



Town of North Beach, Maryland

Financial Statements
Year Ended June 30, 2023



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TOWN OF NORTH BEACH, MARYLAND

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
<i>Statement of Net Position</i>	11
<i>Statement of Activities</i>	12
Fund Financial Statements	
<i>Balance Sheet – Governmental Funds</i>	13
<i>Reconciliation of Governmental Funds Balance Sheet to Net Position of Governmental Activities on the Statement of Net Position</i>	14
<i>Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds</i>	15
<i>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</i>	16
<i>Statement of Net Position – Proprietary Funds</i>	17
<i>Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds</i>	18
<i>Statement of Cash Flows – Proprietary Funds</i>	19
Notes to Financial Statements	20
REQUIRED SUPPLEMENTARY INFORMATION	
<i>Budgetary Comparison Schedule – General Fund</i>	34
<i>Schedule of Town's Proportionate Share of the Net Pension Liability</i>	36
<i>Schedule of Town Pension Contributions</i>	37
OTHER REPORT	
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	38



INDEPENDENT AUDITOR'S REPORT

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

Opinions

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, 2023, 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.

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, 2023, 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.

Basis for Opinions

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 of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Town of North Beach, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Town of North Beach's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town of North Beach's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Town of North Beach's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the schedules of the Town's proportionate share of the net pension liability and pension plan contributions on pages 3 through 10 and 34 through 37 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Report on Summarized Comparative Information

We have previously audited The Town of North Beach's 2022 financial statements, and our report dated January 19, 2023 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, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2023, 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
December 26, 2023**

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2023

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, 2023. 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 10 full-time employees that consist of a Town Treasurer, Town Clerk, two Administrative Assistants, 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

- 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 2022-2023 fiscal year of \$23,936,782. During the 2022-2023 fiscal year, the Town had an increase in total net position of \$2,081,940. The net position of the governmental activities increased by \$1,706,125 and net position of the business-type activities increased by \$375,815.
- At the close of the 2022-2023 fiscal years, the Town's governmental funds reported combined ending fund balances of \$6,014,397 an increase of \$1,205,759 in comparison with the prior year.
- The General Fund reported an increase in fund balance of \$649,042, bringing the cumulative balance to \$4,992,631.

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.

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.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2023

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.

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 33 of this report.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2023

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 34 through 37 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 2022-2023 fiscal year, the Town's assets and deferred outflows exceeded liabilities and deferred inflows by \$23,936,782. The following table presents condensed information for the Statement of Net Position of the Town at June 30, 2023 and 2022.

	Governmental Activities		Business-Type Activities		Totals	
	2023	2022	2023	2022	2023	2022
ASSETS						
Current assets	\$ 7,644,074	\$ 5,697,008	\$2,906,035	\$2,621,352	\$10,550,109	\$ 8,318,360
Capital assets, net	<u>14,885,964</u>	<u>14,918,057</u>	<u>4,304,418</u>	<u>4,477,440</u>	<u>19,190,382</u>	<u>19,395,497</u>
Total assets	<u>22,530,038</u>	<u>20,615,065</u>	<u>7,210,453</u>	<u>7,098,792</u>	<u>29,740,491</u>	<u>27,713,857</u>
DEFERRED OUTFLOWS						
Deferred charges - pensions	<u>69,843</u>	<u>68,145</u>	<u>104,764</u>	<u>102,218</u>	<u>174,607</u>	<u>170,363</u>
LIABILITIES						
Current liabilities	1,590,539	848,561	144,134	187,667	1,734,673	1,036,228
Noncurrent liabilities	<u>1,873,820</u>	<u>2,335,151</u>	<u>2,323,260</u>	<u>2,436,183</u>	<u>4,197,080</u>	<u>4,771,334</u>
Total liabilities	<u>3,464,359</u>	<u>3,183,712</u>	<u>2,467,394</u>	<u>2,623,850</u>	<u>5,931,753</u>	<u>5,807,562</u>
DEFERRED INFLOWS						
Deferred credits - pensions	<u>18,625</u>	<u>88,726</u>	<u>27,938</u>	<u>133,090</u>	<u>46,563</u>	<u>221,816</u>
NET POSITION						
Net investment in capital assets	13,282,579	12,821,618	2,251,923	2,265,884	15,534,502	15,087,502
Restricted	1,021,766	465,049	-	-	1,021,766	465,049
Unrestricted	<u>4,812,552</u>	<u>4,124,105</u>	<u>2,567,962</u>	<u>2,178,186</u>	<u>7,380,514</u>	<u>6,302,291</u>
Total net position	<u>\$19,116,897</u>	<u>\$17,410,772</u>	<u>\$4,819,885</u>	<u>\$4,444,070</u>	<u>\$23,936,782</u>	<u>\$21,854,842</u>

The Town's total assets as of June 30, 2023 were \$29,740,491 of which \$9,622,770 or 32.36% consisted of cash and \$19,190,382 or 64.53% consisted of the Town's investment in capital assets. The Town's total liabilities as of June 30, 2023 were \$5,931,753 of which \$3,655,880 or 61.63% consisted of bonds and notes payable used primarily to acquire and construct capital assets.

Of the Town's total net position at June 30, 2023, \$7,380,514 is unrestricted and may be used to meet the Town's obligations to citizens and creditors. The Town's unrestricted net position increased by \$1,078,223 primarily due to the result of current operations.

A portion of the Town's net position reflects its restricted net position which totaled \$1,021,766 as of June 30, 2023. The Town's restricted net position relates to the Town's capital projects fund and economic development fund.

