



The Commissioners of Leonardtown Leonardtown, Maryland

Financial Statements
Year Ended June 30, 2020



1835 Market Street, 3rd Floor
Philadelphia, PA 19103

215/567-7770 | bbdcpa.com

THE COMMISSIONERS OF LEONARDTOWN

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INDEPENDENT AUDITOR'S REPORT

The Commissioners of Leonardtown Leonardtown, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Commissioners of Leonardtown, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Commissioners of Leonardtown, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to this required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Commissioners of Leonardtown's basic financial statements. The schedules listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2020, on our consideration of The Commissioners of Leonardtown'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 solely 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 the effectiveness of The Commissioners of Leonardtown's 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 Commissioners of Leonardtown's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
October 20, 2020**

THE COMMISSIONERS OF LEONARDTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

June 30, 2020

As management of The Commissioners of Leonardtown (the "**Town**"), we offer readers of the Town financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2020. Please read it in conjunction with the Town's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- In December 2019, an outbreak of a novel strain of coronavirus ("**COVID-19**") was identified and has since spread worldwide including the United States. In March, 2020, the World Health Organization characterized COVID-19 as a pandemic and Maryland Governor Larry Hogan ordered the closure of the physical location of every "non-essential business" in Maryland for what was an extended period of time. This matter did not negatively impact the Town's financial condition in FY20.
- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$57,700,516 (net position). Of this amount, \$5,334,511 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors, \$137,567 is restricted for future road maintenance, \$6,730,410 is restricted for future growth related projects (impact fees), and \$45,498,028 is invested in capital assets, net of related debt.
- During FY20 the Town's total net position increased by \$589,852. After adjusting for depreciation expense, *governmental activities* yielded an addition to net position of \$656,517. A large component of the increase in net position resulted from additions to capital assets and construction in progress of \$448,426. Additionally, there were significant revenue surpluses and favorable expenditure variances for FY20. After adjusting for depreciation expense and capital fees, the *business type activities* yielded an addition to net position of \$412,031. The water and sewer departments yielded significant favorable operating results for FY20.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,198,085, an increase of \$80,892 from the prior year. Fund balance is reported in the following categories: \$2,231 is classified as *nonspendable* and represents prepayments for various services; \$137,567 is restricted for future road maintenance; \$106,252 is *assigned* for a number of specific purposes. The most significant portion of assigned fund balance (\$52,800) is parking fee in lieu revenue collected in prior years that is assigned for future parking projects. The next highest amount (\$37,780) is assigned to complete the roof repair at Town Hall. Note I on page 29 provides a detailed accounting of the assigned portion of fund balance. The remaining \$952,035 is *unassigned* and available for spending and equals 58 percent of budgeted FY21 governmental funds operating expenditures.
- The increase in unassigned fund balance of \$121,302 in the governmental funds can almost exclusively be tied to the surplus income tax receipts of \$137,793.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental 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.

THE COMMISSIONERS OF LEONARDTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

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 soon 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 only result in cash flows in future fiscal periods such as uncollected property taxes and earned, but unused, vacation leave.

Both of 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, planning and zoning, public safety, public works, community development and recreation and parks. The business-type activities of the Town include water, wastewater and refuse collection.

The government-wide financial statements can be found on pages 10 and 11 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping 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. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with its budget.

The basic governmental fund financial statements can be found on pages 12 through 16 of this report.

Proprietary Funds

The Town maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses one enterprise fund to account for its water, wastewater and refuse collection services.

Proprietary fund statements provide the same type of information as the government-wide financial statement, only in more detail.

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

THE COMMISSIONERS OF LEONARDTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

Notes to the Financial Statements

The notes 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 statements can be found on pages 20 through 32 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$57,700,516 at the close of the most recent fiscal year.

By far, the largest portion of the Town's net position (79 percent) reflects its investment in capital assets (e.g., land, building, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported 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.

The next largest portion of the Town's net position (12 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$5,334,511 may be used to meet the government's ongoing obligations to citizens and creditors.

The Commissioners of Leonardtown's Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 1,374,314	\$ 1,252,682	\$11,477,158	\$ 9,760,183	\$12,851,472	\$11,012,865
Capital assets	<u>21,748,886</u>	<u>22,139,657</u>	<u>31,135,693</u>	<u>32,579,238</u>	<u>52,884,579</u>	<u>54,718,895</u>
Total assets	<u>23,123,200</u>	<u>23,392,339</u>	<u>42,612,851</u>	<u>42,339,421</u>	<u>65,736,051</u>	<u>65,731,760</u>
Long-term debt outstanding	848,268	1,109,579	6,538,283	6,864,591	7,386,551	7,974,170
Other liabilities	<u>199,189</u>	<u>174,801</u>	<u>449,795</u>	<u>472,125</u>	<u>648,984</u>	<u>646,926</u>
Total liabilities	<u>1,047,457</u>	<u>1,284,380</u>	<u>6,988,078</u>	<u>7,336,716</u>	<u>8,035,535</u>	<u>8,621,096</u>
Net position						
Net investment in capital assets	20,900,618	21,030,078	24,597,410	25,714,647	45,498,028	46,744,725
Restricted	137,567	52,754	6,730,410	5,892,145	6,867,977	5,944,899
Unrestricted	<u>1,037,558</u>	<u>1,025,127</u>	<u>4,296,953</u>	<u>3,395,913</u>	<u>5,334,511</u>	<u>4,421,040</u>
Total net position	<u>\$22,075,743</u>	<u>\$22,107,959</u>	<u>\$35,624,773</u>	<u>\$35,002,705</u>	<u>\$57,700,516</u>	<u>\$57,110,664</u>

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

THE COMMISSIONERS OF LEONARDTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

