

TOWN OF BERLIN, MARYLAND
AUDITORS' COMMUNICATIONS
YEAR ENDED JUNE 30, 2025

DRAFT

TOWN OF BERLIN, MARYLAND

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DRAFT

MANAGEMENT LETTER

DRAFT

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MARYLAND ASSOCIATION OF
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DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

January 12, 2026

To the Mayor and Council and Town Administrator
Town of Berlin, Maryland

In planning and performing our audit of the financial statements of the Town of Berlin, Maryland as of and for the year ended June 30, 2025, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Following are matters for the Mayor and Council and management's information and consideration:

PLEDGED COLLATERAL

Maryland law requires deposits with financial institutions be fully collateralized. Full collateralization is necessary to minimize the risk of loss of deposits in the event of the default of a financial institution. As of June 30, 2025, the pledged collateral was not sufficient to cover the Town's balances that exceeded Federal Depository Insurance Coverage (FDIC).

In July 2025, the Town implemented the use of Insurance Cash Sweep (ICS), which automatically transfer (or "sweep") excess funds from a primary account into deposit accounts at a network of different FDIC-insured banks, ensuring that no single bank balance exceeds \$150,000, mitigating uninsured balances at any point in time.

GASB 101, *COMPENSATED ABSENCES*

Effective July 1, 2024, the Town adopted the new accounting guidance in GASB Statement No. 101, *Compensated Absences*. The new guidance requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. In the past, the Town has only recorded a liability for unused vacation time, and not unused sick leave, because prior guidance focused on recording a liability only when leave could be paid upon termination. GASB 101 introduces the "more likely than not" (greater than 50%) threshold, meaning a liability must also be recognized for unused sick leave that is expected to be used for time off before termination, even if it's not paid out at termination. This liability for unused vacation and sick leave expected to be paid out, whether as time off or cash, is an estimation based on historical data and current Town policies.

As a result of this adoption, salaries and related expenses increased with a corresponding increase in compensated absences liability. The net position in the governmental activities and enterprise funds and fund balance in the general fund at June 30, 2024 have been restated to reflect the implementation.

AMERICAN RESCUE PLAN ACT (ARPA)

The Town received a total of \$4,796,067 from the Coronavirus State and Local Fiscal Recovery program authorized by the American Rescue Plan Act of 2021 (ARPA). The grant funds must be obligated by December 31, 2024 and spent by December 31, 2026. As of June 30, 2025, \$4,635,628 in ARPA funds have been spent, \$47,250 of this total was awarded to subrecipients.

Based on the Town's ARPA spending plan, the unspent funds have been allocated to the following funds and reported as deferred grants as of June 30, 2025.

Water fund	\$ 134,955
General fund	25,484
	<u>\$ 160,439</u>

This report is intended solely for the information and use of the Mayor and Council, management and others within the administration and federal and state grant agencies.

We would like to thank the staff of the Town of Berlin, Maryland for the assistance provided to us throughout the audit. Should there be any questions on our recommendations, we would be pleased to discuss them further at your convenience.

CERTIFIED PUBLIC ACCOUNTANTS

**REQUIRED COMMUNICATIONS WITH THOSE
CHARGED WITH GOVERNANCE**

DRAFT

January 12, 2026

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To the Mayor and Council and Town Administrator
Town of Berlin, Maryland

We have audited the financial statements of the Town of Berlin, Maryland as of and for the year ended June 30, 2025, and have issued our report thereon dated January 12, 2026. Professional standards require that we advise you of the following matters relating to our audit.

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Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated August 11, 2025, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Town of Berlin, Maryland solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team and others in our firm, as appropriate, have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

Audit standards require we communicate significant risks identified in the planning phase and that we design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by error or fraud. Accordingly, we have identified revenue recognition, grant accounting, and management override of controls as significant risks. During our audit, we designed and performed audit procedures to respond to the identified risks. We did not identify any findings related to these audit areas.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Town of Berlin, Maryland is included in the Summary of Significant Accounting Policies in the notes to the financial statements. During 2025, the Town adopted GASB Statement No. 101, *Compensated Absences* as described in the notes to the financial statements. There have been no other initial selection of accounting policies and no changes in significant accounting policies or their application during 2025. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive estimates affecting the financial statements were:

- Allowance for uncollectible accounts,
- Useful lives of capital assets in order to calculate depreciation,
- Compensated absences, and
- Amortization of net pension liability.

Management's estimate of the allowance for uncollectible accounts is based on historical collection percentages and an analysis of the age and collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Qualitative Aspects of the Entity's Significant Accounting Practices (continued)

Significant Accounting Estimates (continued)

Management's estimate of the useful life of capital assets is based on historical information concerning the life of similar assets. We evaluated the key factors and assumptions used to develop the useful lives and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Management's estimate of accrued compensated absences is based on historical data and Town policies for accrued vacation and sick leave. We evaluated the key factors and assumptions used to determine the value of accrued compensated absences including the allocation between short-term and long-term and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Management's estimate of the net pension liability is based on historical data provided by the state. We evaluated the key factors and assumptions used to determine the amortization and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgement and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the Town's financial statements are:

- Capital assets,
- Long-term debt, and
- Prior period adjustments.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit. However, additional time and effort was required as follows:

The Town had a significant amount of capital asset additions during the year including a number of construction projects in progress. Although, the Town provided us with a preliminary list of capital asset additions, additional time was spent in identifying and testing capital asset purchases in order to determine that the listing was complete.

Additional time was spent reviewing the Town's compensated absences policies and assisting in the calculation and implementation of GASB Statement No. 101, *Compensated Absences*.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by management:

- Record entries to adjust deferred taxes and grant revenue, due from other governments, accrued payroll, accrued interest, accrued compensated absences, and real estate taxes.
- Record depreciation expense, update construction in progress, and record asset additions, disposals and transfers, and reclassify capital outlay.
- Record net pension liability, deferred inflows and outflows, and related expenses.
- Record re-allocation of ARPA monies between funds.
- Adjust general long-term debt accounts for principal and interest payments on existing debt.
- Adjust leases receivable and deferred inflows for antenna lease and water tower lease.
- Record budgeted repayments from sewer and stormwater funds to general fund.
- Record new right to use assets and operating lease liabilities for land lease and copier lease.
- Adjust current year activity for right to use assets and operating lease payables.
- Reverse prior year accounts payable for fixed assets purchased at year end.
- Record prior period adjustment for grants.
- Record prior year restatement of accrued compensated absences and sick leave for GASB 101.
- To record issuance of 2024 Series bonds and premiums and record undrawn bond proceeds.
- Record amortization of bond premiums.

In addition, we assisted management with the preparation of the conversion entries to adjust the measurement focus and method of accounting from the governmental fund type data to the government-wide financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Town of Berlin, Maryland financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in a separate letter dated January 12, 2026.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Town of Berlin, Maryland, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Town of Berlin, Maryland's auditors.

Supplementary Information in Documents Containing Audit Financial Statements

We applied certain limited procedures to management's discussion and analysis, budgetary comparative information, and the Maryland State Retirement schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information on pages 57 through 61 of the financial statements, which accompany the financial statements but are not RSI. Pursuant to professional standards, our responsibility as auditors for other information in documents containing Town of Berlin, Maryland's audited financial statement does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, with respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the information and use of the Mayor and Council and management of the Town of Berlin, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

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