, state shared income taxes, and impact fees.

General fund expenditures were \$6,692,000. The Town experienced a decrease in expenditures from the prior year of \$1,065,000. The large decrease is primarily due to the decrease in capital outlay expenses. Capital outlay expenditures were incurred over the past two years for construction of the new police building which was completed last year.

At the end of the year, the General fund had a balance of \$5,163,000. Of this amount, \$3,431,000 is reported as nonspendable and consists of amounts due from Enterprise funds (primarily the sewer fund) that are not expected to be collected within the next twelve months. In addition, \$1,716,000 was restricted, committed or assigned which leaves an unassigned fund balance of \$16,000.

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

Electric Fund

The Electric Fund had an operating income of \$349,000 and a total increase in net position of \$186,000 compared to a net increase of \$608,000 last year.

Service charges were down 3% from last year and revenues from sales and services also decreased. It should be noted that revenues in a given fiscal year are not a true representation of kilowatts sold in that same fiscal year because you are always recovering power costs from prior years. Operating expenses increased from last year by 5% due to increases in personnel expenses, supplies and operating expenses, and professional fees.

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

Water Fund

The Water Fund had an operating loss of \$202,000 and a total decrease in net position (before special connection fees and transfers) of \$201,000 compared to a net decrease last year of \$347,000.

Service charge revenues increased by 13%. Operating expenses decreased \$70,000 due mainly to decreases in supplies and operating costs, and contracted services. Included in contracted services in the prior year were costs to repair flood damage sustained by the Town.

Special connection fees of \$340,000 were received. These fees are restricted for capital projects. Equipment with a book value of \$64,120 was transferred from the general fund to the water fund.

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

Sewer Fund

The Sewer Fund had an operating loss of \$931,000 and a total decrease in net position (before special connection fees) of \$1,105,000 compared to a decrease in net position last year of \$1,140,000.

Operating revenues increased \$34,800 and operating expenses increased \$49,000.

Special connection fees of \$934,000 were received in the current year which is an increase over last year's fees of \$572,000. Special connection fees are restricted for capital projects.

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

At June 30, 2019, the Sewer Fund owes the General Fund \$3,384,000 and the Water Fund \$374,000.

Stormwater Fund

The Stormwater Fund had an operating loss of \$99,000 compared to a loss in the prior year of \$142,000.

A grant of \$75,000 was received from the Chesapeake Bay Trust for the Graham Avenue submerged gravel wetlands.

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

BUDGETARY HIGHLIGHTS – GENERAL FUND

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

Actual revenues exceeded the amount budgeted by \$822,000 due to increase in taxes, licenses and permits, and intergovernmental revenues. Actual expenditures were less than the amount budgeted by \$709,000.

The budget included the anticipated use of prior year surplus funds of \$1,523,000 and loan proceeds of \$150,000. Only \$92,000 of these funds were used in 2019.

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

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets

At the end of the fiscal year, the Town had \$45,845,000, 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	
	2019	2018	2019	2018	2019	2018
Land	\$ 4,143	\$ 4,143	6,525	\$ 5,934	\$ 10,668	\$ 10,077
Infrastructure	5,139	4,538	58,621	58,492	63,760	63,030
Buildings and improvements	4,390	4,390	779	780	5,169	5,170
Equipment	892	981	3,606	3,448	4,498	4,429
Vehicles	1,971	1,502	1,774	1,556	3,745	3,058
Construction in progress	524	844	209	728	733	1,572
Less: accumulated depreciation	(5,573)	(5,065)	(37,155)	(35,327)	(42,728)	(40,392)
Total	\$ 11,486	\$ 11,333	\$ 34,359	\$ 35,611	\$ 45,845	\$ 46,944

This year's major capital asset additions included:

Governmental activities

- Completion of the Berlin bike path, Gay Street water main upgrade, Baker Street improvements, and Stephen Decatur Tennis Courts
- 2019 Chevy Tahoe
- 2019 Peterbilt Labrie Trash Truck
- Kann Recycling Truck

Business-type activities

- 2019 Altec Bucket Truck
- 2019 F450 Dump Truck
- Completion of Cedar Ave, Maple Drive, and Pine Street improvements

Long-term debt

At the end of the fiscal year, the Town had \$16,363,000 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
	2019	2018	2019	2018	2019	2018	
General obligation bonds	\$ 3,616	\$ 3,798	\$ 12,747	\$ 14,723	\$ 16,363	\$ 18,521	-12%
Total	\$ 3,616	\$ 3,798	\$ 12,747	\$ 14,723	\$ 16,363	\$ 18,521	-12%

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

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The approved budget for fiscal year 2020 includes an increase in the real estate tax rate of 18%. In addition, water and sewer rates increased 5% and 20%, respectively. The Town is taking all reasonable measures to monitor and control expenditures. The 2020 budget includes a reduction in anticipated expenses of 14%.

The Town is working with the Maryland Department of the Environment and has hired a contractor to clean-up a chemical spill that occurred in Heron Park in June. The estimated cost of the clean-up is \$283,000.

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, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 957,283	\$	\$ 957,283
Pooled cash and investments	21,751	3,653,603	3,675,354
Taxes receivable	123,242		123,242
Accounts receivable, net	95,187	1,227,466	1,322,653
Internal balances	3,430,930	(3,430,930)	
Due from other governments	160,559	7,448	168,007
Inventories		157,711	157,711
Total current assets	<u>4,788,952</u>	<u>1,615,298</u>	<u>6,404,250</u>
Noncurrent assets			
Restricted cash	925,527	313,535	1,239,062
Capital assets, net of accumulated depreciation	11,485,908	34,359,466	45,845,374
Total noncurrent assets	<u>12,411,435</u>	<u>34,673,001</u>	<u>47,084,436</u>
Total assets	<u>17,200,387</u>	<u>36,288,299</u>	<u>53,488,686</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred financing outflows - retirement	416,097	261,491	677,588
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	303,634	276,951	580,585
Current portion of accrued compensated absences	140,859	83,634	224,493
Accrued interest payable	13,733	70,278	84,011
Customer deposits		117,662	117,662
Current portion of bonds payable	182,096	777,027	959,123
Total current liabilities	<u>640,322</u>	<u>1,325,552</u>	<u>1,965,874</u>
Noncurrent liabilities			
Bonds payable, less current portion	3,434,272	11,970,461	15,404,733
Net pension liability	2,070,650	1,299,862	3,370,512
Accrued compensated absences, lessf current portion	124,370	98,483	222,853
Total noncurrent liabilities	<u>5,629,292</u>	<u>13,368,806</u>	<u>18,998,098</u>
Total liabilities	<u>6,269,614</u>	<u>14,694,358</u>	<u>20,963,972</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred financing inflows - retirement	237,545	149,531	387,076
NET POSITION			
Net investment in capital assets	7,869,540	23,732,978	31,602,518
Restricted	925,527	313,535	1,239,062
Unrestricted (deficit)	2,314,258	(2,340,612)	(26,354)
Total net position	<u>\$ 11,109,325</u>	<u>\$ 21,705,901</u>	<u>\$ 32,815,226</u>

