



Town of North Beach, Maryland

Financial Statements
Year Ended June 30, 2021



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TOWN OF NORTH BEACH, MARYLAND

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INDEPENDENT AUDITOR'S REPORT

**To the Town Council
Town of North Beach
North Beach, Maryland**

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of North Beach, North Beach, Maryland, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of North Beach'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.

Auditor's 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 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, and each major fund of the Town of North Beach, as of June 30, 2021, 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

Report on Summarized Comparative Information

We have previously audited the Town of North Beach's 2020 financial statements, and our report dated January 5, 2021 expressed unmodified opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule – General Fund and the schedules of the Town's proportionate share of the net pension liability and pension plan contributions on pages 3 through 10 and 35 through 38 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 January 10, 2022, on our consideration of the Town of North Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of North Beach's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
January 10, 2022**

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

Management's discussion and analysis ("**MD&A**") of the financial performance of the Town of North Beach, Maryland (the "**Town**") provides an overview of the Town's financial performance for the fiscal year ended June 30, 2021. Readers should also review the basic financial statements and related notes to enhance their understanding of the Town's financial performance.

TOWN PROFILE

The Town is located in the northern part of Calvert County at the crossroads of Route 261 and 260. Although considered to be in the Washington, DC metropolitan area, the Town's location also gives it easy access to Baltimore and Annapolis. The Baltimore/Washington, DC area is considered to be one of the fastest growing regions in the nation. The Town's proximity to the Baltimore/Washington, DC area and the amount of Federal government spending in the region generally contributes to the Town's stability. The Town population was 2,057 according to the 2020 census and 1,978 according to the 2010 census. The major services provided by the Town include public safety (police), recreation, sanitation, highways and streets, planning and zoning, water and sewer and general administrative. The Town employs 9 full-time employees that consist of a Town Treasurer, Town Clerk, Receptionist, Director of Public Works, Assistant Director of Public Works, two other public works employees, Waterfront Manager and Marketing/Public Relations Director, 1 part-time Code Enforcement Officer and 30 seasonal employees from April to October. The Town has experienced steady growth over the years with some fluctuations due to economic and weather related events. Overall, the number of year round residents and seasonal visitors has increased moderately in recent years.

FINANCIAL HIGHLIGHTS

- In December 2019, an outbreak of a novel strain of coronavirus ("**COVID-19**") was identified and has since spread worldwide including the United States. In March, 2020, the World Health Organization characterized COVID-19 as a pandemic and Maryland Governor Larry Hogan ordered the closure of the physical location of every "non-essential business" in Maryland for what was an extended period of time. Although the impact of COVID-19 included the disruption of some Town services and impaired the ability of the Town to generate certain revenues, it did not negatively impact the Town's financial condition during 2020.
- On a government-wide basis including all governmental activities and the business-type activities, the assets and deferred outflows of the Town exceeded liabilities and deferred inflows resulting in total net position at the close of the 2020-2021 fiscal year of \$19,913,356. During the 2020-2021 fiscal year, the Town had an increase in total net position of \$568,501. The net position of the governmental activities increased by \$496,387 and net position of the business-type activities increased by \$72,114.
- At the close of the 2020-2021 fiscal years, the Town's governmental funds reported combined ending fund balances of \$3,500,486 an increase of \$788,171 in comparison with the prior year.
- The General Fund reported an increase in fund balance of \$841,210, bringing the cumulative balance to \$3,420,415 or 127.32% of total General Fund expenditures at the conclusion of the 2020-2021 fiscal years.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

The *Statement of Net Position* presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. To assess the Town's overall health, the reader will need to consider additional nonfinancial factors such as changes in the Town's tax base and the condition of the Town's assets.

The *Statement of Activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, community development, public safety and public works. Business-type activities consist of the Town's operation of a water supply and sewage collection system.

The government-wide financial statements can be found on pages 11 and 12 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Town's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town uses governmental and proprietary fund financial statements to provide more detailed information about the Town's most significant funds rather than the Town as a whole.

Governmental Funds

Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The reconciliation between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is provided in the financial statements.

The governmental fund financial statements can be found on pages 13 through 16 of this report.

Proprietary Funds

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the Town's proprietary funds. The proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements which consist of the Town's operation of a water supply and sewage collection system.

The proprietary fund financial statements can be found on pages 17 through 19 of this report.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

Notes to the Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statement can be found on pages 20 through 34 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town, which consists of a budgetary comparison schedule for the General Fund and schedules of net pension liability and Town pension contributions.

The required supplementary information can be found on pages 35 through 38 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve as a useful indicator of the Town's financial position. At the close of the 2020-2021 fiscal year, the Town's assets and deferred outflows exceeded liabilities and deferred inflows by \$19,913,356. The following table presents condensed information for the Statement of Net Position of the Town at June 30, 2021 and 2020.

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
ASSETS						
Current assets	\$ 3,658,526	\$ 3,084,886	\$1,998,682	\$1,927,751	\$ 5,657,208	\$ 5,012,637
Capital assets, net	<u>15,443,466</u>	<u>16,205,608</u>	<u>4,650,462</u>	<u>4,795,503</u>	<u>20,093,928</u>	<u>21,001,111</u>
Total assets	<u>19,101,992</u>	<u>19,290,494</u>	<u>6,649,144</u>	<u>6,723,254</u>	<u>25,751,136</u>	<u>26,013,748</u>
DEFERRED OUTFLOWS						
Deferred charges - pensions	<u>36,890</u>	<u>22,820</u>	<u>55,336</u>	<u>34,232</u>	<u>92,226</u>	<u>57,052</u>
LIABILITIES						
Current liabilities	134,958	328,354	159,785	73,855	294,743	402,209
Noncurrent liabilities	<u>2,899,969</u>	<u>3,371,112</u>	<u>2,734,478</u>	<u>2,936,110</u>	<u>5,634,447</u>	<u>6,307,222</u>
Total liabilities	<u>3,034,927</u>	<u>3,699,466</u>	<u>2,894,263</u>	<u>3,009,965</u>	<u>5,929,190</u>	<u>6,709,431</u>
DEFERRED INFLOWS						
Deferred credits - pensions	<u>326</u>	<u>6,606</u>	<u>490</u>	<u>9,908</u>	<u>816</u>	<u>16,514</u>
NET POSITION						
Net investment in capital assets	12,866,977	13,159,361	2,219,200	2,125,281	15,086,177	15,284,642
Restricted	80,071	133,110	-	-	80,071	133,110
Unrestricted	<u>3,156,581</u>	<u>2,314,771</u>	<u>1,590,527</u>	<u>1,612,332</u>	<u>4,747,108</u>	<u>3,927,103</u>
Total net position	<u>\$16,103,629</u>	<u>\$15,607,242</u>	<u>\$3,809,727</u>	<u>\$3,737,613</u>	<u>\$19,913,356</u>	<u>\$19,344,855</u>

The Town's total assets as of June 30, 2021 were \$25,751,136 of which \$5,083,738 or 19.74% consisted of cash and \$20,093,928 or 78.03% consisted of the Town's investment in capital assets. The Town's total liabilities as of June 30, 2021 were \$5,929,190 of which \$5,007,751 or 84.46% consisted of bonds and notes payable used primarily to acquire and construct capital assets.

Of the Town's total net position at June 30, 2021, \$4,747,108 is unrestricted and may be used to meet the Town's obligations to citizens and creditors. The Town's unrestricted net position increased by \$820,005 primarily due to the result of current operations.

A portion of the Town's net position reflects its restricted net position which totaled \$80,071 as of June 30, 2021. The Town's restricted net position relates to the Town's capital projects fund and economic development fund.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

The largest portion of the Town's net position reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. Capital assets are used to provide services to residents and they are not available for future spending. Although the investment in capital assets is report net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2021, the Town's investment in capital assets, net of related debt decreased \$198,465 primarily because the Town donated a capital asset to Calvert County that had been funded through a grant over several years.