The Commissioners of Leonardtown's Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues						
Program revenues						
Charges for service	\$ 67,352	\$ 42,933	\$ 2,657,743	\$ 2,364,998	\$ 2,725,095	\$ 2,407,931
Operating grants	221,459	166,756	30,000	12,500	251,459	179,256
Capital grants	275,329	316,381	1,884,324	1,524,895	2,159,653	1,841,276
General revenues						
Property taxes	661,978	627,044	-	-	661,978	627,044
Other taxes	753,709	716,159	-	-	753,709	716,159
Other	120,168	123,734	162,650	192,160	282,818	315,894
Total revenues	<u>2,099,995</u>	<u>1,993,007</u>	<u>4,734,717</u>	<u>4,094,553</u>	<u>6,834,712</u>	<u>6,087,560</u>
Expenses						
General government	508,742	535,109	-	-	508,742	535,109
Community development	190,453	162,782	-	-	190,453	162,782
Planning and zoning	124,715	139,740	-	-	124,715	139,740
Public safety	82,161	74,157	-	-	82,161	74,157
Public works	773,422	702,859	-	-	773,422	702,859
Parks and recreation	452,718	559,140	-	-	452,718	559,140
Water	-	-	632,179	518,881	632,179	518,881
Wastewater	-	-	2,604,508	2,476,723	2,604,508	2,476,723
Refuse	-	-	875,962	682,335	875,962	682,335
Total expenses	<u>2,132,211</u>	<u>2,173,787</u>	<u>4,112,649</u>	<u>3,677,939</u>	<u>6,244,860</u>	<u>5,851,726</u>
Change in net position	(32,216)	(180,780)	622,068	416,614	589,852	235,834
Net position - beginning of year	<u>22,107,959</u>	<u>22,288,739</u>	<u>35,002,705</u>	<u>34,586,091</u>	<u>57,110,664</u>	<u>56,874,830</u>
Net position - end of year	<u>\$22,075,743</u>	<u>\$22,107,959</u>	<u>\$35,624,773</u>	<u>\$35,002,705</u>	<u>\$57,700,516</u>	<u>\$57,110,664</u>

Governmental Activities

Governmental activities decreased the Town's net position by \$32,216. Several elements contributed to this decrease. Depreciation of \$688,733 was offset by addition of \$448,426 to capital assets as follows: 1) construction of capital assets of \$365,711, 2) construction in progress of \$7,715, and 3) receipt of donated capital assets of \$75,000. The significant expense for depreciation was further offset by surplus income tax revenue and expenditures that were below budget for FY20.

Business-Type Activities

Business-type activities increased the Town's net position by \$622,068. Depreciation expense of \$1,674,287 was offset by favorable departmental operating results and the capital contributions detailed below.

- Capacity allocation fees of \$186,124 were collected.
- Impact fees of \$1,698,200 were collected.

THE COMMISSIONERS OF LEONARDTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, *unassigned* fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,198,085, an increase of \$80,892 in comparison to the prior year. Approximately 79 percent of this total amount \$(952,035) constitutes *unassigned* fund balance, which is available for spending at the government's discretion. \$137,567 of fund balance is restricted for future road maintenance. The next largest component of fund balance is *assigned* for several specific purposes and totals \$106,252. The intended uses of this balance are detailed in Note I on page 29. The insignificant remainder of fund balance is *nonspendable* and represents services paid for in advance.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$972,715, while total fund balance increased to \$1,218,765. As a measure of the General Fund's liquidity, it may be useful to compare *unassigned* fund balance to total fund expenditures. *Unassigned* fund balance of the General Fund represents 59 percent of budgeted FY21 General Fund operating expenditures.

Total fund balance of the Town's General Fund increased by \$80,892 during the current fiscal year. As mentioned before, this increase resulted from the unexpected revenue surplus of \$137,793 for income tax during FY20.

Proprietary Fund

The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Proprietary Fund at the end of the year amounted to \$4,296,953. The total increase in net position for the fund was \$622,068. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final approved General Fund expenditure budget increased by \$257,680 over the original approved budget. The largest amendment (\$168,680) was to account for Council's approval to pay off the outstanding debt obligation for Town Hall. There was also a \$50,000 increase in revenue and appropriations to account for the Façade Grant approved for FY20.

During the year, revenues were significantly higher than budgetary estimates by \$133,889, and expenditures were \$136,990 less than budgeted.

- As mentioned previously, a surplus in income tax revenue accounts for a significant portion of the General Fund revenue surplus. This revenue source can be volatile, as it is tied to the timing of residents filing income tax returns.
- All departments yielded expenditure savings except recreation and parks. The most significant favorable variance is in the general government department. Certain capital outlay items were not purchased or completed by fiscal year end. Similarly, the significant surplus in the public works department is a result of the timing of road maintenance projects and is restricted for this use in a future fiscal year. The positive departmental results demonstrate that the town continues to embrace and follow a culture of fiscal responsibility. Details of all departmental results can be found in the supplemental reports found on pages 33 – 36.

THE COMMISSIONERS OF LEONARDTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

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, 2020 amounts to \$52,884,579 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, streets, infrastructure, machinery and equipment. The total decrease in the Town's investment in capital assets was 3 percent (a 2% decrease for governmental activities and a 4% decrease for business-type activities).

Depreciation of \$2,363,020 was partially offset by additions to capital assets and construction in progress for various capital projects.

The Commissioners of Leonardtown's Capital Assets (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Land	\$ 4,899,561	\$ 4,899,561	\$ 23,051	\$ 23,051	\$ 4,922,612	\$ 4,922,612
Construction in progress	7,715	33,171	214,894	399,806	222,609	432,977
Buildings and improvements	1,566,119	1,790,366	22,426,061	23,763,560	23,992,180	25,553,926
Improvements other than buildings	3,187,006	2,938,604	-	-	3,187,006	2,938,604
Equipment	25,884	36,811	270,640	317,870	296,524	354,681
Infrastructure	<u>12,062,601</u>	<u>12,441,144</u>	<u>8,201,047</u>	<u>8,074,951</u>	<u>20,263,648</u>	<u>20,516,095</u>
Total capital assets	<u>\$21,748,886</u>	<u>\$22,139,657</u>	<u>\$31,135,693</u>	<u>\$32,579,238</u>	<u>\$52,884,579</u>	<u>\$54,718,895</u>

Additional information on the Town's capital assets can be found in Note E on page 26 of this report.