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, 2023, the Town's investment in capital assets, net of related debt increased \$447,000 due to repayments of debt used to acquire capital assets and capital additions in excess of depreciation expense and the acquisition of capital assets with other sources other than long-term debt.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2023

The following table presents condensed information for the Statement of Activities of the Town for 2023 and 2022:

	Governmental Activities		Business-Type Activities		Totals	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
REVENUES						
Program revenues						
Charges for services	\$ 860,621	\$ 1,063,641	\$1,694,107	\$1,866,267	\$ 2,554,728	\$ 2,929,908
Operating grants and contributions	656,451	671,068	-	-	656,451	671,068
Capital grants and contributions	393,044	25,686	-	-	393,044	25,686
General revenues						
Taxes						
Real property taxes	1,649,446	1,638,171	-	-	1,649,446	1,638,171
Personal property taxes	8,005	8,918	-	-	8,005	8,918
Property tax penalties	5,018	5,294	-	-	5,018	5,294
State-shared revenue	1,023,167	1,034,092	-	-	1,023,167	1,034,092
Investment earnings	162,864	5,865	-	-	162,864	5,865
Franchise fees	47,856	52,555	-	-	47,856	52,555
Cell tower revenue	168,861	159,954	-	-	168,861	159,954
Miscellaneous	17,334	5,878	-	-	17,334	5,878
Total revenues	<u>4,992,667</u>	<u>4,671,122</u>	<u>1,694,107</u>	<u>1,866,267</u>	<u>6,686,774</u>	<u>6,537,389</u>
EXPENSES						
General government	1,155,307	1,212,212	-	-	1,155,307	1,212,212
Community development	505,227	494,124	-	-	505,227	494,124
Public safety	721,631	735,145	-	-	721,631	735,145
Public works	856,519	862,489	-	-	856,519	862,489
Interest on long-term debt	47,858	60,009	-	-	47,858	60,009
Water operations	-	-	416,570	432,914	416,570	432,914
Sewer operations	-	-	901,722	799,010	901,722	799,010
Total expenses	<u>3,286,542</u>	<u>3,363,979</u>	<u>1,318,292</u>	<u>1,231,924</u>	<u>4,604,834</u>	<u>4,595,903</u>
CHANGE IN NET POSITION	1,706,125	1,307,143	375,815	634,343	2,081,940	1,941,486
NET POSITION						
Beginning of year	<u>17,410,772</u>	<u>16,103,629</u>	<u>4,444,070</u>	<u>3,809,727</u>	<u>21,854,842</u>	<u>19,913,356</u>
End of year	<u>\$19,116,897</u>	<u>\$17,410,772</u>	<u>\$4,819,885</u>	<u>\$4,444,070</u>	<u>\$23,936,782</u>	<u>\$21,854,842</u>

Governmental Activities

The cost of all governmental activities in 2022-2023 was \$3,286,542. The amount that taxpayers ultimately financed for these activities through Town taxes was \$1,662,469 or 50.58%. Other expenses were financed through charges for services by those who directly benefited from the programs \$860,621 or state shared revenues \$1,023,167.

General government programs account for 35.15%, community development programs account for 15.37%, public safety programs 21.96%, and public works programs 26.06% of the total expenses in the governmental activities.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2023

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. During 2022-2023, charges for services decreased by \$172,160 in 2022-2023 compared to 2021-2022 primarily due to decrease in sewer benefit fees decreased from \$250 to \$118 due of the payment on the 2007 Maryland Water Quality Financing Administration note payable in 2021-2022 and a decrease in water benefit fees from \$107 to \$100. Expenses within the business-type activities and proprietary funds increased by \$86,368 in 2022-2023 compared to 2021-2022 primarily due to an increase in wastewater treatment expenses and an increase in the Maryland flush tax.

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, 2023, the Town's governmental funds reported combined ending fund balances of \$6,014,397, an increase of \$1,205,759, as compared to the prior year. At June 30, 2023, the governmental fund fund balance includes \$970,897 restricted for capital projects, \$50,869 committed to economic development and unassigned amounts of \$4,992,631.

General Fund

The General Fund is the chief operating fund of the Town. As of June 30, 2023, the total fund balance of the General Fund was \$4,992,631. The General Fund fund balance increased by \$649,042 during the year ended June 30, 2023.

The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund fund during the 2022-2023 year.

General Fund Revenues

	<u>2023</u>	<u>2022</u>	<u>\$ Change</u>	<u>% Change</u>
Taxes	\$1,663,140	\$1,635,656	\$ 27,484	1.68
Charges for services	799,765	974,738	(174,973)	(17.95)
State shared revenues	1,023,167	1,034,092	(10,925)	(1.06)
Intergovernmental revenues	152,350	146,521	5,829	3.98
Contributions and donations	14,277	33,047	(18,770)	(56.80)
Cell tower revenues	168,861	159,954	8,907	5.57
Franchise fees	47,856	52,555	(4,699)	(8.94)
Earnings on investments	2	5,865	(5,863)	(99.97)
Miscellaneous	17,334	5,878	11,456	194.90
	<u>\$3,886,752</u>	<u>\$4,048,306</u>	<u>\$(161,554)</u>	<u>(3.99)</u>

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2023

Revenues decreased by \$161,554 or 3.99% in 2022-2023 compared to 2021-2022. Major fluctuations in revenues compared to the prior year are as follows:

- Taxes increased by \$27,484 or 1.68% due to a moderate increase in the Town's assessable tax base which was offset by reduction in the real property tax rate to \$0.5895 per \$100 of assessed valuation representing a 6.034% reduction in relation to the prior year.
- Charges for services decreased \$174,973 or 17.95% due to a reduction in beach passes issued.