The following table presents condensed information for the Statement of Activities of the Town for 2021 and 2020:

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
REVENUES						
Program revenues						
Charges for services	\$ 525,796	\$ 669,166	\$1,309,457	\$1,314,994	\$ 1,835,253	\$ 1,984,160
Operating grants and contributions	127,393	143,664	-	-	127,393	143,664
Capital grants and contributions	123,568	250,000	-	-	123,568	250,000
General revenues						
Taxes						
Real property taxes	1,615,934	1,609,643	-	-	1,615,934	1,609,643
Personal property taxes	8,640	11,491	-	-	8,640	11,491
Property tax penalties	7,015	53,301	-	-	7,015	53,301
State-shared revenue	921,109	766,201	-	-	921,109	766,201
Investment earnings	3,217	48,707	148	2,194	3,365	50,901
Franchise fees	51,031	59,890	-	-	51,031	59,890
Cell tower revenue	152,271	147,477	-	-	152,271	147,477
Loss on donated capital asset	(252,806)	-	-	-	(252,806)	-
Miscellaneous	12,316	2,359	-	-	12,316	2,359
Total revenues	<u>3,295,484</u>	<u>3,761,899</u>	<u>1,309,605</u>	<u>1,317,188</u>	<u>4,605,089</u>	<u>5,079,087</u>
EXPENSES						
General government	980,438	1,036,833	-	-	980,438	1,036,833
Community development	464,240	583,201	-	-	464,240	583,201
Public safety	580,000	642,866	-	-	580,000	642,866
Public works	701,832	796,863	-	-	701,832	796,863
Interest on long-term debt	72,587	85,880	-	-	72,587	85,880
Water operations	-	-	408,643	467,185	408,643	467,185
Sewer operations	-	-	828,848	793,828	828,848	793,828
Total expenses	<u>2,799,097</u>	<u>3,145,643</u>	<u>1,237,491</u>	<u>1,261,013</u>	<u>4,036,588</u>	<u>4,406,656</u>
CHANGE IN NET POSITION	496,387	616,256	72,114	56,175	568,501	672,431
NET POSITION						
Beginning of year	<u>15,607,242</u>	<u>14,990,986</u>	<u>3,737,613</u>	<u>3,681,438</u>	<u>19,344,855</u>	<u>18,672,424</u>
End of year	<u>\$16,103,629</u>	<u>\$15,607,242</u>	<u>\$3,809,727</u>	<u>\$3,737,613</u>	<u>\$19,913,356</u>	<u>\$19,344,855</u>

Governmental Activities

The cost of all governmental activities in 2020-2021 was \$2,799,097. The amount that taxpayers ultimately financed for these activities through Town taxes was \$1,631,589 or 58.29%. A majority of the other expenses were financed through charges for services by those who directly benefited from the programs (\$525,796 or 18.78%) or state shared revenues (\$921,109 or 32.91%)

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

General government programs account for 35.03%, community development programs account for 16.59%, public safety programs 20.72%, and public works programs 25.07% of the total expenses in the governmental activities.

Business-Type Activities and Proprietary Funds

The business-type activities and proprietary funds of the Town include water and sewer operations. The Town has entered into a joint venture with Chesapeake Beach, Maryland and Calvert County, the purpose of which is to borrow money to finance the construction, or acquisition, of and operate sewer facilities, consisting of a sewage treatment plant and collections systems. The Town maintains its own water system, which consists of a water tower and two wells.

Charges for services represent the principal revenue source for the Town's business-type activities and proprietary funds. Fees for trash, water, sewer and water benefits experienced no changes in rates for 2020-2021, while fees for water and sewer services were increased for usage in excess of 5,000 gallons. Expenses within the business-type activities and proprietary funds were consistent in 2020-2021 compared to 2019-2020, due to increases in wastewater treatment expense that were offset by decreases in expenses for employee benefits and repairs and maintenance.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The governmental fund financial statements provide detailed information of the Town's major funds. Some funds are required to be established by State statute while other funds are established by the Town to manage money restricted for a specific purpose.

As of June 30, 2021, the Town's governmental funds reported combined ending fund balances of \$3,500,486, an increase of \$788,171, as compared to the prior year. At June 30, 2021, the governmental fund fund balance includes \$80,017 committed to economic development and unassigned amounts of \$3,420,415.

General Fund

The General Fund is the chief operating fund of the Town. As of June 30, 2021, the total fund balance of the General Fund was \$3,420,415. The fund balance increased by \$841,210 during the year ended June 30, 2021.

The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund fund during the 2020-2021 year.

General Fund Revenues and Other Financing Sources

	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Taxes	\$1,652,725	\$1,825,115	\$ (172,390)	(9.45)
Charges for services	510,641	578,514	(67,873)	(11.73)
State shared revenues	921,109	766,201	154,908	20.22
Intergovernmental revenues	107,223	141,414	(34,191)	(24.18)
Contributions and donations	20,170	2,250	17,920	796.44
Cell tower revenues	152,271	147,477	4,794	3.25
Franchise fees	51,031	59,890	(8,859)	(14.79)
Earnings on investments	3,206	48,570	(45,364)	(93.40)
Transfers in	91,094	-	91,094	100.00
Proceeds from sale of capital assets	5,950	-	5,950	100.00
Miscellaneous	12,316	2,359	9,957	422.09
	<u>\$3,527,736</u>	<u>\$3,571,790</u>	<u>\$ (44,054)</u>	<u>(1.23)</u>

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

Revenues and other financing sources decreased by \$44,054 or 1.23% in 2020-2021 compared to 2019-2020. Major fluctuations in revenues and other financing sources compared to the prior year are as follows:

- Taxes decrease of \$172,390 or 9.45% was due to a reduction in the real estate tax rate and a decrease in interest and penalties received due to more on time payments.
- Charges for services decreased \$67,873 or 11.73% due to further decreases in beach fees and related activity and other events related to closings due to COVID-19.
- State shared revenues increase of \$154,908 or 20.22% was due to increases in gaming revenues directly related to the reopening after COVID-19 shutdown.
- Earnings on investments decreased by \$45,364 or 93.40% due to decrease in investment rates.
- Transfers in during 2020-2021 represent a transfer in from the Capital Projects Fund to reimburse the General Fund for capital expenditures.

General Fund Expenditures and Other Financing Uses

	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
General government	\$ 915,127	\$ 969,497	\$ (54,370)	(5.61)
Community development	114,413	208,409	(93,996)	(45.10)
Public safety	580,000	642,866	(62,866)	(9.78)
Public works	521,754	510,220	11,534	2.26
Capital outlay	12,887	49,833	(36,946)	(74.14)
Debt service	542,345	541,853	492	(0.09)
Transfers out	-	91,686	(91,686)	(100.00)
	<u>\$2,686,526</u>	<u>\$3,014,364</u>	<u>\$(327,838)</u>	<u>(10.88)</u>

Expenditures and other financing uses decreased by \$327,838 or 10.88% in 2020-2021 compared to 2019-2020. Major fluctuations in expenditures compared to the prior year are as follows:

- Community development expenses decreased by \$93,996 or 45.10% due to decreases in events expenses and promotional expenses which directly correlates to decrease in related revenue due to COVID-19 shutdown.
- Public safety expenses decreased by \$62,866 or 9.78% due to decreases in part time officers and beach patrol salaries due disruptions caused by COVID-19.
- Transfers out in 2019-2020 represent transfers to Capital Projects Fund to subsidize capital projects.

Capital Projects Fund

The Capital Projects Fund accounts for funding for major capital expenditures of the Town. Revenue is provided by General Fund transfers and intergovernmental revenues. At June 30, 2021, the Capital Projects Fund had a balance of \$0.