Debt Administration

At the end of the current fiscal year, the Town had total debt outstanding of \$7,386,551. \$6,538,283 of this debt is a note payable to the Maryland Water Quality Financing Administration related to the Enhanced Nutrient Removal Project for the wastewater treatment plant. \$848,268 is the balance of mortgage debt related to property acquisition at the Wharf Park.

The Town's total debt decreased by \$587,619.

Additional information on the Town's long-term debt can be found in Note F on pages 27 and 28 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Residential and commercial growth in Leonardtown remains robust. Clark's Rest continues to prosper and add new residents to Leonardtown. As of the end of the fiscal year 196 homes had been occupied. The total project includes 335 residential units and a storage facility currently under construction. The construction of the Hamptons apartment complex is complete and units are being occupied. Property taxes for this location are subject to a Tax Abatement agreement and will not add to the property tax revenue budget until fiscal year 2026. The residential neighborhood of Meadows at Town Run began construction in 2019 and will build out 107 single family homes. As of the end of the fiscal year 15 homes had been occupied.
- The property tax rate remains at \$.1266 per \$100 of assessed valuation. The tax rate has remained unchanged since July 1, 2013 and is one of the lowest municipal rates in the State of Maryland.

THE COMMISSIONERS OF LEONARDTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

- Approved by the State of Maryland legislature in FY18, significant increases to municipal highway user revenue will occur for five years, with the first year being FY20. The additional revenue will be used to fund annually increasing snow removal expenditures and road maintenance projects. As new neighborhoods are occupied, the Town will be required to maintain an increasing number of road miles.
- There is no significant change in the type or level of services to be provided.
- *Unassigned* fund balance is above the Council's targeted threshold of 50% of General Fund operating expenditures. This is a direct result of surplus income tax revenue.
- Neither water nor sewer rates were increased for FY21. Town ordinance number 82 generally requires an automatic 2% rate increase, but a thorough financial study, as allowed by the ordinance, did not result in the need for this increase.
- Effective July 1, 2020, trash collection charges increased by various amounts depending on the type of service provided. The previous trash contract expired on June 30, 2019, and the new rates for the contractor rose significantly. FY20 rates were set below a breakeven point, utilizing some departmental surplus, to smooth the rate increase over two years. FY21 rates incorporated the remainder of the increased contract prices in addition to an annual CPI escalation factor.
- FY20 yielded results that allowed the Town to maintain a healthy level of unassigned fund balance proving Leonardtown remains financially sound. There continues to be interest in future residential and commercial development. The most challenging issue that will be faced by the Mayor and Council in the coming years is construction of infrastructure to accommodate growth. Ensuring affordability for taxpayers, residents, and businesses must be balanced with the capital expenditures and complementary debt issuances that will be required. These types of capital commitments will affect future Town budgets for decades to come.
- Despite this favorable financial report, it is unclear if Leonardtown will continue to be insulated from future financial hardship due to the COVID-19 pandemic. State shared revenues may be at risk in the future as the State of Maryland continues to incur significant expenses to manage the public health and economic consequences of this virus. As unemployment persists, local income tax revenues may be affected across multiple tax years. The Town will diligently monitor state revenue guidance and incoming receipts to promptly identify developments that may affect current or future budgets.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer, P. O. Box 1, Leonardtown, MD 20650.

THE COMMISSIONERS OF LEONARDTOWN

STATEMENT OF NET POSITION

June 30, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 21,820	\$ -	\$ 21,820
Investments	5,032,320	-	5,032,320
Receivables, net	104,981	643,161	748,142
Intergovernmental receivables	222,497	68,880	291,377
Internal balances	(4,007,560)	4,007,560	-
Noncurrent assets			
Restricted cash and investments	-	6,730,410	6,730,410
Other	256	27,147	27,403
Net capital assets	<u>21,748,886</u>	<u>31,135,693</u>	<u>52,884,579</u>
Total assets	<u>\$ 23,123,200</u>	<u>\$ 42,612,851</u>	<u>\$ 65,736,051</u>
LIABILITIES			
Accounts payable	\$ 121,323	\$ 281,569	\$ 402,892
Other liabilities	4,508	35,322	39,830
Accrued interest payable	-	48,766	48,766
Noncurrent liabilities			
Due within one year	153,488	389,093	542,581
Due in more than one year	<u>768,138</u>	<u>6,233,328</u>	<u>7,001,466</u>
Total liabilities	<u>1,047,457</u>	<u>6,988,078</u>	<u>8,035,535</u>
NET POSITION			
Net investment in capital assets	20,900,618	24,597,410	45,498,028
Restricted for			
Road maintenance	137,567	-	137,567
Impact fees	-	6,730,410	6,730,410
Unrestricted	<u>1,037,558</u>	<u>4,296,953</u>	<u>5,334,511</u>
Total net position	<u>22,075,743</u>	<u>35,624,773</u>	<u>57,700,516</u>
Total liabilities and net position	<u>\$ 23,123,200</u>	<u>\$ 42,612,851</u>	<u>\$ 65,736,051</u>