General Fund Expenditures

	<u>2023</u>	<u>2022</u>	<u>\$ Change</u>	<u>% Change</u>
General government	\$1,167,273	\$1,162,414	\$ 4,859	0.42
Community development	198,290	153,854	44,436	28.88
Public safety	721,631	735,145	(13,514)	(1.84)
Public works	609,604	533,660	75,944	14.23
Debt service	<u>540,912</u>	<u>540,059</u>	<u>853</u>	<u>0.16</u>
	<u>\$3,237,710</u>	<u>\$3,125,132</u>	<u>\$112,578</u>	<u>3.60</u>

Expenditures increased by \$112,578 or 3.60% in 2022-2023 compared to 2021-2022. Major fluctuations in expenditures compared to the prior year are as follows:

- Community development expenses increased by \$44,436 or 28.88% largely due to the community conservation director costs being recorded here in the General Fund as opposed to the Economic Development Fund as in prior years.
- Public works expenses increased by \$75,944 or 14.23% mainly due to an increase in contracted services for refuse and equipment purchase for a leaf trailer vacuum and a mower.

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, 2023, the Capital Projects Fund had a balance of \$970,897. The Capital Projects Fund fund balance increased by \$574,241 during the year ended June 30, 2023, primarily due to the recognition of \$503,176 of an appropriation through the American Rescue Plan Act ("**ARPA**").

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.

The schedule comparing the Town's budget and actual results can be found on pages 34 and 35. Actual revenues and other financing sources were \$484,832 more than budgeted amounts and actual expenditures and other financing uses were \$164,210 less than budgeted amounts resulting in a net positive variance of \$649,042. A summary of significant variations between budget amounts and actual results are as follows:

- State-shared revenues were \$385,278 higher than budgeted amounts because of local income taxes and gambling revenues were higher than expected due to conservative budgeting.
- Intergovernmental revenues were \$125,450 higher than budgeted amounts largely due to unbudgeted revenues received for the Maryland Energy Administrative ("**MEA**") incentives program.
- Administrative expenses were \$67,730 more than budgeted due to unbudgeted MEA expenditures which were offset by positive budget variances in intergovernmental revenues as noted above.
- General services expense was \$73,725 more than budgeted due to unexpected costs for repairs for the fire at the public works building and more than expected expenses for maintenance of Town parks.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2023

- Benefits expense was \$59,150 more than budget due to more than budget expenditures for payroll and benefits third party administration.
- Events expense was \$53,702 less than budgeted due to less than anticipated expenditures associated with the community conservation activities.
- Public safety was \$116,897 less than budgeted due to less than anticipated expenditures for resident deputy services.
- Public works was \$144,080 less than budgeted due to less than anticipated expenditures for maintenance and equipment.

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, 2023, totaled \$19,190,382 (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 \$205,115 or 1.06%. The decrease was the result of current year depreciation expense of \$689,133 in excess of capital asset additions of 484,018. The major capital addition for 2022-2023 was for 5th Street pump station improvements totaling \$321,320.

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, 2023, the Town's outstanding debt, exclusive of amounts being repaid by the water and sewer operations, was 0.57% (\$1,603,385 governmental activities long-term debt/\$280,809,290 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, 2023, the Town had outstanding notes and bonds payable totaling \$3,655,880 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 \$652,115 or 15.14%.

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 \$451,274 as of June 30, 2023. The Town's net pension liability increased by \$76,898 or 20.54% 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 Town adopted a balanced budget for 2023-2024 totaling \$3,626,475, which reduced the real property tax rate to \$0.5564 per \$100 of assessed valuation, a reduction of 5.61% in relation to the 2022-2023 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. Property tax revenue makes up approximately 45.77% percent of General Fund budgeted revenues and other financing sources.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2023

The following changes were made to sewer, water and trash rates in the 2023-2024 budget. Sewer use minimum was reduced to 3,000 gallons and the base rate was increased to \$172 plus \$13 for every 1,000 gallons over the 3,000 gallons minimum. Water use minimum was reduced to 3,000 gallons and the base rate was increased to \$50 plus \$9 for every 1,000 gallons over the 3,000 gallons minimum. Water benefits and sewer benefits remained unchanged. The annual refuse fee was reduced from \$414 to \$340 due to a reduction in contracted costs.

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, 2023 with summarized comparative totals for 2022

	Governmental Activities	Business-type Activities	Totals	
			2023	2022
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 7,082,994	\$ 2,539,776	\$ 9,622,770	\$ 7,382,078
Taxes and refuse fees receivable	39,138	49,650	88,788	85,854
Due from other governments	518,088	-	518,088	496,829
Accounts receivable	-	316,609	316,609	337,226
Other receivables	3,854	-	3,854	16,373
Prepaid expenses	-	-	-	-
Total current assets	<u>7,644,074</u>	<u>2,906,035</u>	<u>10,550,109</u>	<u>8,318,360</u>
NONCURRENT ASSETS				
Capital assets, net	<u>14,885,964</u>	<u>4,304,418</u>	<u>19,190,382</u>	<u>19,395,497</u>
Total assets	<u>22,530,038</u>	<u>7,210,453</u>	<u>29,740,491</u>	<u>27,713,857</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on proportionate share of pension	<u>69,843</u>	<u>104,764</u>	<u>174,607</u>	<u>170,363</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
CURRENT LIABILITIES				
Accounts payable	498,919	119,096	618,015	387,778
Accrued expenses	44,253	25,038	69,291	59,860
Unearned revenue	<u>1,047,367</u>	<u>-</u>	<u>1,047,367</u>	<u>588,590</u>
Total current liabilities	<u>1,590,539</u>	<u>144,134</u>	<u>1,734,673</u>	<u>1,036,228</u>
NONCURRENT LIABILITIES				
Due within one year	475,517	168,718	644,235	655,498
Due in more than one year	<u>1,398,303</u>	<u>2,154,542</u>	<u>3,552,845</u>	<u>4,115,836</u>
Total noncurrent liabilities	<u>1,873,820</u>	<u>2,323,260</u>	<u>4,197,080</u>	<u>4,771,334</u>
Total liabilities	<u>3,464,359</u>	<u>2,467,394</u>	<u>5,931,753</u>	<u>5,807,562</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred credits on proportionate share of pension	<u>18,625</u>	<u>27,938</u>	<u>46,563</u>	<u>221,816</u>
NET POSITION				
Net investment in capital assets	13,282,579	2,251,923	15,534,502	15,087,502
Restricted for				
Capital projects	970,897	-	970,897	396,656
Economic development	50,869	-	50,869	68,393
Unrestricted	<u>4,812,552</u>	<u>2,567,962</u>	<u>7,380,514</u>	<u>6,302,291</u>
Total net position	<u>\$ 19,116,897</u>	<u>\$ 4,819,885</u>	<u>\$ 23,936,782</u>	<u>\$ 21,854,842</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF ACTIVITIES