The major capital projects and purchases funded by the Capital Projects Fund during the year ended June 30, 2021 were as follows:

- Construction costs associated with town street light project

GENERAL FUND BUDGET INFORMATION

The Town maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The Town budgets and expends funds according to procedures mandated by the Town Charter. An annual operating budget is prepared by management and submitted to the Town Council prior to the beginning of fiscal year on July 1 each year. The significant budgeted fund is the General Fund.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

The schedule comparing the Town's budget and actual results can be found on pages 35 and 36. Actual revenues and other financing sources were \$417,381 more than budgeted amounts and actual expenditures and other financing uses were \$423,829 less than budgeted amounts resulting in a net positive variance of \$841,210. A summary of significant variations between budget amounts and actual results are as follows:

- Real estate taxes and property tax penalties exceeded budgeted amount by \$45,955 as a result of better than expected collection in 2020-2021 of current and delinquent property taxes by the County.
- Charges for services were less than budgeted amount by \$124,799 due to beach fees, events and related expenses being lower than anticipated in the current year due to COVID-19 and closings related to it.
- State-shared revenues were \$405,109 higher than budgeted amounts because of local income taxes and gambling revenues were higher than expected due to conservative budgeting in the face of COVID-19 restrictions.
- Administrative expenses were \$87,868 more than budgeted due to administrative salaries, bank charges and unbudgeted MEA grant expenditures being more than budgeted offset by Town Hall expenses, general code update and code inspection salaries all less than budgeted due to change in operations and duties due to COVID-19.
- Professional services were \$134,533 less than budgeted due to engineering expenses being lower than budgeted due to projects being postponed due to COVID-19 and no expenses incurred for a budgeted grant writer as the funding was not received in 2020-2021 to support related services.
- Events expense were \$106,397 and welcome center expense were \$62,428 less than budgeted due to disruptions caused by COVID-19.
- Public safety expenditures were less than budgeted by \$118,988 due to beach patrol decreases related to beach activity and part time officers being less than budgeted due to COVID-19.
- Transfers in of \$91,094 as a reimbursement from the Capital Projects Fund were not budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2021, totaled \$20,093,928 (net of accumulated depreciation). Capital assets include land, land improvements, buildings and improvements, machinery and equipment and infrastructure. The total net decrease in the Town's capital assets for the current fiscal year was \$907,183 or 4.32%. The decrease was the result of current year depreciation in excess of capital additions. Current year net capital additions were \$67,126 depreciation expense was \$715,554, and the donation of library capital project to Calvert County reduced capital assets by \$258,755.

More detailed information about the Town's capital assets is presented in the notes to the basic financial statements.

Debt Administration

The power and obligation of the Town to borrow money by the issuance of its general obligation bonds, notes or any other evidences of indebtedness, whether issued pursuant to the authority of Section 19-719(A) of the Town Charter or other applicable law, shall be limited, exclusive of amounts being repaid by the water and sewer operations, to a total principal amount of general obligation indebtedness outstanding at the time any such debt is incurred equal to an amount not in excess of 20 percent of the assessable basis of property located in the Town. At June 30, 2021, the Town's outstanding debt, exclusive of amounts being repaid by the water and sewer operations, was 0.98% (\$2,576,489 governmental activities long-term debt/\$262,479,957 assessable taxable base) of the debt limit. The water and sewer revenues of the Town are pledged to liquidate long-term debt related to the water and sewer operations.

As of June 30, 2021, the Town had outstanding notes and bonds payable totaling \$5,007,751 in both the governmental and business-type activities. The total net decrease in the Town's outstanding notes and bonds payable for the current fiscal year was \$708,718 or 12.39%.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

The Town reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in the Maryland State Retirement and Pension System ("**MSRPS**"). The Town's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$505,360 as of June 30, 2021. The Town's net pension liability increased by \$62,213 or 14.04% during the fiscal year.

Other long-term debt consists of the Town's liability for compensated absences which consists solely of its accrued vacation payable.

More detailed information about the Town's long-term debt is presented in the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The adopted budget for 2021-2022 reduced the real property tax rate to \$0.6034 per \$100 of assessed valuation, a reduction of 2.2% in relation to the 2020-2021 fiscal year. The Town has experienced a moderate increase in its assessable tax base which can be attributed to the construction of new homes and improvements of existing homes. The completion of the San Francisco subdivision and sale of the 135 units is very impactful to the increased assessable tax base. Property tax revenue makes up approximately 51.43 percent of General Fund budgeted revenues and other financing sources.

Water, sewer, water benefits, and sewer benefits experienced a small change in the reduction to the minimum rate from 5,000 to 4,000 gallons and fee structure was reduced to a one tier rate for each fund for the 2021-2022 budget, while fees for trash benefits increased from \$327 per household to \$414.

Currently, there is opportunity for development along the waterfront that could generate more tourist activity and monies for the community by way of the planned construction of a hotel and convention center. The development and increase in visitors will be significant to the Town's continued economic development.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Town's finances. If you have questions about this report or need any additional information, contact The Town of North Beach, 8916 Chesapeake Avenue, North Beach, Maryland, 20714 or call (301) 855-6681.

TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF NET POSITION

June 30, 2021 with summarized comparative totals for 2020

	Governmental Activities	Business-type Activities	Totals	
			2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 3,295,182	\$ 1,788,556	\$ 5,083,738	\$ 4,509,973
Taxes and refuse fees receivable	48,862	63,110	111,972	82,836
Due from other governments	310,418		310,418	150,058
Accounts receivable		147,016	147,016	266,683
Other receivables	4,064		4,064	3,087
Prepaid expenses	-	-	-	-
Total current assets	<u>3,658,526</u>	<u>1,998,682</u>	<u>5,657,208</u>	<u>5,012,637</u>
NONCURRENT ASSETS				
Capital assets, net	<u>15,443,466</u>	<u>4,650,462</u>	<u>20,093,928</u>	<u>21,001,111</u>
Total assets	<u>19,101,992</u>	<u>6,649,144</u>	<u>25,751,136</u>	<u>26,013,748</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on proportionate share of pension	<u>36,890</u>	<u>55,336</u>	<u>92,226</u>	<u>57,052</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
CURRENT LIABILITIES				
Accounts payable	101,962	131,746	233,708	258,838
Accrued expenses	32,996	28,039	61,035	100,509
Unearned revenue	-	-	-	42,862
Total current liabilities	<u>134,958</u>	<u>159,785</u>	<u>294,743</u>	<u>402,209</u>
NONCURRENT LIABILITIES				
Due within one year	478,024	223,502	701,526	707,823
Due in more than one year	<u>2,421,945</u>	<u>2,510,976</u>	<u>4,932,921</u>	<u>5,599,399</u>
Total noncurrent liabilities	<u>2,899,969</u>	<u>2,734,478</u>	<u>5,634,447</u>	<u>6,307,222</u>
Total liabilities	<u>3,034,927</u>	<u>2,894,263</u>	<u>5,929,190</u>	<u>6,709,431</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred credits on proportionate share of pension	<u>326</u>	<u>490</u>	<u>816</u>	<u>16,514</u>
NET POSITION				
Net investment in capital assets	12,866,977	2,219,200	15,086,177	15,284,642
Restricted for				
Capital projects	-	-	-	8,242
Economic development	80,071	-	80,071	124,868
Unrestricted	<u>3,156,581</u>	<u>1,590,527</u>	<u>4,747,108</u>	<u>3,927,103</u>
Total net position	<u>\$ 16,103,629</u>	<u>\$ 3,809,727</u>	<u>\$ 19,913,356</u>	<u>\$ 19,344,855</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF ACTIVITIES