See accompanying notes

THE COMMISSIONERS OF LEONARDTOWN

STATEMENT OF ACTIVITIES

For the year ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 476,269	\$ -	\$ -	\$ -	\$ (476,269)	\$ -	\$ (476,269)
Community development	190,453	2,282	20,490	34,500	(133,181)	-	(133,181)
Planning and zoning	124,715	65,070	1,500	-	(58,145)	-	(58,145)
Public safety	82,161	-	13,090	-	(69,071)	-	(69,071)
Public works	773,422	-	186,379	-	(587,043)	-	(587,043)
Recreation and parks	452,718	-	-	240,829	(211,889)	-	(211,889)
Interest expense on long-term debt	32,473	-	-	-	(32,473)	-	(32,473)
Total governmental activities	<u>2,132,211</u>	<u>67,352</u>	<u>221,459</u>	<u>275,329</u>	<u>(1,568,071)</u>	<u>-</u>	<u>(1,568,071)</u>
Business-type activities							
Water	632,179	535,882	-	318,896	-	222,599	222,599
Wastewater	2,604,508	1,264,368	30,000	1,565,428	-	255,288	255,288
Refuse	875,962	857,493	-	-	-	(18,469)	(18,469)
Total business-type activities	<u>4,112,649</u>	<u>2,657,743</u>	<u>30,000</u>	<u>1,884,324</u>	<u>-</u>	<u>459,418</u>	<u>459,418</u>
Total primary government	<u>\$ 6,244,860</u>	<u>\$ 2,725,095</u>	<u>\$ 251,459</u>	<u>\$ 2,159,653</u>	<u>(1,568,071)</u>	<u>459,418</u>	<u>(1,108,653)</u>
General revenues							
					661,978	-	661,978
					720,793	-	720,793
					32,916	-	32,916
					26,996	-	26,996
					43,487	-	43,487
					17,333	154,382	171,715
					32,352	8,268	40,620
Total general revenues					<u>1,535,855</u>	<u>162,650</u>	<u>1,698,505</u>
					(32,216)	622,068	589,852
					<u>22,107,959</u>	<u>35,002,705</u>	<u>57,110,664</u>
					<u>\$ 22,075,743</u>	<u>\$ 35,624,773</u>	<u>\$ 57,700,516</u>

See accompanying notes

THE COMMISSIONERS OF LEONARDTOWN

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2020

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 21,820	\$ -	\$ -	\$ 21,820
Investments	5,032,320	-	-	5,032,320
Receivables, net	104,981	-	-	104,981
Intergovernmental receivables	222,497	-	-	222,497
Other assets	256	-	-	256
Due from other funds	<u>20,680</u>	<u>-</u>	<u>-</u>	<u>20,680</u>
Total assets	<u>\$ 5,402,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,402,554</u>
LIABILITIES				
Accounts payable	\$ 121,323	\$ -	\$ -	121,323
Other liabilities	4,508	-	-	4,508
Due to other funds	<u>4,007,560</u>	<u>-</u>	<u>20,680</u>	<u>4,028,240</u>
Total liabilities	<u>4,133,391</u>	<u>-</u>	<u>20,680</u>	<u>4,154,071</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	<u>50,398</u>	<u>-</u>	<u>-</u>	<u>50,398</u>
FUND BALANCES (DEFICIT)				
Nonspendable	2,231	-	-	2,231
Restricted	137,567	-	-	137,567
Assigned	106,252	-	-	106,252
Unassigned (deficit)	<u>972,715</u>	<u>-</u>	<u>(20,680)</u>	<u>952,035</u>
Total fund balances (deficit)	<u>1,218,765</u>	<u>-</u>	<u>(20,680)</u>	<u>1,198,085</u>
Total liabilities, deferred inflows of resources and fund balances (deficit)	<u>\$ 5,402,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,402,554</u>

See accompanying notes

THE COMMISSIONERS OF LEONARDTOWN

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

June 30, 2020

Fund balance of governmental funds (page 12) \$ 1,198,085

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds. 21,748,886

Other long-term assets are not available to pay for current period expenditures and are reported as deferred inflows of resources in the funds

Property taxes receivable	2,878
Highway user tax receivable	41,363
Interest income receivable	6,157

Long-term liabilities are not due and payable in the current period and are not reported as liabilities in the governmental funds.

Mortgage obligation	(848,268)
Accrued compensated absences	(64,154)
Health insurance obligations	<u>(9,204)</u>

Net position of governmental activities (page 10) \$ 22,075,743

THE COMMISSIONERS OF LEONARDTOWN

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

For the year ended June 30, 2020

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,539,089	\$ -	\$ -	\$ 1,539,089
Licenses and permits	123,054	-	-	123,054
Intergovernmental	56,577	165,829	1,500	223,906
Charges for services	2,982	-	-	2,982
Miscellaneous	74,540	-	-	74,540
Total revenues	<u>1,796,242</u>	<u>165,829</u>	<u>1,500</u>	<u>1,963,571</u>
EXPENDITURES				
Current				
General government	424,692	-	-	424,692
Community development	192,301	-	-	192,301
Planning and zoning	123,289	-	-	123,289
Public safety	82,170	-	-	82,170
Public works	384,625	-	-	384,625
Recreation and parks	196,142	365,711	-	561,853
Grant expenditures	-	-	1,500	1,500
Debt service				
Principal	261,311	-	-	261,311
Interest	32,473	-	-	32,473
Total expenditures	<u>1,697,003</u>	<u>365,711</u>	<u>1,500</u>	<u>2,064,214</u>
Excess (deficiency) of revenues over expenditures	99,239	(199,882)	-	(100,643)
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	(199,882)	199,882	-	-
SPECIAL ITEM				
Proceeds from sale of real estate	181,535	-	-	181,535
Net change in fund balances	80,892	-	-	80,892
Fund balances (deficit) - beginning	1,137,873	-	(20,680)	1,117,193
Fund balances (deficit) - ending	<u>\$ 1,218,765</u>	<u>\$ -</u>	<u>\$ (20,680)</u>	<u>\$ 1,198,085</u>

See accompanying notes

THE COMMISSIONERS OF LEONARDTOWN

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

For the year ended June 30, 2020

Net change in fund balance - total governmental funds (page 14) \$ 80,892

Amounts reported for governmental activities in the statement of activities (page 11) are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred property taxes	(1,805)
Change in deferred highway user taxes	33,006
Change in deferral of interest income	(850)
Donated capital assets	75,000

The issuance of long-term debt (e.g., bonds, loans) 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 but does not affect net position.

Repayment of principal	261,311
------------------------	---------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of capital assets are capitalized and subsequently depreciated over their useful life.

Construction of capital assets	365,711
Construction in progress	7,715
Depreciation expense	(688,733)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Change in compensated absences	(14,236)
Change in health insurance contribution liability	237

In the statement of activities, only the gain on the sale of a capital asset is reported, where in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets.