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

TOWN OF BERLIN, MARYLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS							
GOVERNMENTAL ACTIVITIES							
General government	\$ 1,716,624	\$ 515,977	\$	\$ 166,987	\$ (1,033,660)	\$	\$ (1,033,660)
Public safety	2,811,021	16,155	65,963		(2,728,903)		(2,728,903)
Public works	1,212,815	21,162	182,137	134,680	(874,836)		(874,836)
Planning and economic development	514,206	111,175	35,287		(367,744)		(367,744)
Recreation and parks	104,391				(104,391)		(104,391)
Interest on long-term debt	137,875				(137,875)		(137,875)
Total governmental activities	<u>6,496,932</u>	<u>664,469</u>	<u>283,387</u>	<u>301,667</u>	<u>(5,247,409)</u>		<u>(5,247,409)</u>
BUSINESS-TYPE ACTIVITIES							
Electric	5,058,263	5,611,288				553,025	553,025
Water	809,637	785,093		340,311		315,767	315,767
Sewer	2,730,668	1,900,560		934,524		104,416	104,416
Stormwater	281,473	182,677		76,786		(22,010)	(22,010)
Total business-type activities	<u>8,880,041</u>	<u>8,479,618</u>		<u>1,351,621</u>		<u>951,198</u>	<u>951,198</u>
Total	<u>\$ 15,376,973</u>	<u>\$ 9,144,087</u>	<u>\$ 283,387</u>	<u>\$ 1,653,288</u>	<u>(5,247,409)</u>	<u>951,198</u>	<u>(4,296,211)</u>
GENERAL REVENUES							
Taxes							
Property taxes					3,327,388		3,327,388
Public service taxes					37,235		37,235
State income taxes					518,973		518,973
Franchise fees					104,379		104,379
Grants and contributions not restricted to specific programs					465,000		465,000
Unrestricted investment earnings					29,775	2,358	32,133
Overhead allocation					826,131	(826,131)	
Gain on disposal of assets					422	5,689	6,111
Transfers					(64,120)	64,120	
Total general revenues and transfers					<u>5,245,183</u>	<u>(753,964)</u>	<u>4,491,219</u>
Change in net position					(2,226)	197,234	195,008
NET POSITION, BEGINNING OF YEAR					11,111,551	21,508,667	32,620,218
NET POSITION, END OF YEAR					<u>\$ 11,109,325</u>	<u>\$ 21,705,901</u>	<u>\$ 32,815,226</u>

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

TOWN OF BERLIN, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2019

ASSETS

	General Fund	Special Revenue Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 957,283	\$	\$ 957,283
Pooled cash and investments	2,065	19,686	21,751
Taxes receivable	123,242		123,242
Accounts and notes receivable, net	95,187		95,187
Due from other governments	159,603	957	160,560
Due from other funds	3,505,884		3,505,884
Restricted cash	925,527		925,527
Total assets	<u>\$ 5,768,791</u>	<u>\$ 20,643</u>	<u>\$ 5,789,434</u>

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

LIABILITIES

Accounts payable and accrued expenses	\$ 283,745	\$ 19,890	\$ 303,635
Accrued compensated absences	140,859		140,859
Due to other funds	74,954		74,954
Total liabilities	<u>499,558</u>	<u>19,890</u>	<u>519,448</u>

DEFERRED INFLOWS OF RESOURCES

Deferred property taxes	<u>106,319</u>		<u>106,319</u>
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FUND BALANCES

Nonspendable	3,430,930		3,430,930
Restricted	4,233		4,233
Committed	921,293		921,293
Assigned	790,676		790,676
Unassigned	15,782	753	16,535
Total fund balance	<u>5,162,914</u>	<u>753</u>	<u>5,163,667</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,768,791</u>	<u>\$ 20,643</u>	<u>\$ 5,789,434</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, 2019

Total fund balances, governmental funds	\$ 5,163,667
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	11,485,908
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.	416,097
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.	106,319
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	(3,630,101)
Compensated absences	(124,370)
Deferred financing inflows - retirement	(237,545)
Net pension liability	<u>(2,070,650)</u>
Net position, governmental activities	<u>\$ 11,109,325</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, 2019

	General Fund	Special Revenue Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes	\$ 3,917,878	\$	\$ 3,917,878
Licenses and permits	291,750		291,750
Intergovernmental revenues	1,264,455	3,442	1,267,897
Service charges	888,639		888,639
Impact fees	166,987		166,987
Earnings on investments	29,776		29,776
Miscellaneous	39,693		39,693
Total revenues	<u>6,599,178</u>	<u>3,442</u>	<u>6,602,620</u>
 EXPENDITURES			
Current			
General government	1,612,324		1,612,324
Public safety	2,461,294	3,935	2,465,229
Public works	976,773		976,773
Planning and economic development	471,750		471,750
Recreation and parks	70,215		70,215
Debt service	320,221		320,221
Capital outlay	779,032		779,032
Total expenditures	<u>6,691,609</u>	<u>3,935</u>	<u>6,695,544</u>
 Net change in fund balance	(92,431)	(493)	(92,924)
 FUND BALANCE, BEGINNING OF YEAR	<u>5,255,345</u>	<u>1,246</u>	<u>5,256,591</u>
 FUND BALANCE, END OF YEAR	<u><u>\$ 5,162,914</u></u>	<u><u>\$ 753</u></u>	<u><u>\$ 5,163,667</u></u>