Year ended June 30, 2021 with summarized comparative totals for 2020

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	
							<u>2021</u>	<u>2020</u>
GOVERNMENTAL ACTIVITIES								
General government	\$ 980,438	\$ -	\$ 42,007	\$ -	\$ (938,431)	\$ -	\$ (938,431)	\$ (1,017,761)
Community development	464,240	253,405	60,984	123,568	(26,283)	-	(26,283)	145,557
Public safety	580,000	-	24,402	-	(555,598)	-	(555,598)	(621,213)
Public works	701,832	272,391	-	-	(429,441)	-	(429,441)	(503,516)
Interest on long-term debt	72,587	-	-	-	(72,587)	-	(72,587)	(85,880)
Total governmental activities	<u>2,799,097</u>	<u>525,796</u>	<u>127,393</u>	<u>123,568</u>	<u>(2,022,340)</u>	<u>-</u>	<u>(2,022,340)</u>	<u>(2,082,813)</u>
BUSINESS-TYPE ACTIVITIES								
Water	408,643	425,776	-	-	-	17,133	17,133	(72,949)
Sewer	828,848	883,681	-	-	-	54,833	54,833	126,930
Total business-type activities	<u>1,237,491</u>	<u>1,309,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,966</u>	<u>71,966</u>	<u>53,981</u>
Total primary government	<u>\$ 4,036,588</u>	<u>\$ 1,835,253</u>	<u>\$ 127,393</u>	<u>\$ 123,568</u>	<u>(2,022,340)</u>	<u>71,966</u>	<u>(1,950,374)</u>	<u>(2,028,832)</u>
GENERAL REVENUES								
Taxes								
Real property taxes					1,615,934	-	1,615,934	1,609,643
Personal property taxes					8,640	-	8,640	11,491
Property tax penalties					7,015	-	7,015	53,301
State-shared revenue					921,109	-	921,109	766,201
Investment earnings					3,217	148	3,365	50,901
Franchise fees					51,031	-	51,031	59,890
Cell tower revenue					152,271	-	152,271	147,477
Loss on donated capital asset					(252,806)	-	(252,806)	-
Miscellaneous					12,316	-	12,316	2,359
Total general revenues					<u>2,518,727</u>	<u>148</u>	<u>2,518,875</u>	<u>2,701,263</u>
CHANGE IN NET POSITION					496,387	72,114	568,501	672,431
NET POSITION								
Beginning of year					15,607,242	3,737,613	19,344,855	18,672,424
End of year					<u>\$ 16,103,629</u>	<u>\$ 3,809,727</u>	<u>\$ 19,913,356</u>	<u>\$ 19,344,855</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2021 with summarized comparative totals for 2020

	Major Funds			Totals	
	General	Capital	Economic	2021	2020
	Fund	Projects	Development		
		Fund	Fund		
ASSETS					
Cash	\$ 3,215,111	\$ -	\$ 80,071	\$ 3,295,182	\$ 2,884,570
Taxes and refuse fees receivable	48,862	-	-	48,862	47,171
Due from other governments	310,418	-	-	310,418	150,058
Prepaid items	-	-	-	-	-
Other receivables	4,064	-	-	4,064	3,087
Due from other funds	-	-	-	-	114,709
Total assets	\$ 3,578,455	\$ -	\$ 80,071	\$ 3,658,526	\$ 3,199,595
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 101,962	\$ -	\$ -	\$ 101,962	\$ 219,191
Accrued expenses	32,996	-	-	32,996	66,301
Unearned revenue	-	-	-	-	42,862
Due to other funds	-	-	-	-	114,709
Total liabilities	134,958	-	-	134,958	443,063
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues - property taxes and refuse fees	23,082	-	-	23,082	44,217
FUND BALANCES					
Nonspendable					
Prepaid items	-	-	-	-	-
Restricted for					
Capital projects	-	-	-	-	8,242
Committed to					
Economic development	-	-	80,071	80,071	124,868
Unassigned	3,420,415	-	-	3,420,415	2,579,205
Total fund balances	3,420,415	-	80,071	3,500,486	2,712,315
Total liabilities, deferred inflows of resources and fund balances	\$ 3,578,455	\$ -	\$ 80,071	\$ 3,658,526	\$ 3,199,595

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

June 30, 2021

TOTAL GOVERNMENTAL FUND BALANCES	\$ 3,500,486
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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, therefore, are not reported in the governmental funds balance sheet.	15,443,466
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Deferred outflows of resources and deferred inflows of resources related to pensions are not reported as assets and liabilities in the governmental funds balance sheet.	36,564
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	(2,899,969)
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Some of the Town's revenues are not available soon enough to pay for the current period's expenditures, and, therefore, are reported as deferred inflows of resources in the governmental funds balance sheet.	<u>23,082</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 16,103,629</u>
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TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2021 with summarized comparative totals for 2020

	Major Funds			Totals	
	General	Capital	Economic	2021	2020
	Fund	Projects	Development		
		Fund	Fund		
REVENUES					
Real property taxes	\$ 1,637,070	\$ -	\$ -	\$ 1,637,070	\$ 1,760,323
Property tax penalties	7,015	-	-	7,015	53,301
Personal property taxes	8,640	-	-	8,640	11,491
Charges for services	238,250	7,975	7,180	253,405	375,819
Refuse collection fees	272,391	-	-	272,391	293,347
State shared revenues	921,109	-	-	921,109	766,201
Contributions and donations	20,170	-	-	20,170	2,250
Cell tower revenue	152,271	-	-	152,271	147,477
Intergovernmental revenues	107,223	123,568	-	230,791	391,414
Franchise fees	51,031	-	-	51,031	59,890
Earnings on investments	3,206	11	-	3,217	48,707
Miscellaneous	12,316	-	-	12,316	2,359
Total revenues	3,430,692	131,554	7,180	3,569,426	3,912,579
EXPENDITURES					
Current					
General government	915,127	-	-	915,127	981,622
Community development	114,413	-	51,977	166,390	274,163
Public safety	580,000	-	-	580,000	642,866
Public works	521,754	2,399	-	524,153	631,339
Capital outlay	12,887	46,303	-	59,190	385,441
Debt service	542,345	-	-	542,345	541,853
Total expenditures	2,686,526	48,702	51,977	2,787,205	3,457,284
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	744,166	82,852	(44,797)	782,221	455,295
OTHER FINANCING SOURCES (USES)					
Transfers in	91,094	-	-	91,094	-
Transfers out	-	(91,094)	-	(91,094)	-
Proceeds from sale of capital assets	5,950	-	-	5,950	-
Total other financing sources (uses)	97,044	(91,094)	-	5,950	-
NET CHANGE IN FUND BALANCES	841,210	(8,242)	(44,797)	788,171	455,295
FUND BALANCES					
Beginning of year	2,579,205	8,242	124,868	2,712,315	2,257,020
End of year	\$ 3,420,415	\$ -	\$ 80,071	\$ 3,500,486	\$ 2,712,315

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2021

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		\$ 788,171
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlay expenditures, net	\$ 41,723	
Capital contribution	(258,755)	
Depreciation expense	<u>(545,110)</u>	(762,142)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position of governmental activities. This amount is the net effect of these differences in the treatment of long-term debt.

Repayment of long-term debt	<u>469,758</u>	469,758
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Because some property taxes and refuse fees will not be collected for several months after the Town's fiscal year ends, they are not considered as "available" revenues in the governmental fund. Deferred inflows of resources decreased by this amount this year.

Deferred inflows of resources at June 30, 2020	(44,218)	
Deferred inflows of resources at June 30, 2021	<u>23,082</u>	(21,136)

Some liabilities are not due and payable in the current period and, therefore, are not reported as expenditures in the governmental funds.

Change in net pension liability and related deferred inflows and outflows	(4,534)	
Current year change in compensated absences	<u>26,270</u>	21,736

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 496,387</u>
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TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2021 with summarized comparative totals for 2020

	Major Funds		Totals	
	Water Fund	Sewer Fund	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 269,501	\$ 1,519,055	\$ 1,788,556	\$ 1,625,403
Accounts receivable	28,939	118,077	147,016	266,683
Other receivables	-	63,110	63,110	35,665
Prepaid expenses	-	-	-	-
Total current assets	<u>298,440</u>	<u>1,700,242</u>	<u>1,998,682</u>	<u>1,927,751</u>
NONCURRENT ASSETS				
Capital assets, net	<u>658,151</u>	<u>3,992,311</u>	<u>4,650,462</u>	<u>4,795,503</u>
Total assets	<u>956,591</u>	<u>5,692,553</u>	<u>6,649,144</u>	<u>6,723,254</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred employer contributions - pensions	<u>27,668</u>	<u>27,668</u>	<u>55,336</u>	<u>34,232</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	21,609	110,137	131,746	39,647
Accrued expenses	<u>10,629</u>	<u>17,410</u>	<u>28,039</u>	<u>34,208</u>
Total current liabilities	<u>32,238</u>	<u>127,547</u>	<u>159,785</u>	<u>73,855</u>
NONCURRENT LIABILITIES				
Due within one year	77,812	145,690	223,502	239,831
Due in more than one year	<u>1,047,606</u>	<u>1,463,370</u>	<u>2,510,976</u>	<u>2,696,279</u>
Total noncurrent liabilities	<u>1,125,418</u>	<u>1,609,060</u>	<u>2,734,478</u>	<u>2,936,110</u>
Total liabilities	<u>1,157,656</u>	<u>1,736,607</u>	<u>2,894,263</u>	<u>3,009,965</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred investment earnings - pensions	<u>245</u>	<u>245</u>	<u>490</u>	<u>9,908</u>
NET POSITION (DEFICIT)				
Net (deficit) investment in capital assets	(315,659)	2,534,859	2,219,200	2,125,281
Unrestricted	<u>142,017</u>	<u>1,448,510</u>	<u>1,590,527</u>	<u>1,612,332</u>
Total net position (deficit)	<u>\$ (173,642)</u>	<u>\$ 3,983,369</u>	<u>\$ 3,809,727</u>	<u>\$ 3,737,613</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