Year ended June 30, 2023 with summarized comparative totals for 2022

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</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>2023</u>	<u>2022</u>
GOVERNMENTAL ACTIVITIES								
General government	\$ 1,155,307	\$ -	\$ 506,001	\$ -	\$ (649,306)	\$ -	\$ (649,306)	\$ (662,320)
Community development	505,227	531,608	116,489	393,044	535,914	-	535,914	335,925
Public safety	721,631	-	33,961	-	(687,670)	-	(687,670)	(713,969)
Public works	856,519	329,013	-	-	(527,506)	-	(527,506)	(503,211)
Interest on long-term debt	47,858	-	-	-	(47,858)	-	(47,858)	(60,009)
Total governmental activities	<u>3,286,542</u>	<u>860,621</u>	<u>656,451</u>	<u>393,044</u>	<u>(1,376,426)</u>	<u>-</u>	<u>(1,376,426)</u>	<u>(1,603,584)</u>
BUSINESS-TYPE ACTIVITIES								
Water	416,570	544,873	-	-	-	128,303	128,303	179,831
Sewer	901,722	1,149,234	-	-	-	247,512	247,512	454,512
Total business-type activities	<u>1,318,292</u>	<u>1,694,107</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>375,815</u>	<u>375,815</u>	<u>634,343</u>
Total primary government	<u>\$ 4,604,834</u>	<u>\$ 2,554,728</u>	<u>\$ 656,451</u>	<u>\$ 393,044</u>	<u>(1,376,426)</u>	<u>375,815</u>	<u>(1,000,611)</u>	<u>(969,241)</u>
GENERAL REVENUES								
Taxes								
Real property taxes					1,649,446	-	1,649,446	1,638,171
Personal property taxes					8,005	-	8,005	8,918
Property tax penalties					5,018	-	5,018	5,294
State-shared revenue					1,023,167	-	1,023,167	1,034,092
Investment earnings					162,864	-	162,864	5,865
Franchise fees					47,856	-	47,856	52,555
Cell tower revenue					168,861	-	168,861	159,954
Miscellaneous					17,334	-	17,334	5,878
Total general revenues					<u>3,082,551</u>	<u>-</u>	<u>3,082,551</u>	<u>2,910,727</u>
CHANGE IN NET POSITION					1,706,125	375,815	2,081,940	1,941,486
NET POSITION								
Beginning of year					<u>17,410,772</u>	<u>4,444,070</u>	<u>21,854,842</u>	<u>19,913,356</u>
End of year					<u>\$ 19,116,897</u>	<u>\$ 4,819,885</u>	<u>\$ 23,936,782</u>	<u>\$ 21,854,842</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2023 with summarized comparative totals for 2022

	Major Funds			Totals	
	General	Capital	Economic	2023	2022
	Fund	Projects	Development		
		Fund	Fund		
ASSETS					
Cash	\$ 5,287,068	\$ 1,744,529	\$ 51,397	\$ 7,082,994	\$ 5,143,997
Taxes and refuse fees receivable	39,138	-	-	39,138	39,809
Due from other governments	286,312	231,776	-	518,088	496,829
Other receivables	3,854	-	-	3,854	16,373
Total assets	\$ 5,616,372	\$ 1,976,305	\$ 51,397	\$ 7,644,074	\$ 5,697,008
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 497,079	\$ 1,312	\$ 528	\$ 498,919	\$ 226,950
Accrued expenses	44,253	-	-	44,253	33,021
Unearned revenue	43,271	1,004,096	-	1,047,367	588,590
Total liabilities	584,603	1,005,408	528	1,590,539	848,561
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues - property taxes and refuse fees	39,138	-	-	39,138	39,809
FUND BALANCES					
Restricted for					
Capital projects	-	970,897	-	970,897	396,656
Committed to					
Economic development	-	-	50,869	50,869	68,393
Unassigned	4,992,631	-	-	4,992,631	4,343,589
Total fund balances	4,992,631	970,897	50,869	6,014,397	4,808,638
Total liabilities, deferred inflows of resources and fund balances	\$ 5,616,372	\$ 1,976,305	\$ 51,397	\$ 7,644,074	\$ 5,697,008

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, 2023

TOTAL GOVERNMENTAL FUND BALANCES	\$ 6,014,397
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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.	14,885,964
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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.	51,218
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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.	(1,873,820)
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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>39,138</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 19,116,897</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, 2023 with summarized comparative totals for 2022