(150,464)

Change in net position of governmental activities (page 11) \$ (32,216)

THE COMMISSIONERS OF LEONARDTOWN

**STATEMENT OF REVENUES, EXPENDITURES AND ENCOMBRANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND**

For the year ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,401,962	\$ 1,401,962	\$ 1,570,290	\$ 168,328
Licenses and permits	85,700	85,700	123,054	37,354
Intergovernmental	70,733	70,733	56,577	(14,156)
Charges for services	4,000	4,000	2,982	(1,018)
Miscellaneous	80,309	130,309	73,690	(56,619)
Total revenues	<u>1,642,704</u>	<u>1,692,704</u>	<u>1,826,593</u>	<u>133,889</u>
EXPENDITURES AND ENCUMBRANCES				
General government	600,408	808,088	744,609	63,479
Community development	161,887	211,887	191,703	20,184
Planning and zoning	127,492	127,492	123,216	4,276
Public safety	89,108	89,108	80,646	8,462
Public works	424,881	424,881	383,822	41,059
Recreation and parks	195,573	195,573	196,043	(470)
Total expenditures and encumbrances	<u>1,599,349</u>	<u>1,857,029</u>	<u>1,720,039</u>	<u>136,990</u>
Excess (deficiency) of revenues over expenditures and encumbrances	<u>43,355</u>	<u>(164,325)</u>	<u>106,554</u>	<u>270,879</u>
OTHER FINANCING SOURCES (USES)				
Appropriation of prior year fund balance	4,863	43,863	-	(43,863)
Operating transfers in (out)	(48,218)	(48,218)	(199,882)	(151,664)
Total other financing sources (uses)	<u>(43,355)</u>	<u>(4,355)</u>	<u>(199,882)</u>	<u>(195,527)</u>
SPECIAL ITEM				
Proceeds from sale of real estate	-	168,680	181,535	12,855
Excess (deficiency) of revenues, other financing sources and special item over expenditures and encumbrances and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,207</u>	<u>\$ 88,207</u>
RECONCILIATION OF THE BUDGETARY GENERAL FUND TO THE GAAP GENERAL FUND				
Excess (deficiency) of revenues and other sources over expenditures and encumbrances - budgetary basis				\$ 88,207
Timing difference of revenue recognition				(30,351)
Effect of year end salary accrual				(6,834)
Effect of encumbrances				30,107
Effect of future health insurance reimbursements				(237)
Excess (deficiency) of revenues over expenditures - GAAP basis (page 14)				<u>\$ 80,892</u>

See accompanying notes

THE COMMISSIONERS OF LEONARDTOWN

STATEMENT OF NET POSITION PROPRIETARY FUND - WATER, WASTEWATER AND REFUSE COLLECTION

June 30, 2020

ASSETS

Current assets

Receivables, net	\$ 643,161
Intergovernmental receivables	68,880
Due from other funds	<u>4,007,560</u>
Total current assets	<u>4,719,601</u>

Noncurrent assets

Restricted cash and cash equivalents	6,730,410
Other	27,147
Net capital assets	<u>31,135,693</u>
Total noncurrent assets	<u>37,893,250</u>

Total assets \$ 42,612,851

LIABILITIES

Current liabilities

Accounts payable	\$ 281,569
Accrued interest payable	48,766
Other liabilities	35,322
Current portion of long-term debt	<u>332,181</u>
Total current liabilities	<u>697,838</u>

Noncurrent liabilities

Long-term debt, net of current portion	6,206,102
Compensated absences	17,284
Other noncurrent liabilities	<u>66,854</u>
Total noncurrent liabilities	<u>6,290,240</u>

Total liabilities 6,988,078

NET POSITION

Net investment in capital assets	
Restricted	24,597,410
Impact fees	6,730,410
Unrestricted	<u>4,296,953</u>
Total net position	<u>35,624,773</u>

Total liabilities and net position \$ 42,612,851

See accompanying notes

THE COMMISSIONERS OF LEONARDTOWN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION PROPRIETARY FUND - WATER, WASTEWATER AND REFUSE COLLECTION

For the year ended June 30, 2020

OPERATING REVENUES	
Water service charges	\$ 535,882
Sewer service charges	1,024,200
Refuse collection charges	857,493
Operating grant from MDE	30,000
Metcomm service fees	144,644
Late charges/fees collected	<u>8,268</u>
Total operating revenues	<u>2,600,487</u>
OPERATING EXPENSES	<u>2,295,614</u>
Operating income before depreciation	304,873
DEPRECIATION	<u>1,674,287</u>
Operating loss	<u>(1,369,414)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	154,382
Interest expense	(142,748)
Metcomm debt service reimbursement	<u>95,524</u>
Total nonoperating revenues (expenses)	<u>107,158</u>
Loss before capital contributions	<u>(1,262,256)</u>
CAPITAL CONTRIBUTIONS	
Impact fees	1,698,200
Capacity allocation fees	<u>186,124</u>
Total capital contributions	<u>1,884,324</u>
CHANGE IN NET POSITION	622,068
Total net position - beginning	<u>35,002,705</u>
Total net position - ending	<u>\$ 35,624,773</u>

See accompanying notes

THE COMMISSIONERS OF LEONARDTOWN

STATEMENT OF CASH FLOWS PROPRIETARY FUND - WATER, WASTEWATER AND REFUSE COLLECTION

For the year ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 2,522,149
Payments to suppliers	(1,662,140)
Payments to employees	(595,628)
Late charges/fees collected	<u>8,268</u>
Net cash provided by operating activities	<u>272,649</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Net cash paid to other funds	(896,808)
Receipts payable to third parties	<u>2,383</u>
Net cash used for noncapital financing activities	<u>(894,425)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(175,688)
Capital contribution	
Capacity allocation fees	186,124
Impact fees	1,698,200
Metcomm debt service reimbursement	68,513
Principal paid on capital debt	(326,308)
Interest paid on capital debt	<u>(145,182)</u>
Net cash provided by capital and related financing activities	<u>1,305,659</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>154,382</u>
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Net increase in cash and cash equivalents 838,265