Year ended June 30, 2021 with summarized comparative totals for 2020

	Major Funds		Totals	
	Water Fund	Sewer Fund	2021	2020
OPERATING REVENUES				
Charges for services	\$ 422,557	\$ 842,794	\$ 1,265,351	\$ 1,276,529
Water and sewer tapping fees	-	-	-	-
Other operating revenues	3,219	40,887	44,106	38,465
Total operating revenues	<u>425,776</u>	<u>883,681</u>	<u>1,309,457</u>	<u>1,314,994</u>
OPERATING EXPENSES				
Salaries and wages	160,168	153,680	313,848	317,162
Employee benefits	53,349	53,349	106,698	134,070
Administrative expenses	589	66,315	66,904	64,841
Insurance	13,146	13,146	26,292	28,691
Professional services	18,928	14,727	33,655	35,756
Repairs and maintenance	47,366	9,572	56,938	93,936
Supplies	14,806	-	14,806	39,359
Utilities	8,035	5,474	13,509	14,789
Wastewater treatment expenses	-	364,132	364,132	285,880
Depreciation	63,790	106,654	170,444	170,308
Total operating expenses	<u>380,177</u>	<u>787,049</u>	<u>1,167,226</u>	<u>1,184,792</u>
Operating income	<u>45,599</u>	<u>96,632</u>	<u>142,231</u>	<u>130,202</u>
NONOPERATING REVENUES (EXPENSES)				
Earnings on investments	48	100	148	2,194
Interest expense	(28,466)	(41,799)	(70,265)	(76,221)
Total nonoperating revenues (expenses)	<u>(28,418)</u>	<u>(41,699)</u>	<u>(70,117)</u>	<u>(74,027)</u>
CHANGE IN NET POSITION (DEFICIT)	17,181	54,933	72,114	56,175
NET POSITION (DEFICIT)				
Beginning of year	(190,823)	3,928,436	3,737,613	3,681,438
End of year	<u>\$ (173,642)</u>	<u>\$ 3,983,369</u>	<u>\$ 3,809,727</u>	<u>\$ 3,737,613</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2021 with summarized comparative totals for 2020

	Major Funds		Totals	
	Water Fund	Sewer Fund	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from charges for services	\$ 463,663	\$ 921,354	\$ 1,385,017	\$ 1,290,772
Payments to suppliers for goods and services	(86,797)	(397,340)	(484,137)	(714,695)
Payments to employees for services	(212,173)	(205,798)	(417,971)	(439,252)
Cash received for tap fees	-	-	-	-
Other operating revenue	3,219	13,442	16,661	27,544
Net cash provided by operating activities	<u>167,912</u>	<u>331,658</u>	<u>499,570</u>	<u>164,369</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on bonds and notes	(75,017)	(163,942)	(238,959)	(235,387)
Interest paid on bonds and notes	(29,096)	(43,107)	(72,203)	(76,924)
Acquisition of capital assets	(7,049)	(18,354)	(25,403)	(17,212)
Net cash used for noncapital and related financing activities	<u>(111,162)</u>	<u>(225,403)</u>	<u>(336,565)</u>	<u>(329,523)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	48	100	148	2,194
Net increase (decrease) in cash	56,798	106,355	163,153	(162,960)
CASH				
Beginning of year	<u>212,703</u>	<u>1,412,700</u>	<u>1,625,403</u>	<u>1,788,363</u>
End of year	<u>\$ 269,501</u>	<u>\$ 1,519,055</u>	<u>\$ 1,788,556</u>	<u>\$ 1,625,403</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 45,599	\$ 96,632	\$ 142,231	\$ 130,202
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	63,790	106,654	170,444	170,308
(Increase) decrease in				
Accounts receivable	41,107	78,560	119,667	14,243
Prepaid expenses	-	-	-	3,541
Other receivables	-	(27,445)	(27,445)	(10,921)
Deferred outflows - pension	(10,552)	(10,552)	(21,104)	(4,740)
Increase (decrease) in				
Accounts payable	16,071	76,028	92,099	(154,984)
Accrued expenses	(2,058)	(2,174)	(4,232)	1,284
Net pension liability	18,664	18,664	37,328	30,850
Deferred inflows - pension	(4,709)	(4,709)	(9,418)	(15,414)
Net cash provided by operating activities	<u>\$ 167,912</u>	<u>\$ 331,658</u>	<u>\$ 499,570</u>	<u>\$ 164,369</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of North Beach, in Calvert County, Maryland (the "**Town**") was incorporated in 1910 under the laws of the State of Maryland. The Town operates under a form of government which comprises an elected six-member Town Council and an elected Mayor, and provides the following services: public safety (police); recreation; sanitation; highways and streets; planning and zoning; water and sewer services; and general administrative services.

The financial statements of the Town have been prepared in accordance with generally accepted accounting principles ("**GAAP**") as applied to governmental units. The Governmental Accounting Standards Board ("**GASB**") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the Town as a reporting entity, management has addressed all potential component units which may or may not fall within the Town's accountability. The criteria used to evaluate component units for possible inclusion as part of the Town's reporting entity are financial accountability and the nature and significance of the relationship. The Town is considered to be an independent reporting entity and 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 as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flow. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position presents the financial position of the Town which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the Town is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

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The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the Town and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the Town.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the Town. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The Town reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the Town. It is used to account for all financial resources except those properly accounted for in another fund.

Capital Projects Fund – The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities not being financed by proprietary funds.

Economic Development Fund – The Economic Development Fund collects fees which are used for specific community development projects.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax and refuse fee revenue to be available if collected within 60 days of the end of the fiscal period. Deferred revenue is reported in connection with receivables for property tax and refuse fee revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific Town expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Rental licenses are recorded as income in the period in which the revenue relates as the licenses are issued for a three year period. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

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Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The Town reports the following major proprietary funds:

Water and Sewer Funds – The Water and Sewer Funds are used to account for the operation of a water supply and sewage collection system.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the Town's proprietary funds are charges for services. Operating expenses for the Town's proprietary funds include the cost of operations and maintenance and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash, Cash Equivalents and Investments

Temporary idle cash within the various funds is combined to form a cash and investment pool. Cash, investments and interest earnings are recorded in the individual funds. Funds available for short periods are transferred to an interest-bearing bank account. Funds available for longer periods are invested in certificates of deposit or the Maryland Local Government Investment Pool. Investments are stated at fair value. Statutes authorize the Town to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, State Treasurer's investment pools or mutual funds.

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes Receivable

Property is assessed at its value on January 1. Property taxes are billed on July 1 and payable in one installment on October 1. Property taxes not paid by October 1 of the levy year are subject to interest charges. Property taxes not paid by January of the second year are subject to tax sale. Taxpayers who have a principal residence within the Town have the option of paying in two installments which are due on September 1 and January 1. The County of Calvert bills and collects property taxes for the Town. Delinquent property taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided. The property tax rate for 2020-2021 was \$0.6170 per \$100 of assessed value.

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Accounts Receivable

The Town's accounts receivables are reported at net realizable value. The Town's water and sewer utilities experience very small losses from uncollectible accounts. Water and sewer fees constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the Town for its business-type activities and proprietary funds.

Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Prepaid Items

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements and the proprietary fund financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at time of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

GASB permits Phase III local governments to elect not to report infrastructure retroactively and report general infrastructure prospectively only. Management has assessed the impact of infrastructure capitalization on the financial statements and has determined that the cost outweighs the benefit of reporting the Town's infrastructure retroactively.