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

TOWN OF BERLIN, MARYLAND

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

YEAR ENDED JUNE 30, 2019

Net change in fund balances, governmental funds	\$ (92,924)
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 (\$779,032) exceeded depreciation (\$562,535) in the current period.	216,497
Book value of assets transferred to the Water Fund.	(64,120)
Changes in deferred outflows of resources presented in the governmental activities of the Statement of Activities.	(101,629)
Some expenses reported in the statements of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Change in accrued interest payable	809
Change in long-term compensated absences	(364)
Change in net pension liability	(123,344)
Change in deferred financing inflows	15,596
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	(34,285)
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>181,538</u>
Change in net position, governmental activities	<u><u>\$ (2,226)</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, 2019

ASSETS	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
Current assets					
Pooled cash and investments	\$ 2,972,424	\$ 680,931	\$	\$ 248	\$ 3,653,603
Accounts receivable, net of allowance	610,286	163,068	423,897	30,215	1,227,466
Due from other funds		448,847			448,847
Due from other governments	7,448				7,448
Inventory	140,512	12,527	4,672		157,711
Total current assets	<u>3,730,670</u>	<u>1,305,373</u>	<u>428,569</u>	<u>30,463</u>	<u>5,495,075</u>
Noncurrent assets					
Restricted cash		81,998	231,537		313,535
Capital assets, net of accumulated depreciation	4,241,402	2,099,581	25,383,643	2,634,840	34,359,466
Total noncurrent assets	<u>4,241,402</u>	<u>2,181,579</u>	<u>25,615,180</u>	<u>2,634,840</u>	<u>34,673,001</u>
Total assets	<u>7,972,072</u>	<u>3,486,952</u>	<u>26,043,749</u>	<u>2,665,303</u>	<u>40,168,076</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred financing outflows - retirement	106,420	42,086	91,131	21,854	261,491
LIABILITIES					
Current liabilities					
Accounts payable and accrued expenses	123,598	24,007	109,927	19,419	276,951
Accrued compensated absences	38,444	14,574	28,133	2,483	83,634
Accrued interest payable	20,930		49,348		70,278
Customer deposits	117,662				117,662
Current portion of bonds payable	327,500		449,527		777,027
Total current liabilities	<u>628,134</u>	<u>38,581</u>	<u>636,935</u>	<u>21,902</u>	<u>1,325,552</u>
Noncurrent liabilities					
Bonds payable	3,878,100		8,092,361		11,970,461
Due to other funds			3,757,454	122,323	3,879,777
Net pension liability	535,784	210,067	470,423	83,588	1,299,862
Accrued compensated absences	59,211	14,614	23,288	1,370	98,483
Total noncurrent liabilities	<u>4,473,095</u>	<u>224,681</u>	<u>12,343,526</u>	<u>207,281</u>	<u>17,248,583</u>
Total liabilities	<u>5,101,229</u>	<u>263,262</u>	<u>12,980,461</u>	<u>229,183</u>	<u>18,574,135</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred financing inflows - retirement	61,319	24,104	53,494	10,614	149,531
NET POSITION					
Net investment in capital assets	2,156,802	2,099,581	16,841,755	2,634,840	23,732,978
Restricted for capital projects		81,998	231,537		313,535
Unrestricted (deficit)	759,142	1,060,093	(3,972,367)	(187,480)	(2,340,612)
Total net position	<u>\$ 2,915,944</u>	<u>\$ 3,241,672</u>	<u>\$ 13,100,925</u>	<u>\$ 2,447,360</u>	<u>\$ 21,705,901</u>

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, 2019

	Electric Fund	Water Fund	Sewer Fund	Stormwater Fund	Total
REVENUES					
Service charges	\$ 5,488,348	\$ 675,643	\$ 1,745,730	\$ 181,266	\$ 8,090,987
Sales and services	80,642	38,396			119,038
Hauler fees			125,655		125,655
Interest on delinquent accounts	34,850	5,915	16,116	1,348	58,229
Miscellaneous	7,448	65,139	13,059	63	85,709
Total revenues	<u>5,611,288</u>	<u>785,093</u>	<u>1,900,560</u>	<u>182,677</u>	<u>8,479,618</u>
EXPENSES					
Purchased power	2,598,667				2,598,667
Personnel expenses	1,012,170	355,469	879,698	105,931	2,353,268
Supplies and operating	445,885	147,076	412,939	15,744	1,021,644
Professional services	134,389		13,248	33,467	181,104
Contracted services	64,253	33,307	56,304	1,394	155,258
Insurance	19,390	8,383	16,380	812	44,965
Repairs and maintenance	106,701	67,007	84,504		258,212
Depreciation	513,443	198,395	1,086,514	124,125	1,922,477
General overhead	367,014	177,504	281,613		826,131
Total expenses	<u>5,261,912</u>	<u>987,141</u>	<u>2,831,200</u>	<u>281,473</u>	<u>9,361,726</u>
Operating income (loss)	<u>349,376</u>	<u>(202,048)</u>	<u>(930,640)</u>	<u>(98,796)</u>	<u>(882,108)</u>
NONOPERATING REVENUES (EXPENSES)					
Capital grants				76,786	76,786
Interest income		1,179	1,179		2,358
Interest expense	(163,365)		(181,081)		(344,446)
Gain on disposal of assets			5,689		5,689
Net nonoperating revenues (expenses)	<u>(163,365)</u>	<u>1,179</u>	<u>(174,213)</u>	<u>76,786</u>	<u>(259,613)</u>
Income (loss) before contributions and transfers	186,011	(200,869)	(1,104,853)	(22,010)	(1,141,721)
Transfers in		64,120			64,120
Capital contributions - special connection fees		340,311	934,524		1,274,835
Change in net position	186,011	203,562	(170,329)	(22,010)	197,234
NET POSITION, BEGINNING OF YEAR	<u>2,729,933</u>	<u>3,038,110</u>	<u>13,271,254</u>	<u>2,469,370</u>	<u>21,508,667</u>
NET POSITION, END OF YEAR	<u>\$ 2,915,944</u>	<u>\$ 3,241,672</u>	<u>\$ 13,100,925</u>	<u>\$ 2,447,360</u>	<u>\$ 21,705,901</u>