Beginning of year 5,892,145

End of year \$ 6,730,410

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (1,369,414)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	1,674,287
(Increase) decrease in	
Accounts receivable	(70,450)
Other receivables	(2,859)
Increase (decrease) in	
Accounts payable and accrued expenses	<u>41,085</u>
Net cash provided by operating activities	<u>\$ 272,649</u>

See accompanying notes

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Commissioners of Leonardtown (the "**Town**") is a municipal corporation governed by an elected mayor and five-member council ("**Town Council**"). The Town provides most basic local governmental services except education, which is provided through the St. Mary's County Board of Education.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all non-fiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and the proprietary fund. The General Fund and Capital Projects Fund are major funds and reported in separate columns. The other governmental fund column represents the single remaining special revenue fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The financial statements of the Town are prepared in accordance with U.S. generally accepted accounting principles ("**GAAP**") as applicable to governments.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, there is one exception to this policy. In cases of reimbursement grants, revenues are recognized when eligible expenditures are made. This policy allows revenue to be recognized in the same period as the grant expenditures. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, health reimbursement claims, and claims and judgments, are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, taxes collected by the state and county on behalf of the Town, franchise taxes, revenue from other agencies, charges for services and interest revenue. Licenses, permits, penalties and interest (on property taxes) and other revenues become measurable and available when cash is received by the Town and are recognized as revenue at that time.

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

The Town has two major governmental funds, the General Fund and the Capital Projects Fund. The General Fund is used to account for all activities of the government not accounted for in some other fund. The General Fund accounts for the normal recurring activities of the Town such as general government, community development, planning and zoning, law enforcement, public works and recreation and parks. These activities are financed primarily by property taxes, other taxes, service charges, and grants from other governmental units.

The Capital Projects Fund is used to account for all financial resources used for acquisition or construction of major capital facilities not financed by the Proprietary Fund. Transfers are used to move unrestricted revenues collected in the General Fund for use in the Capital Projects Fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, *general revenues* include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses result from providing services and delivering goods in connection with the fund's principal ongoing operations such as charges to customers for services and expenses such as salaries, product costs, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town operates one proprietary fund which accounts for water, wastewater and refuse collection services provided to users.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first then unrestricted resources as they are needed.

Assets, Liabilities, and Net Position or Equity

Deposits and Investments

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. All Town cash receipt and disbursement transactions are initiated in the General Fund, and amounts applicable to other funds are transferred through the respective interfund receivable and payable accounts.

Statutes authorize the Town to invest in obligations of the United States government, its agencies or instrumentalities, certificates of deposit, prime banker's acceptances, investment grade obligations of state and local governments and public authorities, certain money market mutual funds, savings and loan association deposits, and the Maryland Local Government Investment Pool.

For purposes of the Statement of Cash Flows, the proprietary fund type considers all highly liquid investments (including restricted assets) with a remaining maturity of three months or less when purchased to be cash equivalents.

Restricted cash and investments consist of water and sewer impact fees collected by the Town but not yet expended for certain capital improvements.

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Receivables and Payables

Trade and property taxes receivables are generally fully collectible due to the Town's ability to put a lien on property for past due amounts. During FY20 there were no utility customers that required write off of uncollectible amounts.

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Restricted Net Assets

Impact fees collected for new water and sewer connections are classified as restricted on the Statement of Net Position because they are maintained in separate investment accounts, and their use is limited by ordinance to growth related projects.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, storm drains and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. General infrastructure assets include all roads and other infrastructure assets acquired subsequent to June 30, 2003. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or extend asset lives are not capitalized. Expenditures for major assets and improvements are capitalized as projects are constructed.

Exhaustible capital assets of the General Fund and Proprietary Fund are depreciated, which is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method. Estimated useful lives are generally as follows:

Buildings and improvements	5 - 50 years
Wastewater and collection systems	15 - 50 years
Water systems	15 - 50 years
Equipment and vehicles	5 - 20 years

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position.

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick leave. 100 percent of vacation pay and sick leave balances in excess of 960 hours are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Each employee may carry over a maximum of 80 hours vacation leave at the end of each fiscal year. Payments for unused sick leave are limited to a total of 480 hours. At June 30, 2020, compensated absences totaled \$81,438.

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Health Reimbursement Account Contributions

It is the Town's policy to permit employees to accumulate contributions made by the Town to their individual health reimbursement accounts. All health reimbursement contributions are accrued when incurred in the government wide, proprietary fund and budgetary basis financial statements. Governmental fund financial statements report these expenses as claims are made and classify unspent health reimbursement balances as assigned fund balance. At June 30, 2020, this liability was \$48,832.

Fund Equity

The government-wide and business-type activities fund financial statements utilize a net position presentation. Net investment in capital assets, restricted and unrestricted.

- **Net investment in capital assets** – This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- **Restricted net position** – This category presents external restrictions imposed by creditors, grantors, or laws and regulations of other governments.
- **Unrestricted net position** – This category presents the net position of the Town, not restricted for any purpose.

In the fund financial statements, fund balance is reported in five classifications. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are as follows:

- **Nonspendable** – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.
- **Restricted** – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditor, grantors, contributors, or laws and regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.
- **Committed** – The committed fund balance classification includes amounts that can be used only for specific purposes imposed by formal action of the Town Council set in place prior to the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action it employed to previously commit those balances.
- **Assigned** – The assigned fund balance classification reflects the intended use of resources for specific purposes but do not meet the criteria to be classified as restricted or committed. These assignments are primarily established by the Town Council, but the Council may also choose to delegate that authority to another body or official.
- **Unassigned** – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in other classifications. In the special revenue fund, the unassigned classification is used only to report a deficit balance.

In the absence of a formal policy, the Town shall use the following hierarchy for spending resources: restricted fund balances shall be used first, followed in order by committed, assigned and then unassigned.