Property, plant and equipment (net of salvage value) of the Town is depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 Years
Land improvements and infrastructure	15 – 40 Years
Furniture and fixtures	5 – 7 Years
Office equipment	3 – 5 Years
Water treatment plant	40 Years
Sewer pump stations	50 Years
Machinery and equipment	5 – 10 Years

Impairment of Long-Lived Assets

The Town evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the Town. No impairment losses were recognized in the year ended June 30, 2021.

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Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid accumulated vacation leave balances. All vacation pay is accrued when incurred in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. In the fund financial statements, the face amount of debt issued is reported as other financing sources and uses.

Fund Equity

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The Town reports the following fund balance classifications:

Non-spendable

Non-spendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the Town's highest level of decision-making authority, the Town Council. Committed amounts cannot be used for any other purpose unless the Town Council removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Town Mayor or Treasurer or (b) an appointed body (e.g., finance committee) or (c) an official to which the Town has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

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Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the Town's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Implementation of New Accounting Pronouncements

Effective July 1, 2020, the Township adopted the provisions of GASB Statement No. 84 "*Fiduciary Activities*"; GASB Statement No. 90 "*Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*"; GASB Statement No. 93 "*Replacement of Interbank Offered Rates*"; GASB Statement No. 95, "*Postponements of Effective Dates of Certain Authoritative Guidance*" and GASB Statement No. 97, "*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*".

GASB Statement No. 84 improved guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The implementation of GASB Statement No. 84 had no impact on the financial statements of the Town for the year ended June 30, 2021.

GASB Statement No. 90 improved the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defined a majority equity interest and specified that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The implementation of GASB Statement No. 90 had no impact on the financial statements of the Township for the year ended June 30, 2021.

GASB Statement No. 93 addresses those and other accounting and financial implications that result from the replacement from IBOR by (1) providing exceptions for certain hedging derivatives to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) clarifying that the uncertainty related to the continued availability of IBOR's does not, by itself affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) identifying a secured overnight financing rate and the effective federal funds rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap and; (6) clarifying the definition of a reference rate, as it is used in GASB Statement 53 "*Accounting and Financial Reporting for Derivative Instruments*". The implementation of GASB Statement No. 93 had no impact on the Town's financial statements for the year ended June 30, 2021.

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GASB Statement No. 95 provided temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in statements that first became effective or are scheduled to be effective for periods beginning after June 15, 2018, and later. See references to GASB Statement No. 95 within the various pronouncements above to determine the impact on each individual statement. The implementation of GASB Statement No. 95 by the Town postponed the implementation of GASB Statement No. 87 until year ended June 30, 2022 as described below.

The objectives of GASB Statement No. 97 are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The implementation of GASB Statement No. 97 had no impact on the financial statements of the Town for the year ended June 30, 2021.

New Accounting Pronouncements

GASB Statement No. 87, "*Leases*" will be effective for the Town for the year ended June 30, 2022. The objective of GASB Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB Statement No. 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities.

GASB Statement No. 89, "*Accounting for Interest Cost Incurred Before the End of a Construction Period*", will be effective for the Town for the year ended June 30, 2022. The objectives of GASB Statement No. 89 are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB Statement No. 89 establishes accounting required for interest cost incurred before the end of a construction period. Such interest costs includes all interest that previously was accounted for in accordance with the requirements of GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*", which are superseded by GASB Statement No. 89. GASB Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB Statement No. 89 also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with government fund accounting principles.

GASB Statement No. 91, "*Conduit Debt Obligations*" will be effective for the Town for the year ended June 30, 2022. GASB Statement No. 91 provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

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GASB Statement No. 92, "Omnibus 2020" will be effective for the Town for the year ended June 30, 2022. GASB Statement No. 92 addresses a variety of topics to enhance comparability in accounting and financial reporting and improve consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund and Proprietary Funds. The Town Council also adopts legal project-length budgets for its Capital Projects Fund. Since project periods may differ from the Town's fiscal year, a comparison of budgetary information for the Capital Projects Fund would not be meaningful and has not been presented in the accompanying financial statements. All budgets are adopted on a basis consistent with generally accepted accounting principles.

Budget adjustments are made during the year and approved by the Town Council.

Unused appropriations for all of the annually budgeted funds lapse at year end.

Excess of Expenditures Over Appropriations

The following General Fund functions incurred expenditures and other financing uses in excess of appropriations in the following amounts for the year ended June 30, 2021:

General government	
Administrative expenses	\$87,868
Benefit expense	\$55,143
General liability and property insurance	\$ 554
Community development	
Promotions and public relations	\$ 3,187
Capital outlays	\$12,887
Debt service	
Principal on long-term debt	\$40,998

(3) DEPOSITS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. The Town does not have a policy for custodial credit risk on deposits. At June 30, 2021, the carrying amount of the Town's deposits was \$5,083,738 and the bank balance was \$5,488,661. Of the bank balance, all was either covered by Federal Depository Insurance or collateralized in accordance with Article 95, Section 22 of the Annotated Code of Maryland which requires all local government units to fully collateralize all bank deposits in the Town's name.

A portion of the Town's deposits is in the Maryland Local Government Investment Pool ("**MLGIP**"). Although not registered with the Securities and Exchange Commission, the MLGIP is subject to regulatory oversight by the State of Maryland, acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated AAA by a nationally recognized statistical rating organization and subject to an independent annual audit. The carrying amount and bank balance of the Town's deposits in MLGIP at June 30, 2021 was \$3,035,329.

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NOTES TO FINANCIAL STATEMENTS

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(4) DUE FROM OTHER GOVERNMENTS

As of June 30, 2021, due from other governments consisted of the following:

	<u>General Fund</u>
State of Maryland	
Highway Administration – highway user's tax	\$ 57,149
Comptroller's Office – gambling income	244,647
State aid police protection	<u>8,622</u>
	<u>\$310,418</u>

(5) INTERNAL TRANSFERS

Transfers during the year ended June 30, 2021 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	<u>\$91,094</u>	Capital Projects Fund	<u>\$91,094</u>

Transfers to the Capital Projects Fund from the General Fund represent transfers to reimburse the General Fund for the acquisition costs for the purchase and construction of capital assets.

(6) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 was as follows:

	<u>Balance July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2021</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 3,443,550	\$ -	\$ -	\$ 3,443,550
Construction in progress	<u>363,270</u>	<u>39,396</u>	<u>402,666</u>	<u>-</u>
Total capital assets not being depreciated	<u>3,806,820</u>	<u>39,396</u>	<u>402,666</u>	<u>3,443,550</u>
Capital assets being depreciated				
Buildings and improvements	5,378,666	-	-	5,378,666
Land improvements and infrastructure	13,582,526	13,225	-	13,595,751
Furniture and equipment	<u>1,122,090</u>	<u>133,013</u>	<u>3,780</u>	<u>1,251,323</u>
Total capital assets being depreciated	<u>20,083,282</u>	<u>146,238</u>	<u>3,780</u>	<u>20,225,740</u>
Less accumulated depreciation for				
Buildings and improvements	(1,430,150)	(136,435)	-	(1,566,585)
Land improvements and infrastructure	(5,363,248)	(334,617)	-	(5,697,865)
Furniture and equipment	<u>(891,096)</u>	<u>(74,058)</u>	<u>3,780</u>	<u>(961,374)</u>
Total accumulated depreciation	<u>(7,684,494)</u>	<u>(545,110)</u>	<u>3,780</u>	<u>(8,225,824)</u>
Total capital assets being depreciated, net	<u>12,398,788</u>	<u>(398,872)</u>	<u>-</u>	<u>11,999,916</u>
Governmental activities, net	<u>\$16,205,608</u>	<u>\$(359,476)</u>	<u>\$402,666</u>	<u>\$15,443,466</u>

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Business-type activities

Capital assets not being depreciated				
Land	\$ 294,927	\$ -	\$ -	\$ 294,927
Capital assets being depreciated				
Buildings and improvements	7,930,142	-	-	7,930,142
Machinery and equipment	533,871	25,403	-	559,274
Total capital assets being depreciated	8,464,013	25,403	-	8,489,416
Less accumulated depreciation for				
Buildings and improvements	(3,595,491)	(159,609)	-	(3,755,101)
Machinery and equipment	(367,946)	(10,835)	-	(378,780)
Total accumulated depreciation	(3,963,437)	(170,444)	-	4,133,881
Total capital assets being depreciated, net	4,500,576	(145,041)	-	4,355,535
Business-type activities, net	\$ 4,795,503	\$(145,041)	\$ -	\$ 4,650,462