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, 2019

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Stormwater Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 5,792,341	\$ 736,578	\$ 1,986,098	\$ 178,071	\$ 8,693,088
Other receipts	7,448	65,139	13,059	63	85,709
Payments to suppliers	(3,438,737)	(312,144)	(589,428)	(384,248)	(4,724,557)
Payments to employees	(962,433)	(338,201)	(843,838)	(100,513)	(2,244,985)
Payments for interfund services	(367,014)	(177,504)	(281,613)		(826,131)
Net cash provided (used) by operating activities	<u>1,031,605</u>	<u>(26,132)</u>	<u>284,278</u>	<u>(306,627)</u>	<u>983,124</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Interfund borrowings	<u>207,786</u>	<u>(448,847)</u>	<u>373,893</u>	<u>(412,745)</u>	<u>(279,913)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income		<u>1,179</u>	<u>1,179</u>		<u>2,358</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(371,372)	(53,500)	(131,899)	(50,530)	(607,301)
Proceeds from the sale of capital assets			5,689		5,689
Proceeds from capital grants				770,150	770,150
Principal paid on long-term debt	(318,500)		(1,657,460)		(1,975,960)
Interest paid on long-term debt	(164,935)		(214,115)		(379,050)
Capital contributions - special connection fees		340,311	934,524		1,274,835
Net cash provided (used) by capital and related financing activities	<u>(854,807)</u>	<u>286,811</u>	<u>(1,063,261)</u>	<u>719,620</u>	<u>(911,637)</u>
Net increase (decrease) in cash	384,584	(186,989)	(403,911)	248	(206,068)
CASH, BEGINNING OF YEAR	<u>2,587,840</u>	<u>949,918</u>	<u>635,448</u>		<u>4,173,206</u>
CASH, END OF YEAR	<u>\$ 2,972,424</u>	<u>\$ 762,929</u>	<u>\$ 231,537</u>	<u>\$ 248</u>	<u>\$ 3,967,138</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 349,376	\$ (202,048)	\$ (930,640)	\$ (98,796)	\$ (882,108)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	513,443	198,395	1,086,514	124,125	1,922,477
Deferred financing outflows - retirement	25,390	9,966	21,546	2,373	59,275
Deferred financing inflows - retirement	(3,898)	(1,530)	(3,308)	(365)	(9,101)
(Increase) decrease in assets					
Accounts receivable	187,011	16,624	98,597	(4,543)	297,689
Inventory	5,097	(6,691)	(3,257)		(4,851)
Increase (decrease) in liabilities					
Accounts payable and accrued expenses	(46,304)	(40,848)	14,826	(329,421)	(401,747)
Customer deposits	1,490				1,490
Net cash provided (used) by operating activities	<u>\$ 1,031,605</u>	<u>\$ (26,132)</u>	<u>\$ 284,278</u>	<u>\$ (306,627)</u>	<u>\$ 983,124</u>

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

**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, 2019

**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, 2019

**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, 2019

**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, 2019, the allowance in the General Fund was \$21,040 and the Enterprise Fund was \$106,528.

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, 2019

**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 has established a \$5,000 minimum threshold amount for capitalization. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

Accrued Compensated Absences

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

Capital Contributions - Enterprise Funds

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

**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, 2019

**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, 2019, \$2,368,373 of the Town's deposits were exposed to custodial credit risk. These amounts were not covered by the Federal Deposit Insurance Corporation (FDIC) but were collateralized with securities held by the pledging financial institution's trust department, but not in the Town's name.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
<i>Capital assets not being depreciated</i>				
Land	\$ 4,142,914	\$	\$	\$ 4,142,914
Construction in progress	844,716	213,805	534,151	524,370
Total capital assets not being depreciated	<u>4,987,630</u>	<u>213,805</u>	<u>534,151</u>	<u>4,667,284</u>
<i>Capital assets being depreciated</i>				
Infrastructure	4,537,877	600,653		5,138,530
Buildings and improvements	4,389,795			4,389,795
Equipment	981,841	13,000	103,000	891,841
Vehicles	1,501,598	485,725	16,097	1,971,226
Total capital assets being depreciated	<u>11,411,111</u>	<u>1,099,378</u>	<u>119,097</u>	<u>12,391,392</u>
Less accumulated depreciation for:				
Infrastructure	2,622,079	144,520		2,766,599
Buildings and improvements	754,526	201,328		955,854
Equipment	623,679	62,290	38,879	647,090
Vehicles	1,064,925	154,397	16,097	1,203,225
Total accumulated depreciation	<u>5,065,209</u>	<u>562,535</u>	<u>54,976</u>	<u>5,572,768</u>
Total capital assets being depreciated, net	<u>6,345,902</u>	<u>536,843</u>	<u>64,121</u>	<u>6,818,624</u>
Governmental activities capital assets, net	<u>\$ 11,333,532</u>	<u>\$ 750,648</u>	<u>\$ 598,272</u>	<u>\$ 11,485,908</u>

Construction in progress in the governmental activities includes Decatur Street realignment, Heron Park, and Showell, Grace Bottle Branch Roadway reconstruction and utility upgrades.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

CAPITAL ASSETS (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
<u>Electric:</u>				
<i>Capital assets not being depreciated</i>				
Land	\$ 304,510	\$	\$	\$ 304,510
Total capital assets not being being depreciated	304,510			304,510
<i>Capital assets being depreciated</i>				
Infrastructure	14,987,867	91,808		15,079,675
Buildings and improvements	766,456			766,456
Equipment	2,231,202	8,268	4,090	2,235,380
Vehicles	613,276	271,296	9,925	874,647
Total capital assets being depreciated	18,598,801	371,372	14,015	18,956,158
Less accumulated depreciation for:				
Infrastructure	11,943,664	358,815		12,302,479
Buildings and improvements	499,884	23,450		523,334
Equipment	1,608,561	86,413	4,090	1,690,884
Vehicles	467,729	44,765	9,925	502,569
Total accumulated depreciation	14,519,838	513,443	14,015	15,019,266
Total capital assets being depreciated, net	4,078,963	(142,071)		3,936,892
Electric activities, capital assets, net	4,383,473	(142,071)		4,241,402