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Use of Estimates

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

(B) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The Mayor and Town Council follow these procedures in establishing the budget data reflected in the financial statements:

- 1) Prior to May 20th of any fiscal year, the Mayor shall have prepared a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures at the department level and the means of financing them.
- 2) A public hearing is conducted to obtain taxpayer comments.
- 3) The budget is adopted through a majority vote by the Town Council prior to June 30.
- 4) All budget amendments between funds and/or categories must be submitted to the Mayor and Council for approval. The Treasurer is authorized to approve budget amendments within categories.
- 5) Formal budgetary integration is employed as a management control device during the year for the General Fund.
- 6) Appropriations not spent or encumbered lapse at the end of the fiscal year.
- 7) Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except for the following:
 - the inclusion of the full property tax levy as revenue
 - the inclusion of encumbrances as expenditures
 - the exclusion of changes in the year end salary accrual
 - the inclusion of unspent contributions to employee health reimbursement accounts

Budget comparisons in this report are on a non-GAAP budgetary basis.

- 8) The budgeted amounts included in the Town's financial statements are as originally adopted, or as amended and approved by Town Council.

Reconciliation of Revenues and Expenditures – Budgetary Basis and GAAP Basis

The General Fund statement of revenues, expenditures, and encumbrances, budget and actual (non-GAAP budgetary basis) includes a reconciliation between *the excess (deficiency) of revenues over expenditures and encumbrances* and *the excess (deficiency) of revenues over expenditures – GAAP basis* as reported in the governmental funds financial statement. Property taxes and other revenues collected more than 60 days past year end are deferred in the fund financial statements. Salaries due but unpaid at year end are accrued in the fund financial statements. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the budgetary basis statements. Commitments for unspent employee health reimbursement account ("**HRA**") contributions receive similar treatment. Encumbrances and HRA balances outstanding at year-end do not constitute expenditures or liabilities in the fund financial statements because the commitments will be honored during the subsequent year(s).

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Revenues – budgetary basis	\$1,826,593
Change in property tax deferral	1,805
Change in interest income deferral	850
Change in highway user deferral	<u>(33,006)</u>
Revenues – GAAP basis	<u>\$1,796,242</u>
Expenditures – budgetary basis	\$1,720,039
To adjust for salary accrual	6,834
To adjust for encumbrances	(30,107)
To adjust for future health reimbursement claims	<u>237</u>
Expenditures – GAAP basis	<u>\$1,697,003</u>

(C) DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits is the risk that, in the event of bank failure, the Town's deposits might not be recovered. At year-end the Town was in compliance with state law which requires that deposits with financial institutions by local government units be fully collateralized.

At year-end, the carrying amount of the Town's deposits was \$21,820 and the bank balance was \$148,861. The bank balance and certificates of deposit balance were fully covered by \$250,000 of federal depository insurance and an additional \$1,628,352 (market value at June 30, 2020) in securities pledged as collateral held by the Bank's agent in the Bank's name.

The Town's investments at June 30, 2020 are shown below.

	<u>Carrying Amount</u>	<u>Fair Value</u>
Investment in Maryland Local Government Investment Pool	\$11,119,694	\$11,119,694
Certificates of deposit	\$ 643,036	\$ 643,036

The Maryland Local Government Investment Pool ("**MLGIP**") is managed by PNC Capital Advisors, LLC and administered by the State Treasurer. MLGIP is rated AAAM by Standard and Poors (its highest rating for money market funds). The MLGIP seeks to maintain a constant unit value of \$1.00. Unit value is computed using the amortized cost method. In addition, the net asset value of the Pool, marked to market, is calculated and maintained on a daily basis to ensure a \$1.00 per unit constant value.

At June 30, 2020 approximately 61% of the MLGIP balance is reported in the Proprietary Fund. Investment income earned on those accounts is reported in the Proprietary Fund. The remainder of the MLGIP balance is reported in the General Fund and, along with several other cash accounts, represents commingled cash balances utilized for receipts and disbursements for all funds. For FY20, investment income of \$54,276 was assigned to the Proprietary Fund.

(D) PROPERTY TAX

Real property taxes are levied, due and payable on July 1 of each fiscal year with levies based on assessments as certified by the State of Maryland Department of Assessments and Taxation. On October 1, such taxes are overdue and in arrears, at which time a penalty of 3 percent is assessed and interest begins accruing at 1 percent for each month property taxes are delinquent. In accordance with local law, property with delinquent taxes must be sold following state-provided procedures or by local tax sale. Delinquent taxes are collected, after the eighteenth month of delinquency, by tax sales conducted by St. Mary's County.