Depreciation expense was charged to functions/programs of the Town as follows:

Governmental activities

General government	\$ 74,161
Community development	289,729
Public works	173,171
Economic development	8,049

Total depreciation expense – governmental activities \$545,110

Business-type activities

Water	\$ 63,791
Sewer	106,653

Total depreciation expense – business-type activities \$170,444

(7) LONG-TERM DEBT

The following is a summary of long-term debt activity and balances for the Town for the year ended June 30, 2021:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021	Amount Due Within One Year
Governmental activities					
Bonds payable	\$3,046,247	\$ -	\$469,758	\$2,576,489	\$478,024
Compensated absences	147,606	-	26,270	121,337	-
Net pension liability (See Note 8)	177,259	24,885	-	202,144	-
	<u>3,371,112</u>	<u>24,885</u>	<u>496,028</u>	<u>2,899,969</u>	<u>478,024</u>
Business-type activities					
State notes and bonds payable	2,670,222	-	239,960	2,431,262	223,502
Net pension liability (See Note 8)	265,888	37,328	-	303,216	-
	<u>2,936,110</u>	<u>37,328</u>	<u>239,960</u>	<u>2,734,478</u>	<u>223,502</u>
Total debt	\$6,307,222	\$62,213	\$734,988	5,634,447	\$701,526
Less: current portion				<u>701,526</u>	
Total long-term debt				\$4,932,921	

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Long-term debt of governmental activities is to be liquidated by the General Fund and long-term debt of business-type activities is to be liquidated by sewer and water operations.

Long-term debt outstanding as of June 30, 2021 consists of the following:

Bonds Payable – Governmental Activities

In November 2011, the Town issued its 2011 General Obligation Refunding Bonds in the amount of \$2,561,900. The proceeds of these bonds were used to refund the outstanding balances of its Refunding of 2010B – CDA Refunding bonds. The principal of these bonds is payable annually in varying amounts from May 2012 to May 2025. The interest on these bonds is payable semi-annually in November and May at the rate of 2.55%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

\$ 835,200

In October 2012, the Town issued its 2012 Public Improvements Bond, Tax Exempt Series 2012A in the amount of \$1,606,000. The proceeds of these bonds were used for land acquisition. The principal of these bonds is payable annually in varying amounts from January 2014 to January 2028. The interest on these bonds is payable semi-annually in January and July at the rate of 1.95%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

811,000

In October 2012, the Town issued its 2012 Public Improvements Bond, Taxable Series 2012B in the amount of \$720,000. The proceeds of these bonds were used for land acquisition. The principal of these bonds is payable annually in varying amounts from January 2014 to January 2028. The interest on these bonds is payable semi-annually in January and July at the rate of 2.65%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

374,000

In May 2017, the Town issued its 2017 Public Improvements Bond, Tax Exempt Series 2017B in the amount of \$785,777. The proceeds of these bonds were used for the acquisition of capital assets. The principal of these bonds is payable annually in varying amounts from July 2018 to January 2027. The interest on these bonds is payable semi-annually in January and July at the rate of 2.74%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

454,598

In May 2017, the Town issued its 2017 Public Improvements Bond, Taxable Series 2017A in the amount of \$263,813. The proceeds of these bonds were used for the acquisition of capital assets. The principal of these bonds is payable annually in varying amounts from July 2018 to January 2024. The interest on these bonds is payable semi-annually in January and July at the rate of 3.95%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

101,691

Total bonds payable – governmental activities

\$2,576,489

Annual debt service requirements to maturity on governmental activities long-term debt is as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2022	\$ 478,024	\$ 64,345	\$ 542,369
2023	491,172	52,046	543,218
2024	477,826	39,395	517,221
2025	464,508	27,049	491,557
2026	258,298	15,674	273,972
2027-2028	<u>406,661</u>	<u>13,497</u>	<u>420,158</u>
	<u>\$2,576,489</u>	<u>\$212,006</u>	<u>\$2,788,495</u>

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

State Notes and Bonds Payable – Business-Type Activities

In December 2007, the Town entered into a loan agreement with the Maryland Water Quality Financing Administration to borrow a maximum of \$1,525,000 to finance the costs related to improving the existing regional wastewater treatment plant. The actual amount borrowed of \$1,074,744 is payable annually in varying amounts through February 2022. Interest is payable semi-annually in August and February at the rate of 1.00%. The loan is secured by the full faith and credit and unlimited taxing power of the Town.

\$ 62,475

In June 2012, the Town modified and reissued its Water System Refunding Bond of 2008, the balance of which was \$1,324,033 as of the date of modification and reissuance. The main purpose of the modification and reissuance was to reduce the interest rate on the bond from 4.59% to 2.50%. The principal of the reissued bond is payable annually in varying amounts from September 2012 to September 2031. The interest is payable semi-annually in September and March at the rate of 2.50%. On September 15, 2027, the registered owner of the modified and reissued bond has the right to reset the interest rate for the remaining term or to require repayment of the outstanding principal. This bond is secured by the full faith and credit and unlimited taxing power of the Town.

973,810

In September 2013, the Town entered into a loan agreement with the Maryland Water Quality Financing Administration to borrow a maximum of \$1,850,000 to finance the costs related to improving the planning, design and construction of Enhanced Nutrient Removal (ENR) treatments facilities at the regional wastewater treatment plant. The total amount borrowed was \$1,784,939 payable annually in varying amounts from February 2017 to February 2036. Interest is payable semi-annually in August and February at the rate of 2.20%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

1,394,977

Total state notes and bonds payable – business-type activities

\$2,431,262

Annual debt service requirements to maturity on business-type activities long-term debt is as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2022	\$ 223,502	\$ 58,782	\$ 282,284
2023	164,826	50,239	215,065
2024	168,718	46,349	215,067
2025	172,701	42,366	215,067
2026	176,779	38,289	215,068
2027-2031	948,524	126,810	1,075,334
2032-2036	<u>576,212</u>	<u>30,283</u>	<u>606,495</u>
	<u>\$2,431,262</u>	<u>\$393,118</u>	<u>\$2,824,380</u>

Line of Credit

The Town has an unsecured revolving line of credit with a bank that provides for advances up to \$75,000. Advances under the line of credit are payable monthly. A finance fee is charged on delinquent outstanding advances. Advances outstanding under the line of credit were \$18,342 at June 30, 2021.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(8) EMPLOYEE RETIREMENT SYSTEM

Plan Description

Substantially all permanent, full-time employees participate in the statewide contributory system of the State of Maryland. The plan of the Maryland State Retirement and Pension System (the "**MSRPS**") in which the Town participates is a multiple-employer defined benefit pension plan administered by the State of Maryland. The MSRPS was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to state employees, teachers, police, judges, legislators and employees of participating governmental units. The MSRPS issues a comprehensive annual financial report that includes financial statements and required supplemental information for the plan. A copy of the report may be obtained by writing to the State Retirement and Pension System of Maryland, 201 West Preston Street, Baltimore, MD 21021, or by accessing its website at www.sra.state.md.us.

Funding Policy

The contribution policy is established by the State Personnel and Pensions Article and requires contributions by active members and the Town depending on the type of plan selected. The Town's selected plan does not require employees to contribute to the plan. The contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2020, the employer rate of contribution was 6.71% of covered payroll. The Town's contributions to MSRPS for the years ended June 30, 2019, 2020 and 2021 were \$44,120, \$47,941 and \$55,008, respectively. The contributions made by the Town equaled the required contributions for the respective years.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2021, the Town reported a liability of \$505,360 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020. 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 participants members, actuarially determined. As of June 30, 2020, the Town's proportion was 0.002236% which was an increase of 0.0000875% from its proportion measured as of June 30, 2019.

As of June 30, 2021, the net pension liability of \$202,144 is a liability related to the governmental funds and is only recorded in the governmental activities in the government-wide statement of net position. The remaining \$303,216 of the net pension liability is recorded as a liability in the Water Fund for \$151,608 and in the Sewer Fund for \$151,608 in the proprietary funds statement of net position, and in the business-type activities in the government-wide statement of net position.