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

CAPITAL ASSETS (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer:				
<i>Capital assets not being depreciated</i>				
Land	3,495,233			3,495,233
Construction in progress	4,420	7,908		12,328
Total capital assets not being depreciated	3,499,653	7,908		3,507,561
<i>Capital assets being depreciated</i>				
Infrastructure	38,258,993			38,258,993
Buildings and improvements	1,510			1,510
Equipment	950,151	94,213	1,418	1,042,946
Vehicles	737,364	29,778	73,408	693,734
Total capital assets being depreciated	39,948,018	123,991	74,826	39,997,183
Less accumulated depreciation for:				
Infrastructure	15,765,590	998,842		16,764,432
Buildings and improvements	1,510			1,510
Equipment	732,808	35,222	1,418	766,612
Vehicles	609,505	52,450	73,408	588,547
Total accumulated depreciation	17,109,413	1,086,514	74,826	18,121,101
Total capital assets being depreciated, net	22,838,605	(962,523)		21,876,082
Sewer, capital assets, net	26,338,258	(954,615)		25,383,643

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

CAPITAL ASSETS (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Water:</u>				
<i>Capital assets not being depreciated</i>				
Land	82,039			82,039
Construction in progress	11,375	13,693		25,068
Total capital assets not being depreciated	93,414	13,693		107,107
<i>Capital assets being depreciated</i>				
Infrastructure	5,244,880	39,807	2,221	5,282,466
Buildings and improvements	11,781			11,781
Equipment	266,495	64,120	2,100	328,515
Vehicles	179,014			179,014
Total capital assets being depreciated	5,702,170	103,927	4,321	5,801,776
Less accumulated depreciation for:				
Infrastructure	3,361,417	154,591	2,221	3,513,787
Buildings and improvements	9,440	275		9,715
Equipment	145,583	18,288	2,100	161,771
Vehicles	98,788	25,241		124,029
Total accumulated depreciation	3,615,228	198,395	4,321	3,809,302
Total capital assets being depreciated, net	2,086,942	(94,468)		1,992,474
Water, capital assets, net	2,180,356	(80,775)		2,099,581

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

CAPITAL ASSETS (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Stormwater:</u>				
<i>Capital asset not being depreciated</i>				
Construction in progress	712,970	50,530	591,541	171,959
Total capital assets not being depreciated	712,970	50,530	591,541	171,959
<i>Capital assets being depreciated</i>				
Land improvements	2,051,209	591,541		2,642,750
Vehicles	26,352			26,352
Total capital assets being depreciated	2,077,561	591,541		2,669,102
Less accumulated depreciation for:				
Land improvements	73,752	118,855		192,607
Vehicles	8,344	5,270		13,614
Total accumulated depreciation	82,096	124,125		206,221
Total capital assets being depreciated, net	1,995,465	467,416		2,462,881
Stormwater, capital asset, net	2,708,435	517,946	591,541	2,634,840
Business-type activities				
Capital assets, net	\$ 35,610,522	\$ (659,515)	\$ 591,541	\$ 34,359,466

Construction in progress in the Stormwater Fund includes the Graham, Grice, and Nelson project. This project is being funded in part by a Chesapeake Bay Trust grant of \$75,000.

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

General government	\$ 35,888
Public safety	249,113
Public works	234,848
Planning and community development	8,510
Recreation and parks	34,176
	<u>\$ 562,535</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

FUND BALANCES

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

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

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. In addition, police forfeiture funds are assigned for drug use prevention.

INTERNAL BALANCES AND ACTIVITY

Balances due to/from other funds at June 30, 2019 consist of the following:

	June 30, 2018	Increase (Decrease)	June 30, 2019
Due to the general fund from the sewer fund	\$ 3,383,561	\$	\$ 3,383,561
Due to the general fund from the stormwater fund	\$ 535,068	\$ (412,745)	\$ 122,323
Due to the electric fund from the general fund	\$ 215,234	\$ (215,234)	\$
Due to the water fund from the sewer fund	\$	\$ 373,893	\$ 373,893
Due to the water fund from the general fund	\$	\$ 74,954	\$ 74,954

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

LONG-TERM DEBT

Changes in long-term obligations for the year June 30, 2019 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
General obligation bonds	\$ 3,797,906	\$	\$ 181,538	\$ 3,616,368

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

LONG-TERM DEBT (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Electric				
General obligation bonds	\$ 4,524,100	\$	\$ 318,500	\$ 4,205,600
Sewer				
General obligation bonds	10,199,348		1,657,460	8,541,888
	<u>\$ 14,723,448</u>	<u>\$</u>	<u>\$ 1,975,960</u>	<u>\$ 12,747,488</u>

Governmental Activities

Bonds payable consists of the following:

	<u>Principal Balance Outstanding at June 30, 2019</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.	\$ 496,368
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.	420,000
Public improvement bonds of 2016 payable to the Bank of Ocean City for the purchase of property. The original obligations are dated January 22, 2016. Debt is amortized over 30 years at an interest rate of 3.50%. Interest and principal is due annually, with principal payments of \$100,000 through December 1, 2045.	<u>2,700,000</u>
Total Governmental Activities	<u>\$ 3,616,368</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

LONG-TERM DEBT (continued)

Business-type Activities – Electric Fund

	<u>Principal Balance Outstanding at June 30, 2019</u>
2015 bonds payable to the Maryland Department of Housing and Community Development dated August 27, 2015 for \$2,288,100. Proceeds were used to refinance 2004 bonds payable. Debt is amortized over 19 years at an interest rate averaging 3.24%. Interest and principal is due semi-annually, with total annual payments ranging from \$19,251 to \$165,546 through April 1, 2034.	\$ 1,926,500
Infrastructure financing bonds of 2007 payable to the Maryland Department of Community Development. This obligation was used to refinance general obligation bonds for 1995. The original obligation is dated November 14, 2007 in the amount of \$944,200. Debt is amortized from 8 to 20 years at an interest rate of 4.125%. Interest and principal is due semi-annually with total annual payments ranging from \$90,970 to \$97,980. Payment is shared by the electric, water, and sewer funds. The maturity dates range from May 1, 2015 to May 1, 2027.	247,900
Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1999. The original obligations are dated May 17, 2012 in the amount of \$1,431,232. Debt is amortized over 17 years. Interest rates range from 1.41% to 3.94%. Interest is due semi-annually with principal payments due annually, ranging from \$2,098 to \$106,500 through May 1, 2029.	916,900
Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1998. The original obligations are dated May 17, 2012 in the amount of \$1,820,652. Debt is amortized over 16 years. Interest rates range from 1.41% to 3.94%. Interest is due semi-annually with principal payments due annually, ranging from \$2,778 to \$141,000 through May 1, 2028.	<u>1,114,300</u>
Total Electric Fund	<u>4,205,600</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