	Major Funds			Totals	
	General	Capital	Economic	2023	2022
	Fund	Projects	Development		
		Fund	Fund		
REVENUES					
Real property taxes	\$ 1,650,117	\$ -	\$ -	\$ 1,650,117	\$ 1,621,444
Property tax penalties	5,018	-	-	5,018	5,294
Personal property taxes	8,005	-	-	8,005	8,918
Charges for services	470,752	47,504	-	518,256	704,363
Refuse collection fees	329,013	-	-	329,013	359,278
State shared revenues	1,023,167	-	-	1,023,167	1,034,092
Contributions and donations	14,277	-	-	14,277	22,122
Cell tower revenue	168,861	-	-	168,861	159,954
Intergovernmental revenues	152,350	896,220	-	1,048,570	674,631
Franchise fees	47,856	-	-	47,856	52,555
Earnings on investments	2	162,862	-	162,864	5,865
Miscellaneous	17,334	-	-	17,334	5,878
Total revenues	3,886,752	1,106,586	-	4,993,338	4,654,394
EXPENDITURES					
Current					
General government	1,167,273	-	-	1,167,273	1,183,298
Community development	198,290	-	17,524	215,814	198,875
Public safety	721,631	-	-	721,631	735,145
Public works	609,604	138,819	-	748,423	688,865
Capital outlay	-	393,526	-	393,526	-
Debt service	540,912	-	-	540,912	540,059
Total expenditures	3,237,710	532,345	17,524	3,787,579	3,346,242
NET CHANGE IN FUND BALANCES	649,042	574,241	(17,524)	1,205,759	1,308,152
FUND BALANCES					
Beginning of year	4,343,589	396,656	68,393	4,808,638	3,500,486
End of year	\$ 4,992,631	\$ 970,897	\$ 50,869	\$ 6,014,397	\$ 4,808,638

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, 2023

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		\$ 1,205,759
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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 outlays	\$ 484,018	
Depreciation expense	<u>(516,111)</u>	(32,093)

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>493,054</u>	493,054
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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, 2022	(39,809)	
Deferred inflows of resources at June 30, 2023	<u>39,138</u>	(671)

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	41,040	
Current year change in compensated absences	<u>(964)</u>	<u>40,076</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 1,706,125</u>
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TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2023 with summarized comparative totals for 2022

	Major Funds		Totals	
	Water Fund	Sewer Fund	2023	2022
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 444,775	\$ 2,095,001	\$ 2,539,776	\$ 2,238,081
Accounts receivable	99,465	217,144	316,609	337,226
Other receivables	-	49,650	49,650	46,045
Total current assets	<u>544,240</u>	<u>2,361,795</u>	<u>2,906,035</u>	<u>2,621,352</u>
NONCURRENT ASSETS				
Capital assets, net	<u>530,573</u>	<u>3,773,845</u>	<u>4,304,418</u>	<u>4,477,440</u>
Total assets	<u>1,074,813</u>	<u>6,135,640</u>	<u>7,210,453</u>	<u>7,098,792</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred employer contributions - pensions	<u>52,382</u>	<u>52,382</u>	<u>104,764</u>	<u>102,218</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	7,834	111,262	119,096	160,828
Accrued expenses	<u>9,740</u>	<u>15,298</u>	<u>25,038</u>	<u>26,839</u>
Total current liabilities	<u>17,574</u>	<u>126,560</u>	<u>144,134</u>	<u>187,667</u>
NONCURRENT LIABILITIES				
Due within one year	81,802	86,916	168,718	164,826
Due in more than one year	<u>879,358</u>	<u>1,275,184</u>	<u>2,154,542</u>	<u>2,271,357</u>
Total noncurrent liabilities	<u>961,160</u>	<u>1,362,100</u>	<u>2,323,260</u>	<u>2,436,183</u>
Total liabilities	<u>978,734</u>	<u>1,488,660</u>	<u>2,467,394</u>	<u>2,623,850</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred investment earnings - pensions	<u>13,969</u>	<u>13,969</u>	<u>27,938</u>	<u>133,090</u>
NET POSITION				
Net (deficit) investment in capital assets	(295,204)	2,547,127	2,251,923	2,265,884
Unrestricted	<u>429,696</u>	<u>2,138,266</u>	<u>2,567,962</u>	<u>2,178,186</u>
Total net position	<u>\$ 134,492</u>	<u>\$ 4,685,393</u>	<u>\$ 4,819,885</u>	<u>\$ 4,444,070</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

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

Year ended June 30, 2023 with summarized comparative totals for 2022

	Major Funds		Totals	
	Water Fund	Sewer Fund	2023	2022
OPERATING REVENUES				
Charges for services	\$ 473,735	\$ 1,021,409	\$ 1,495,144	\$ 1,674,401
Water and sewer tapping fees	19,050	78,175	97,225	104,500
Other operating revenues	52,088	49,650	101,738	87,366
Total operating revenues	<u>544,873</u>	<u>1,149,234</u>	<u>1,694,107</u>	<u>1,866,267</u>
OPERATING EXPENSES				
Salaries and wages	186,106	173,326	359,432	306,987
Employee benefits	35,085	41,408	76,493	110,025
Administrative expenses	3,434	91,810	95,244	72,831
Insurance	14,018	14,018	28,036	25,150
Professional services	18,599	11,251	29,850	42,875
Repairs and maintenance	40,089	39,699	79,788	67,063
Supplies	19,083	-	19,083	15,815
Utilities	12,140	9,671	21,811	26,536
Wastewater treatment expenses	-	378,322	378,322	326,011
Depreciation	63,790	109,232	173,022	173,022
Total operating expenses	<u>392,344</u>	<u>868,737</u>	<u>1,261,081</u>	<u>1,166,315</u>
Operating income	<u>152,529</u>	<u>280,497</u>	<u>433,026</u>	<u>699,952</u>
NONOPERATING REVENUES (EXPENSES)				
Interest expense	(24,226)	(32,985)	(57,211)	(65,609)
CHANGE IN NET POSITION	128,303	247,512	375,815	634,343
NET POSITION				
Beginning of year	6,189	4,437,881	4,444,070	3,809,727
End of year	<u>\$ 134,492</u>	<u>\$ 4,685,393</u>	<u>\$ 4,819,885</u>	<u>\$ 4,444,070</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2023 with summarized comparative totals for 2022