For the year ended June 30, 2021, the Town recognized pension expense of \$27,038. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to measurement date	\$55,008	\$ -
Net difference between projected and actual earnings on pension plan investments	37,218	-
Difference between actual and expected experience	-	816
	<u>\$92,226</u>	<u>\$816</u>

\$55,008 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Year ended June 30,

2021	\$ 9,801
2022	9,268
2023	9,540
2024	<u>7,793</u>
	<u>\$36,402</u>

Actuarial Assumptions

The key actuarial assumptions used to perform the June 30, 2020 pension liability calculation are as follows:

Actuarial	Entry age normal
Amortization method	Level percentage of payroll
Inflation	2.60% general, 3.10% wage in 2020 2.65% general, 3.15% wage in 2019
Salary increases	3.10% to 11.60% including inflation in 2020 and 2019
Discount rate	7.40% in 2020 and 2019

Mortality rates were based on the Public Sector 2010 mortality tables with generational mortality projections using scale MP-2018.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the System's Board after considering input from the System's investment consultant(s) and actuary(s). For each major asset allocation, the best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public equity	37.00%	5.20%
Private equity	13.00%	6.50%
Rate sensitive	19.00%	-0.30%
Credit opportunity	9.00%	2.80%
Real assets	14.00%	4.30%
Absolute return	<u>8.00%</u>	1.80%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.40%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the Town's proportionate share of the net pension calculated using the discount rate of 7.40%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.40%) or 1 percentage point higher (8.40%) than the current rate:

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

	<u>1% Decrease</u> <u>6.40%</u>	<u>Current</u> <u>Discount</u> <u>Rate</u> <u>7.40%</u>	<u>1% Increase</u> <u>8.40%</u>
Town's net pension liability	<u>\$719,471</u>	<u>\$505,360</u>	<u>\$327,037</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued System's Comprehensive Annual Report for the fiscal year ended June 30, 2020. This can be found at <https://sra.maryland.gov/comprehensive-annual-financial-reports>.

(9) INTER-JURISDICTIONAL AGREEMENT

Chesapeake Beach Wastewater Treatment Plant

Operating Agreement

The Town entered into an interjurisdictional agreement with Calvert County, Maryland and the Town of Chesapeake Beach, Maryland to share the operation and maintenance costs of the wastewater treatment plant. The Town's share of operation and maintenance costs is based on the Town's allocation of plant capacity. For the year ended June 30, 2021, the Town's allocation of costs was \$185,573 or 18.09% of fixed costs plus \$139,604 or 19.95% of variable costs.

(10) 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. Property and liability coverages are provided through third-party insurance to cover any such claims relating to losses. There were no significant reductions in insurance coverage during 2021-2022. Amounts of settlements did not exceed insurance coverage for each of the last three years. The Town's exposure is limited to deductibles on a per claim basis and the coverages on each of the Town's policies are as follows:

	<u>Coverage</u>
Equipment breakdown (boiler and machinery)	\$200,000,000
Building and personal property	14,235,658
Public official's liability	1,000,000
General liability	1,000,000
Automobile liability	1,000,000
Excess liability	1,000,000
Employee dishonesty (all employees covered)	250,000
Treasurer's bond	100,000

(11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 10, 2022, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2021 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF NORTH BEACH, MARYLAND

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Real property taxes	\$ 1,591,115	\$ 1,637,070	\$ 45,955
Property tax penalties	40,000	7,015	(32,985)
Personal property taxes	10,700	8,640	(2,060)
Charges for services	363,049	238,250	(124,799)
Refuse collection fees	272,718	272,391	(327)
State-shared revenues	516,000	921,109	405,109
Contributions and donation	12,000	20,170	8,170
Cell tower revenue	136,500	152,271	15,771
Intergovernmental revenues	106,875	107,223	348
Franchise fees	37,690	51,031	13,341
Earnings on investments	250	3,206	2,956
Miscellaneous	23,458	12,316	(11,142)
Total revenues	<u>3,110,355</u>	<u>3,430,692</u>	<u>320,337</u>
EXPENDITURES			
General government			
Legislative expenses	76,600	50,246	26,354
Administrative expenses	351,875	439,743	(87,868)
Professional services	212,037	77,504	134,533
General services	237,450	171,707	65,743
Benefit expense	103,230	158,373	(55,143)
General liability and property insurance	17,000	17,554	(554)
Total general government	<u>998,192</u>	<u>915,127</u>	<u>83,065</u>
Community development			
Events expense	139,031	32,634	106,397
Promotions and public relations	-	3,187	(3,187)
Bayside History Museum expense	35,000	22,834	12,166
Welcome Center expense	118,186	55,758	62,428
Total community development	<u>292,217</u>	<u>114,413</u>	<u>177,804</u>
Public safety			
Resident deputy services	524,488	462,183	62,305
Beach patrol	174,500	117,817	56,683
Total public safety	<u>698,988</u>	<u>580,000</u>	<u>118,988</u>
Public works	<u>538,123</u>	<u>521,754</u>	<u>16,369</u>
Capital outlays	<u>-</u>	<u>12,887</u>	<u>(12,887)</u>
Debt service			
Principal on long-term debt	428,760	469,758	(40,998)
Interest on long-term debt	115,085	72,587	42,498
Total debt service	<u>543,845</u>	<u>542,345</u>	<u>1,500</u>
Total expenditures	<u>3,071,365</u>	<u>2,686,526</u>	<u>384,839</u>

TOWN OF NORTH BEACH, MARYLAND

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>38,990</u>	<u>744,166</u>	<u>705,176</u>
OTHER FINANCING SOURCES (USES)			
Budgetary reserve	(38,990)	-	38,990
Proceeds from sale of capital assets	-	5,950	5,950
Transfers in	<u>-</u>	<u>91,094</u>	<u>91,094</u>
	<u>(38,990)</u>	<u>97,044</u>	<u>136,034</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 841,210</u>	<u>\$ 841,210</u>
FUND BALANCE			
Beginning of year		<u>2,579,205</u>	
End of year		<u>\$ 3,420,415</u>	

TOWN OF NORTH BEACH, MARYLAND

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year ended June 30

	Measurement Date						
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability	0.0022360%	0.0021485%	0.0018670%	0.00146022%	0.0012990%	0.0014920%	0.0013710%
Town's proportionate share of the net pension liability	\$ 505,360	\$ 443,147	\$ 391,730	\$ 315,751	\$ 306,477	\$ 310,109	\$ 243,352
Covered-employee payroll	\$ 819,791	\$ 819,504	\$ 806,574	\$ 640,517	\$ 506,065	\$ 507,291	\$ 493,894
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	61.64%	54.08%	48.57%	49.30%	60.56%	61.13%	49.27%
Plan fiduciary net position as a percentage of the total pension liability	70.72%	72.34%	71.18%	69.38%	65.79%	68.78%	71.87%

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In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

TOWN OF NORTH BEACH, MARYLAND

SCHEDULE OF TOWN PENSION PLAN CONTRIBUTIONS

Year ended June 30

	Measurement Date							
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 55,008	\$ 47,941	\$ 44,120	\$ 37,230	\$ 29,720	\$ 25,305	\$ 31,452	\$ 31,955
Contributions in relation to the actuarially determined contribution	<u>55,008</u>	<u>47,941</u>	<u>44,120</u>	<u>37,230</u>	<u>29,720</u>	<u>25,305</u>	<u>31,452</u>	<u>31,955</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 819,791	\$ 819,504	\$ 806,574	\$ 740,159	\$ 640,517	\$ 506,065	\$ 507,291	\$ 493,894
Contributions as a percentage of covered-employee payroll	6.71%	5.85%	5.47%	5.03%	4.64%	5.00%	6.20%	6.47%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.



**INDEPENDENT AUDITOR'S 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 Town Council
Town of North Beach
North Beach, 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 and each major fund of the Town of North Beach, North Beach, Maryland (the "**Town**"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 10, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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'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.

BBD, LLP

**Philadelphia, Pennsylvania
January 10, 2022**