LONG-TERM DEBT (continued)

Business-type Activities – Sewer Fund

	Principal Balance Outstanding at June 30, 2019
Real property acquisition bond payable to an individual. This obligation is being used to finance the purchase of real property for use in the spray irrigation project. The original obligation is dated December 15, 2010 in the amount of \$500,000. Debt is amortized over 25 years at an interest rate of 8.422%. Interest and principal is due monthly with payments in the amount of \$4,045. The maturity date is January 2036.	420,533
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.	5,120,553
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.	452,007
Loan payable to Maryland Department of the Environment. This loan is being used to fund construction of Phase II of the spray irrigation project. Total amount available to draw is \$3,207,000. Interest payments at .80% are due in semi-annual payments. Principal payments begin annually February 2015. The maturity date is February 2033.	2,408,795

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

LONG-TERM DEBT (continued)

Business-type Activities – Sewer Fund (continued)

	<u>Principal Balance Outstanding at June 30, 2019</u>
Local government infrastructure bonds of 2012 payable to the Maryland Department of Housing and Community Development. Proceeds were used to refinance general obligation bonds of 1991. The original obligations are dated May 17, 2012 in the amount of \$587,420. Debt is amortized over 16 years. Interest rates range from 1.41% to 3.94%. Interest is due semi-annually with principal payments due annually, ranging from \$980 to \$71,000 through May 2021.	140,000
Total Sewer Fund	<u>8,541,888</u>
Total long-term debt - Business-type Activities	<u><u>\$ 12,747,488</u></u>

Debt Service Requirements

Principal and interest requirements to amortize bond obligations as of June 30, 2019 are as follows:

Governmental Activities			
Year Ending	Principal	Interest	Totals
2020	\$ 182,096	\$ 132,038	\$ 314,134
2021	182,681	124,854	307,535
2022	183,294	117,892	301,186
2023	183,937	110,900	294,837
2024	184,611	104,088	288,699
2025 - 2029	654,360	435,811	1,090,171
2030 - 2034	606,825	324,384	931,209
2035 - 2039	635,272	208,398	843,670
2040 - 2044	603,292	87,403	690,695
2045 - 2046	200,000	7,110	207,110
	<u>\$ 3,616,368</u>	<u>\$ 1,652,878</u>	<u>\$ 5,269,146</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

LONG-TERM DEBT (continued)

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of June 30, 2019 are as follows:

Business-Type Activities			
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$ 777,027	\$ 348,129	\$ 1,125,156
2021	794,669	324,372	1,119,041
2022	743,648	300,731	1,044,379
2023	761,268	283,021	1,044,289
2024	760,400	262,875	1,023,275
2025 - 2029	3,359,754	1,018,025	4,377,779
2030 - 2034	2,399,911	589,592	2,989,503
2035 - 2039	856,925	930,427	1,787,352
2040 - 2044	927,441	212,079	1,139,520
2045 - 2049	1,037,220	102,300	1,139,520
2050 - 2052	329,225	7,398	336,623
	<u>\$ 12,747,488</u>	<u>\$ 4,378,949</u>	<u>\$ 17,126,437</u>

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, 2019, total interest incurred and paid in the Enterprise Fund was \$344,446 all of which was charged to operations.

CONDUIT DEBT

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019 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>\$ 367,014</u>	<u>\$ 177,504</u>	<u>\$ 281,613</u>	<u>\$</u>	<u>\$ 826,131</u>

LEASE AGREEMENTS

The Town has entered into lease agreements expiring in 2032 and 2026 with AT&T Wireless and T-mobile for the use of the Town’s water tower for wireless antennas and transmission lines. Total lease payments billed for the year ended June 30, 2019 were \$68,049.

Future lease payment terms to be received are:

<u>Year Ending June 30,</u>	<u>Total Payment</u>
2020	\$ 64,814
2021	65,996
2022	69,754
2023	71,008
2024	72,300
All subsequent years	<u>443,442</u>
Total minimum lease payments to be received	<u>\$ 787,314</u>

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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_FullReport.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 Town for the past three years were as follows:

Fiscal Year Ending	Annual Pension Cost	Percentage Funded
6/30/2017	\$ 298,871	100%
6/30/2018	\$ 320,331	100%
6/30/2019	\$ 339,058	100%

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, the Town reported a liability of \$3,370,512 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the Town's proportion was .01606%.

For the year ended June 30, 2019, the Town recognized pension expense of \$353,581. At June 30, 2019, 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	\$ 91,080	\$
Net difference between projected and actual earnings on pension plan investments	247,450	129,118
Differences between expected and actual experience		257,958
Contributions subsequent to measurement date	339,058	
	<u>\$ 677,588</u>	<u>\$ 387,076</u>

The Town's contribution subsequent to the measurement date of \$339,058, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Deferred financial inflows and outflows are made up of changes in actuarial assumptions, differences in actual and expected experience, and net difference in the projected and actual investment earnings. The deferred outflows and inflows related to non-investment activity are being amortized over the remaining service life ranging from 5.72 to 5.87 years. The net difference in investment earnings are being amortized over a closed five-year period for each of the years presented. The following table shows the amortization of these balances:

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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
2020	\$ 112,223	\$ 195,783
2021	110,482	125,072
2022	98,352	7,642
2023	52,452	6,914
2024	13,567	3,119
Total	<u>\$ 387,076</u>	<u>\$ 338,530</u>

Actuarial assumptions. The actuarial assumption for the Pension Plan as a whole and based on the June 30, 2018 annual actuarial valuation report for Maryland Municipal Corporation are as follows:

Inflation	2.60% general, 3.10% wage
Salary increases	3.10% to 9.15%, including inflation
Investment rate of return	7.45%

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).

Discount rate. The discount rate used to measure the total pension liability was 7.45%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contribution from the municipalities will be made at contractually required rates, actuarially determined.

