

**TOWN OF BERLIN, MARYLAND**  
**AUDITORS' COMMUNICATIONS**  
**YEAR ENDED JUNE 30, 2020**

**TOWN OF BERLIN, MARYLAND**

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**MANAGEMENT LETTER**



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AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

November 20, 2020

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, 2020, 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 consideration:

**GENERAL FUND BALANCE**

During the year ended June 30, 2020, the general fund balance increased by \$1,006,068. The Town ended the year with a general fund balance of \$6,168,982. Of this amount, \$3,375,304 is reported as nonspendable and consists of amounts due from the sewer and stormwater funds.

The total amount of fund balances that are unrestricted (total of committed, assigned, and unassigned) is \$2,760,792. This represents 5.75 months of average daily operating expenses.

In August, 2020, the Mayor and Council approved an equity transfer of approximately \$1,700,000 million from the sewer fund to the general fund. As a result of this action, the amount due from other funds will decrease to approximately \$1,675,000.

We recommend that management develop a written plan to repay the balance to the general fund in a reasonable amount of time. The plan should include the payment amounts, source of funds, and schedule of payments. The annual budget should include a provision for the scheduled payments.

## **FUND BALANCE POLICY**

As noted in our letter last year, we recommend that the Town establish a formal policy which sets the level of unrestricted (total of committed, assigned, and unassigned) fund balances that should be maintained in the general fund for budgetary purposes. In addition, the policy should provide guidelines for how resources would be directed to replenish the fund balance should the balance fall below the prescribed level.

## **SEWER FUND OPERATIONS**

The sewer fund had an operating loss for 2020 of \$140,924 which is a significant improvement over prior years. Operating losses were \$931,000 and \$917,000 in the years ended June 30, 2019 and 2018, respectively.

As a result, of the decrease in the operating loss, the Town was able to reduce the amounts due to the general fund and water fund by \$600,000 during 2020.

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**



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ALLINIAL GLOBAL

November 20, 2020

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, 2020, and have issued our report thereon dated November 20, 2020. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated April 23, 2020, 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.

## **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. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2020. 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, and
- Short-term portion of compensated absences.

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.

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 the short-term portion of accrued compensated absences is based on historical data and Town policies regarding the use of accrued vacation. We evaluated the key factors and assumptions used to determine the long term portion of accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.



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
- COVID-19 impact

#### *Financial Statement Disclosures*

The financial statement disclosures are neutral, consistent, and clear.

#### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

#### **Uncorrected and Corrected Misstatements – Basic financial statements**

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 accounts payable, deferred taxes, accrued payroll, accrued interest, and accrued compensated absences.
- Adjust depreciation expense, update construction in progress, and record asset disposals and transfers.
- Record net pension liability and deferred inflows and outflows.
- Adjust general long-term debt accounts for principal and interest payments on existing debt.
- Reclassify real estate tax and related revenues and discounts to agree with amounts provided by Worcester County.
- Consolidate pooled cash and amounts due to/from other funds.
- Write off uncollectible property taxes and adjust allowance for uncollectible accounts.

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 a letter dated November 20, 2020.

## **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 schedules of revenues and expenditures for each fund on pages 49 through 54 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.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

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.

**CERTIFIED PUBLIC ACCOUNTANTS**