	Major Funds		Totals	
	Water Fund	Sewer Fund	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from charges for services	\$ 464,481	\$ 1,051,281	\$ 1,515,762	\$ 1,484,191
Payments to suppliers for goods and services	(100,905)	(592,961)	(693,866)	(409,234)
Payments to employees for services	(251,920)	(245,809)	(497,729)	(547,198)
Cash received for tap fees	19,050	78,175	97,225	104,500
Other operating revenue	52,088	46,045	98,133	104,432
Net cash provided by operating activities	<u>182,794</u>	<u>336,731</u>	<u>519,525</u>	<u>736,691</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on bonds and notes	(74,017)	(85,045)	(159,062)	(219,706)
Interest paid on bonds and notes	(24,848)	(33,920)	(58,768)	(67,460)
Net cash used for capital and related financing activities	<u>(98,865)</u>	<u>(118,965)</u>	<u>(217,830)</u>	<u>(287,166)</u>
Net increase in cash	83,929	217,766	301,695	449,525
CASH				
Beginning of year	<u>360,846</u>	<u>1,877,235</u>	<u>2,238,081</u>	<u>1,788,556</u>
End of year	<u>\$ 444,775</u>	<u>\$ 2,095,001</u>	<u>\$ 2,539,776</u>	<u>\$ 2,238,081</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 152,529	\$ 280,497	\$ 433,026	\$ 699,952
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	63,790	109,232	173,022	173,022
(Increase) decrease in				
Accounts receivable	(9,254)	29,872	20,618	(190,210)
Other receivables	-	(3,605)	(3,605)	17,066
Deferred outflows - pension	(1,274)	(1,274)	(2,548)	(46,882)
Increase (decrease) in				
Accounts payable	6,458	(48,190)	(41,732)	29,083
Accrued expenses	52	(294)	(242)	650
Net pension liability	23,069	23,069	46,138	(78,590)
Deferred inflows - pension	(52,576)	(52,576)	(105,152)	132,600
Net cash provided by operating activities	<u>\$ 182,794</u>	<u>\$ 336,731</u>	<u>\$ 519,525</u>	<u>\$ 736,691</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(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.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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 2022-2023 was \$0.5895 per \$100 of assessed value.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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.

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, 2023.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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, 2022, 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, 2022, the Town adopted the provisions of GASB Statement No. 94 "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*" and GASB Statement No. 96, "*Subscription-Based Information Technology Arrangements*".

The objective of GASB Statement No. 94 is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements ("**PPP's**"). As used in GASB Statement No. 94, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this GASB Statement No. 94 as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The implementation of GASB Statement No. 94 had no impact on the financial statements of the Town for the year ended June 30, 2023.

The objective of GASB Statement No. 96 is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements ("**SBITA's**") for government end users (governments). GASB Statement No. 96 (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in GASB Statement No. 87, Leases, as amended. The implementation of GASB Statement No. 96 had no impact on the financial statements of the Town for the year ended June 30, 2023.

New Accounting Pronouncements

GASB Statement No. 100, "*Accounting Changes and Error Corrections*" will be effective for the Town for the year ended June 30, 2024. GASB Statement No. 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability.

GASB Statement No. 101, "*Compensated Absences*" will be effective for the Town for the year ended June 30, 2025. GASB Statement No. 101 will update the recognition and measurement guidance for compensated absences by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. GASB Statement No. 101 will require that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(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, 2023:

General government	
Administrative expenses	\$67,730
General services	\$73,725
Benefit expense	\$59,150
General liability and property insurance	\$ 1,776
Community development	
Promotions and public relations	\$10,881
Public safety	
Beach patrol	\$44,735

(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, 2023, the carrying amount of the Town's deposits was \$9,622,770 and the bank balance was \$9,668,413. 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, 2023 was \$8,112,686.

(4) DUE FROM OTHER GOVERNMENTS

As of June 30, 2023, due from other governments consisted of the following:

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

	<u>General Fund</u>	<u>Capital Projects Fund</u>
State of Maryland		
Highway Administration – highway user's tax	\$ 29,916	\$ -
Comptroller's Office - gambling income	152,241	-
Department of Natural Resources – Wetlands Overlook Park nature center	94,155	-
State Arts Council - sunrise celebration festival	10,000	
Department of the Environment – stormwater improvement grant	-	225,000
Department of Natural Resources – flood study	-	6,776
	<u>\$286,312</u>	<u>\$231,776</u>

(5) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023 was as follows:

	<u>Balance July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2023</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 3,443,550	\$ -	\$ -	\$ 3,443,550
Construction in progress	-	65,438	-	65,438
Total capital assets not being depreciated	<u>3,443,550</u>	<u>65,438</u>	<u>-</u>	<u>3,508,988</u>
Capital assets being depreciated				
Buildings and improvements	5,378,666	387,560	-	5,766,226
Land improvements and infrastructure	13,595,751	-	-	13,595,751
Furniture and equipment	1,251,323	31,020	-	1,282,343
Total capital assets being depreciated	<u>20,225,740</u>	<u>418,580</u>	<u>-</u>	<u>20,644,320</u>
Less accumulated depreciation for				
Buildings and improvements	(1,703,095)	(137,317)	-	(1,840,412)
Land improvements and infrastructure	(6,037,536)	(335,813)	-	(6,373,349)
Furniture and equipment	(1,010,602)	(42,981)	-	(1,053,583)
Total accumulated depreciation	<u>(8,751,233)</u>	<u>(516,111)</u>	<u>-</u>	<u>(9,267,344)</u>
Total capital assets being depreciated, net	<u>11,474,507</u>	<u>(97,531)</u>	<u>-</u>	<u>11,376,976</u>
Governmental activities, net	<u>\$14,918,057</u>	<u>\$ (32,093)</u>	<u>\$ -</u>	<u>\$14,885,964</u>
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	559,274	-	-	559,274
Total capital assets being depreciated	<u>8,489,416</u>	<u>-</u>	<u>-</u>	<u>8,489,416</u>
Less accumulated depreciation for				
Buildings and improvements	(3,916,064)	(160,963)	-	(4,077,027)
Machinery and equipment	(390,839)	(12,059)	-	(402,898)
Total accumulated depreciation	<u>(4,306,903)</u>	<u>(173,022)</u>	<u>-</u>	<u>(4,479,925)</u>
Total capital assets being depreciated, net	<u>4,182,513</u>	<u>(173,022)</u>	<u>-</u>	<u>4,009,491</u>
Business-type activities, net	<u>\$ 4,477,440</u>	<u>\$ (173,022)</u>	<u>\$ -</u>	<u>\$ 4,304,418</u>

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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

Governmental activities	
General government	\$ 54,613
Community development	281,364
Public works	172,085
Economic development	<u>8,049</u>
Total depreciation expense – governmental activities	<u>\$516,111</u>
Business-type activities	
Water	\$ 63,790
Sewer	<u>109,232</u>
Total depreciation expense – business-type activities	<u>\$173,022</u>

As of June 30, 2023, the Town had an outstanding construction commitment in the amount of \$250,345 for reconstruction services to the public works building.

(6) LONG-TERM DEBT

The following is a summary of long-term debt activity and balances for the Town for the year ended June 30, 2023:

	<u>Balance July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2023</u>	<u>Amount Due Within One Year</u>
Governmental activities					
Bonds payable	\$2,096,439	\$ -	\$493,054	\$1,603,385	\$475,517
Compensated absences	88,962	964	-	89,926	-
Net pension liability (See Note 7)	<u>149,750</u>	<u>30,759</u>	<u>-</u>	<u>180,509</u>	<u>-</u>
	<u>2,335,151</u>	<u>31,723</u>	<u>493,054</u>	<u>1,873,820</u>	<u>475,517</u>
Business-type activities					
State notes and bonds payable	2,211,556	-	159,061	2,052,495	168,718
Net pension liability (See Note 7)	<u>224,627</u>	<u>46,138</u>	<u>-</u>	<u>270,765</u>	<u>-</u>
	<u>2,436,183</u>	<u>46,138</u>	<u>159,061</u>	<u>2,323,260</u>	<u>168,718</u>
Total debt	<u>\$4,771,334</u>	<u>\$77,861</u>	<u>\$652,115</u>	<u>4,197,080</u>	<u>\$644,235</u>
Less: current portion				<u>644,235</u>	
Total long-term debt				<u>\$3,552,845</u>	

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, 2023 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.

\$ 419,500

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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.

591,000

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.

274,000

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.

297,347

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.

21,538

Total bonds payable – governmental activities **\$1,603,385**

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>
2024	\$ 475,517	\$39,395	\$ 514,912
2025	464,308	27,049	491,357
2026	258,298	15,674	273,972
2027	224,262	9,561	233,823
2028	<u>181,000</u>	<u>3,936</u>	<u>184,936</u>
	<u>\$1,603,385</u>	<u>\$95,615</u>	<u>\$1,699,000</u>

State Notes and Bonds Payable – Business-Type Activities

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 2.88%. 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.

\$ 825,777

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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.

1,226,718

Total state notes and bonds payable – business-type activities

\$2,052,495

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>
2024	\$ 168,718	\$ 46,349	\$ 215,067
2025	172,701	42,366	215,067
2026	176,779	38,289	215,068
2027	180,953	34,114	215,067
2028	185,226	29,841	215,067
2029-2033	897,189	74,564	979,937
2034-2036	<u>270,929</u>	<u>18,574</u>	<u>281,319</u>
	<u>\$2,052,495</u>	<u>\$284,097</u>	<u>\$2,336,592</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 \$25,772 at June 30, 2023.

(7) 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, 2023, the employer rate of contribution was 7.40% of covered payroll. The Town's contributions to MSRPS for the years ended June 30, 2021, 2022 and 2023 were \$54,988, \$51,475 and \$57,433, respectively. The contributions made by the Town equaled the required contributions for the respective years.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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

At June 30, 2023, the Town reported a liability of \$451,274 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022. 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, 2022, the Town's proportion was 0.002255% which was a decrease of 0.00240% from its proportion measured as of June 30, 2021.