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

RETIREMENT AND PENSION PLANS (Continued)

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

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.45%, 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 (6.45%) or 1-percentage point higher (8.45%) than the current rate:

1% Decrease (6.45%)	\$ 4,854,684
Current discount rate (7.45%)	\$ 3,370,512
1% Increase (8.45%)	\$ 2,138,743

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

DEFERRED COMPENSATION PLAN

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

RISK MANAGEMENT

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

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

RELATED PARTY TRANSACTIONS

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

CONTINGENCIES

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

A chemical spill was located at Heron Park in late June. The Town has hired a contractor to handle the clean-up and is working with the Maryland Department of the Environment (MDE) during the clean-up process. The Town is working with the contractor and MDE to determine if there are any other chemicals at any location in Heron Park. Clean-up costs are estimated at \$283,000.

NEW GASB PRONOUNCEMENTS

GASB issued Statement No. 87, Leases, in June 2017. It is effective for reporting periods beginning after December 15, 2020. The new guidance requires recognition of certain lease assets and liabilities that were previously classified as operating leases. It also recognizes inflows of resources or outflows of resources based on the payment provisions of the contract.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*, requires interest cost incurred before the end of a construction period be recognized as an expense for financial statements prepared using the economic resources measurement focus. Previously, this interest was included in the historical cost of capital assets. It is effective for periods beginning after December 15, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

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

YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes	\$ 3,499,080	\$ 3,499,080	\$ 3,917,878	\$ 418,798
Licenses and permits	186,000	186,000	291,750	105,750
Intergovernmental revenues	1,053,296	1,053,296	1,264,455	211,159
Service charges	876,281	876,281	888,639	12,358
Impact fees	115,000	115,000	166,987	51,987
Earnings on investments	40,000	40,000	29,776	(10,224)
Miscellaneous	7,500	7,500	39,693	32,193
Total revenues	<u>5,777,157</u>	<u>5,777,157</u>	<u>6,599,178</u>	<u>822,021</u>
EXPENDITURES				
Current				
General government	1,627,498	1,627,498	1,612,324	15,174
Public safety	2,575,770	2,575,770	2,461,294	114,476
Public works	1,155,266	1,155,266	976,773	178,493
Planning and economic development	512,173	512,173	471,750	40,423
Recreation and parks	83,450	83,450	70,215	13,235
Debt service	322,000	322,000	320,221	1,779
Capital outlay	1,124,150	1,124,150	779,032	345,118
Total expenditures	<u>7,400,307</u>	<u>7,400,307</u>	<u>6,691,609</u>	<u>708,698</u>
Excess of expenditures (over) under revenues	(1,623,150)	(1,623,150)	(92,431)	1,530,719
OTHER FINANCING SOURCES (USES)				
Prior year surplus	1,523,150	1,523,150		(1,523,150)
Transfers out	(50,000)	(50,000)		50,000
Proceeds from issuance of long-term debt	150,000	150,000		(150,000)
Net other financing sources (uses)	<u>1,623,150</u>	<u>1,623,150</u>		<u>(1,623,150)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ (92,431)</u>	<u>\$ (92,431)</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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	0.1606%	0.1470%	0.1550%	0.1460%	0.1290%
Town's proportionate share of the net pension liability	\$ 3,370,512	\$ 3,175,235	\$ 3,649,291	\$ 3,030,119	\$ 2,290,390
Town's covered-employee payroll	\$ 3,416,307	\$ 3,390,716	\$ 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	98.66%	93.64%	118.90%	94.32%	76.73%
Plan fiduciary net position as a percentage of the total pension liability	71.18%	69.38%	65.79%	68.78%	71.87%

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 320,331	\$ 298,871	\$ 301,310	\$ 307,322	\$ 300,756
Contributions in relation to the contractually required contribution	<u>(320,331)</u>	<u>(298,871)</u>	<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>
Town's covered-employee payroll	\$ 3,416,307	\$ 3,390,716	\$ 3,069,300	\$ 3,212,440	2,984,932
Contributions as a percentage of covered-employee payroll	9.38%	8.81%	9.82%	9.57%	10.08%

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

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Mayor and Council
Town of Berlin, Maryland

Report on Supplementary Information

Our report on our audit of the financial statements that collectively comprise the Town of Berlin, Maryland's basic financial statements as of June 30, 2019, appears on pages one through three. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Berlin, Maryland's basic financial statements. The supplementary information presented on pages 49 through 54 is presented for purposes of additional analysis and is not a required part of the financial statements.

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

Other Matter

The prior year comparative information has been derived from the Town's 2018 and 2017 financial statements and, in our reports dated November 16, 2018 and November 16, 2017, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 30, 2019

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENDITURES
GENERAL FUND**

**YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018 AND 2017)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
REVENUES			
Taxes			
Berlin property	\$ 3,328,681	\$ 3,098,412	\$ 2,984,070
County shared	37,235	40,269	64,911
State shared	518,973	365,721	526,039
Penalties and interest	32,989	27,615	41,339
Licenses and permits	291,750	227,844	303,245
Intergovernmental			
State	799,455	736,074	669,357
County	465,000	455,000	450,000
Service charges to other funds	826,131	798,057	769,744
Service charges, other	62,508	56,958	61,779
Impact fees	166,987	96,070	265,742
Earnings on investments	29,776	35,768	51,944
Miscellaneous	39,693	22,835	9,386
Total revenues	<u>6,599,178</u>	<u>5,960,623</u>	<u>6,197,556</u>
EXPENDITURES			
Current			
General government	1,612,324	1,421,404	1,366,065
Public safety	2,461,294	2,111,513	1,911,504
Public works	976,773	1,048,370	961,242
Planning and economic development	471,750	470,596	477,093
Recreation and parks	70,215	68,675	71,421
Debt service	320,221	333,311	339,483
Capital outlay	779,032	2,301,994	2,312,531
Total expenditures	<u>6,691,609</u>	<u>7,755,863</u>	<u>7,439,339</u>
Revenues under expenditures	(92,431)	(1,795,240)	(1,241,783)
OTHER FINANCING SOURCES (USES)			
Transfers out		<u>(50,000)</u>	<u>(50,000)</u>
Net change in fund balance	<u>\$ (92,431)</u>	<u>\$ (1,845,240)</u>	<u>\$ (1,291,783)</u>