As of June 30, 2023, the net pension liability of \$180,509 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 \$270,765 of the net pension liability is recorded as a liability in the Water Fund for \$135,383 and in the Sewer Fund for \$135,383 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, 2023, the Town recognized negative pension expense of \$45,167. At June 30, 2023, 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	\$ 57,433	\$ -
Changes in proportion and differences between employer contributions and proportionate share	-	29,456
Net difference between projected and actual earnings on pension plan investments	117,174	-
Difference between actual and expected experience	<u>-</u>	<u>17,107</u>
	<u>\$174,607</u>	<u>\$46,563</u>

\$57,433 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,

2023	\$ (14,663)
2024	110,788
2025	21,971
2026	(46,488)
2027	<u>(997)</u>
	<u>\$ 70,611</u>

Actuarial Assumptions

The key actuarial assumptions used to perform the June 30, 2022 pension liability calculation are as follows:

Actuarial	Entry age normal
Amortization method	Level percentage of payroll
Inflation	2.25% general, 2.75% wage in 2021 and 2022
Salary increases	2.75% to 11.25% including inflation in 2022
	2.75% to 9.25% including inflation in 2021
Discount rate	6.80% in 2021 and 2022

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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	34.00%	6.00%
Private equity	16.00%	8.40%
Rate sensitive	21.00%	1.20%
Credit opportunity	8.00%	4.90%
Real assets	15.00%	5.20%
Absolute return	<u>6.00%</u>	3.50%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 6.80%. 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 6.80%, 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 (5.80%) or 1 percentage point higher (7.80%) than the current rate:

	<u>1% Decrease 5.80%</u>	<u>Current Discount Rate 6.80%</u>	<u>1% Increase 7.80%</u>
Town's net pension liability	<u>\$692,395</u>	<u>\$451,274</u>	<u>\$251,196</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, 2022. This can be found at <https://sra.maryland.gov/comprehensive-annual-financial-reports>.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(8) 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, 2023, the Town's allocation of costs was \$298,601 or 18.09% of fixed costs plus \$143,285 or 17.99% of variable costs.

(9) 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 2022-2023. 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)	\$100,000,000
Building and personal property	14,605,183
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

(10) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 26, 2023, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2023 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, 2023

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Real property taxes	\$ 1,631,674	\$ 1,650,117	\$ 18,443
Property tax penalties	20,000	5,018	(14,982)
Personal property taxes	10,700	8,005	(2,695)
Charges for services	494,366	470,752	(23,614)
Refuse collection fees	349,546	329,013	(20,533)
State-shared revenues	637,889	1,023,167	385,278
Contributions and donation	12,000	14,277	2,277
Cell tower revenue	159,954	168,861	8,907
Intergovernmental revenues	26,900	152,350	125,450
Franchise fees	51,414	47,856	(3,558)
Earnings on investments	250	2	(248)
Miscellaneous	7,227	17,334	10,107
Total revenues	<u>3,401,920</u>	<u>3,886,752</u>	<u>484,832</u>
EXPENDITURES			
General government			
Legislative expenses	97,800	73,485	24,315
Administrative expenses	387,942	455,672	(67,730)
Professional services	152,666	151,977	689
General services	205,706	279,431	(73,725)
Benefit expense	128,782	187,932	(59,150)
General liability and property insurance	17,000	18,776	(1,776)
Total general government	<u>989,896</u>	<u>1,167,273</u>	<u>(177,377)</u>
Community development			
Events expense	176,860	123,158	53,702
Promotions and public relations	-	10,881	(10,881)
Bayside History Museum expense	42,680	38,206	4,474
Welcome Center expense	56,339	26,045	30,294
Total community development	<u>275,879</u>	<u>198,290</u>	<u>77,589</u>
Public safety			
Resident deputy services	603,028	441,396	161,632
Beach patrol	235,500	280,235	(44,735)
Total public safety	<u>838,528</u>	<u>721,631</u>	<u>116,897</u>
Public works			
	<u>753,684</u>	<u>609,604</u>	<u>144,080</u>
Debt service			
Principal on long-term debt	493,054	493,054	-
Interest on long-term debt	50,879	47,858	3,021
Total debt service	<u>543,933</u>	<u>540,912</u>	<u>3,021</u>
Total expenditures	<u>3,401,920</u>	<u>3,237,710</u>	<u>164,210</u>

TOWN OF NORTH BEACH, MARYLAND

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2023

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	\$ 649,042	<u>\$ 649,042</u>
FUND BALANCE			
Beginning of year		<u>4,343,589</u>	
End of year		<u>\$ 4,992,631</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>2022</u>	<u>2021</u>	<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	0.0022550%	0.0024960%	0.0022360%	0.0021485%	0.0018670%	0.00146022%	0.0012990%	0.0014920%	0.0013710%
Town's proportionate share of the net pension liability	\$ 451,274	\$ 374,377	\$ 505,360	\$ 443,147	\$ 391,730	\$ 315,751	\$ 306,477	\$ 310,109	\$ 243,352
Covered-employee payroll	\$ 731,179	\$ 819,493	\$ 819,504	\$ 806,574	\$ 740,159	\$ 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	61.72%	45.68%	61.67%	54.94%	52.93%	49.30%	60.56%	61.13%	49.27%
Plan fiduciary net position as a percentage of the total pension liability	76.27%	81.84%	70.72%	72.34%	71.18%	69.38%	65.79%	68.78%	71.87%

3

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>2023</u>	<u>2022</u>	<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	\$ 57,433	\$ 51,475	\$ 54,988	\$ 47,941	\$ 44,120	\$ 37,230	\$ 29,720	\$ 25,305	\$ 31,452	\$ 31,955
Contributions in relation to the actuarially determined contribution	<u>57,433</u>	<u>51,475</u>	<u>54,988</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>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 776,122	\$ 731,179	\$ 819,493	\$ 819,504	\$ 806,574	\$ 740,159	\$ 640,517	\$ 506,065	\$ 507,291	\$ 493,894
Contributions as a percentage of covered-employee payroll	7.40%	7.04%	6.71%	5.85%	5.47%	5.03%	4.64%	5.00%	6.20%	6.47%



**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, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 26, 2023.

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 or significant deficiencies may exist that were not 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 financial statements. 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
December 26, 2023**