TOWN OF BERLIN, MARYLAND

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

**YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018 AND 2017)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
REVENUES			
Intergovernmental revenues	\$ 3,442	\$ 5,305	\$ 4,856
Total revenues	<u>3,442</u>	<u>5,305</u>	<u>4,856</u>
EXPENDITURES			
Salaries and related	<u>3,935</u>	<u>4,230</u>	<u>1,640</u>
Total expenditures	<u>3,935</u>	<u>4,230</u>	<u>1,640</u>
Net change in fund balance	<u>\$ (493)</u>	<u>\$ 1,075</u>	<u>\$ 3,216</u>

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
ELECTRIC FUND**

**YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018 AND 2017)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
REVENUES			
Service charges	\$ 5,488,348	\$ 5,634,411	\$ 5,310,718
Sales and services	80,642	113,024	70,726
Interest on delinquent accounts	34,850	33,469	33,558
Miscellaneous	7,448	349	25,045
Total revenues	<u>5,611,288</u>	<u>5,781,253</u>	<u>5,440,047</u>
EXPENSES			
Purchased power	2,598,667	2,752,339	2,685,862
Personnel expenses	1,012,170	813,119	850,068
Supplies and operating	445,885	333,913	439,063
Professional services	134,389	92,468	99,766
Contracted services	64,253	97,972	124,403
Insurance	19,390	22,615	19,819
Repairs and maintenance	106,701	48,407	32,442
Depreciation	513,443	512,659	526,752
General overhead	367,014	331,399	349,710
Total expenses	<u>5,261,912</u>	<u>5,004,891</u>	<u>5,127,885</u>
Operating income	<u>349,376</u>	<u>776,362</u>	<u>312,162</u>
NONOPERATING REVENUES (EXPENSES)			
Interest expense	(163,365)	(172,839)	(180,684)
Gain (loss) on disposal of assets		4,727	(1,106)
Net nonoperating expenses	<u>(163,365)</u>	<u>(168,112)</u>	<u>(181,790)</u>
Change in net position	<u>\$ 186,011</u>	<u>\$ 608,250</u>	<u>\$ 130,372</u>

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
WATER FUND**

**YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018 AND 2017)**

	2019	2018	2017
REVENUES			
Service charges	\$ 675,643	\$ 599,577	\$ 674,940
Sales and services	38,396	38,096	30,453
Interest on delinquent accounts	5,915	8,141	7,369
Miscellaneous	65,139	62,092	50,398
Total revenues	785,093	707,906	763,160
EXPENSES			
Personnel expenses	355,469	357,105	364,316
Supplies and operating	147,076	188,468	173,127
Professional services		7,105	
Contracted services	33,307	100,103	10,464
Insurance	8,383	8,638	8,712
Repairs and maintenance	67,007	82,237	80,496
Depreciation	198,395	187,190	177,982
General overhead	177,504	126,703	124,259
Total expenses	987,141	1,057,549	939,356
Operating loss	(202,048)	(349,643)	(176,196)
NONOPERATING REVENUES (EXPENSES)			
Interest income	1,179	2,900	958
Interest expense			(6,563)
Loss on disposal of assets			(8,184)
Net nonoperating revenues (expenses)	1,179	2,900	(13,789)
Loss before contributions	(200,869)	(346,743)	(189,985)
Capital contribution - special connection fees	340,311	207,150	531,300
Transfers in	64,120		
Change in net position	\$ 203,562	\$ (139,593)	\$ 341,315

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
SEWER FUND**

**YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018 AND 2017)**

	2019	2018	2017
REVENUES			
Service charges	\$ 1,745,730	\$ 1,677,257	\$ 1,651,884
Sales and services			1,902
Hauler fees	125,655	164,221	107,328
Interest on delinquent accounts	16,116	24,127	21,610
Miscellaneous	13,059	105	1,592
Total revenues	1,900,560	1,865,710	1,784,316
EXPENSES			
Personnel expenses	879,698	760,085	771,857
Supplies and operating	412,939	452,319	382,039
Professional services	13,248	16,832	2,234
Contracted services	56,304	41,196	23,925
Insurance	16,380	18,902	18,695
Repairs and maintenance	84,504	114,762	78,808
Depreciation	1,086,514	1,082,233	1,101,826
General overhead	281,613	296,257	244,251
Total expenses	2,831,200	2,782,586	2,623,635
Operating loss	(930,640)	(916,876)	(839,319)
NONOPERATING REVENUES (EXPENSES)			
Interest income	1,179	5,599	930
Interest expense	(181,081)	(228,589)	(324,577)
Gain on disposal of assets	5,689		
Net nonoperating expenses	(174,213)	(222,990)	(323,647)
Loss before contributions	(1,104,853)	(1,139,866)	(1,162,966)
Capital contributions - special connection fees	934,524	572,006	1,468,176
Change in net position	\$ (170,329)	\$ (567,860)	\$ 305,210

TOWN OF BERLIN, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
STORMWATER FUND**

**YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018 AND 2017)**

	2019	2018	2017
REVENUES			
Service charges	\$ 181,266	\$ 167,404	\$ 171,356
Interest on delinquent accounts	1,348	1,326	1,126
Miscellaneous	63	105	119
Total revenues	182,677	168,835	172,601
EXPENSES			
Personnel expenses	105,931	151,289	170,253
Supplies and operating	15,744	19,260	36,036
Professional services	33,467	24,208	10,882
Contracted services	1,394	29,446	26,141
Insurance	812	1,245	1,186
Depreciation	124,125	42,138	12,553
General overhead		43,698	51,523
Total expenses	281,473	311,284	308,574
Operating loss	(98,796)	(142,449)	(135,973)
NONOPERATING REVENUES			
Capital grants	76,786	971,556	916,249
Net nonoperating revenues	76,786	971,556	916,249
Gain (loss) before transfers	(22,010)	829,107	780,276
Transfers in		50,000	50,000
Change in net position	\$ (22,010)	\$ 879,107	\$ 830,276

GOVERNMENT AUDITING STANDARDS REPORT



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

To the Mayor and Council
Town of Berlin, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Berlin, Maryland's basic financial statements and have issued our report thereon dated October 30, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 30, 2019