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(E) CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 4,899,561	\$ -	\$ -	\$ 4,899,561
Construction in progress	<u>33,171</u>	<u>7,715</u>	<u>33,171</u>	<u>7,715</u>
Total capital assets, not being depreciated	<u>4,932,732</u>	<u>7,715</u>	<u>33,171</u>	<u>4,907,276</u>
Capital assets being depreciated				
Buildings and improvements	2,272,514	-	206,114	2,066,400
Improvements other than buildings	5,123,284	473,882	-	5,597,166
Streets and infrastructure	14,744,483	-	-	14,744,483
Machinery and equipment	<u>136,496</u>	<u>-</u>	<u>-</u>	<u>136,496</u>
Total capital assets being depreciated	<u>22,276,777</u>	<u>473,882</u>	<u>206,114</u>	<u>22,544,545</u>
Accumulated depreciation				
Buildings and improvements	(482,148)	(73,783)	(55,650)	(500,281)
Improvements other than buildings	(2,184,680)	(225,480)	-	(2,410,160)
Streets and infrastructure	(2,303,339)	(378,543)	-	(2,681,882)
Machinery and equipment	<u>(99,685)</u>	<u>(10,927)</u>	<u>-</u>	<u>(110,612)</u>
Total accumulated depreciation	<u>(5,069,852)</u>	<u>(688,733)</u>	<u>(55,650)</u>	<u>(5,702,935)</u>
Total capital assets being depreciated, net	<u>17,206,925</u>	<u>(214,851)</u>	<u>150,464</u>	<u>16,841,610</u>
Governmental activities capital assets, net	<u>\$ 22,139,657</u>	<u>\$ (207,136)</u>	<u>\$ 183,635</u>	<u>\$ 21,748,886</u>
<u>Business-Type Activities</u>				
Capital assets not being depreciated				
Land	\$ 23,051	\$ -	\$ -	\$ 23,051
Construction in progress	<u>399,806</u>	<u>172,462</u>	<u>357,374</u>	<u>214,894</u>
Total capital assets not being depreciated	<u>422,857</u>	<u>172,462</u>	<u>357,374</u>	<u>237,945</u>
Capital assets being depreciated				
Buildings and improvements	32,030,172	-	7,818	32,022,354
Infrastructure	12,358,042	415,654	-	12,773,696
Machinery and equipment	<u>837,459</u>	<u>-</u>	<u>-</u>	<u>837,459</u>
Total capital assets being depreciated	<u>45,225,673</u>	<u>415,654</u>	<u>7,818</u>	<u>45,633,509</u>
Accumulated depreciation				
Buildings and improvements	(8,266,612)	(1,337,499)	(7,818)	(9,596,293)
Infrastructure	(4,283,091)	(289,558)	-	(4,572,649)
Machinery and equipment	<u>(519,589)</u>	<u>(47,230)</u>	<u>-</u>	<u>(566,819)</u>
Total accumulated depreciation	<u>(13,069,292)</u>	<u>(1,674,287)</u>	<u>(7,818)</u>	<u>(14,735,761)</u>
Total capital assets being depreciated, net	<u>32,156,381</u>	<u>(1,258,633)</u>	<u>-</u>	<u>30,897,748</u>
Business-type activities capital assets, net	<u>\$ 32,579,238</u>	<u>\$ (1,086,171)</u>	<u>\$ 357,374</u>	<u>\$ 31,135,693</u>

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

Governmental activities	
General government	\$ 37,446
Community development	5,836
Public works	388,777
Recreation and parks	<u>256,674</u>
Total depreciation expense – governmental activities	<u>\$ 688,733</u>
Business-type activities	
Water	\$ 186,622
Wastewater	<u>1,487,665</u>
Total depreciation expense – business-type activities	<u>\$1,674,287</u>

(F) LONG-TERM LIABILITIES

Changes in long-term obligations for the year ended June 30, 2020, are as follows:

	<u>Balance at July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2020</u>	<u>Due Within One Year</u>
Governmental Activities					
Notes from direct borrowings	<u>\$1,109,579</u>	<u>\$ -</u>	<u>\$(261,311)</u>	<u>\$ 848,268</u>	<u>\$ 80,130</u>
Business-Type Activities					
Note from-direct borrowing	<u>\$6,864,591</u>	<u>\$ -</u>	<u>\$(326,308)</u>	<u>\$6,538,283</u>	<u>\$332,181</u>

The Town's one remaining outstanding note from direct borrowings related to governmental activities of \$848,268 contains a provision that in the event of default, outstanding amounts become immediately due and payable.

The Town's outstanding note from the direct borrowing related to business-type activities of \$6,538,283 contains a provision that in the event of default, outstanding amounts become immediately due and payable.

Debt service requirements on long-term debt at June 30, 2020, are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Note from direct borrowing</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 80,130	\$ 28,412	\$ 332,181	\$ 117,689
2022	82,979	25,562	338,161	111,710
2023	85,931	22,611	344,247	105,623
2024	88,987	19,554	350,444	99,426
2025	92,152	16,390	356,752	93,119
2026-2030	418,089	3,589	1,882,426	366,926
2031-2035	-	-	2,058,054	191,298
2036-2037	<u>-</u>	<u>-</u>	<u>876,018</u>	<u>23,723</u>
Total	<u>\$848,268</u>	<u>\$116,118</u>	<u>\$ 6,538,283</u>	<u>\$1,109,514</u>

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

During the year ended June 30, 2020, the following changes occurred in other long-term liabilities reported for governmental and business-type activities:

	<u>Balance at July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2020</u>	<u>Due Within One Year</u>
Governmental Activities					
Health reimbursement obligations	\$ 9,441	\$ -	\$ (237)	\$ 9,204	\$ 9,204
Compensated absences	<u>49,918</u>	<u>14,236</u>	<u>-</u>	<u>64,154</u>	<u>64,154</u>
	<u>\$59,359</u>	<u>\$14,236</u>	<u>\$ (237)</u>	<u>\$73,358</u>	<u>\$73,358</u>
Business-Type Activities					
Customer deposits	\$25,868	\$ 5,786	\$(4,428)	\$27,226	\$ -
Health reimbursement obligations	36,005	3,623	-	39,628	39,628
Compensated absences	<u>12,340</u>	<u>4,944</u>	<u>-</u>	<u>17,284</u>	<u>17,284</u>
	<u>\$74,213</u>	<u>\$14,353</u>	<u>\$(4,428)</u>	<u>\$84,138</u>	<u>\$56,912</u>

(G) INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables, which are for temporary balances between funds where cash is pooled, consisted of the following at June 30, 2020:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 20,680	\$4,007,560
Other Governmental Fund	-	20,680
Proprietary Fund	<u>4,007,560</u>	<u>-</u>
	<u>\$4,028,240</u>	<u>\$4,028,240</u>

(H) DEFERRED INFLOWS OF RESOURCES

At year end, the Town reported \$50,398 as a deferred inflow of resources. Deferred inflows are not to be confused with liabilities but represent acquisition of net position by the Town that is applicable to a future reporting period. At June 30, 2020, the detail of deferred inflows of resources is:

Deferred property tax revenue	\$ 2,878
Deferred highway tax user revenue	41,363
Deferred interest income	<u>6,157</u>
	<u>\$50,398</u>

(I) FUND BALANCE

The Commissioners of Leonardtown complies with Governmental Accounting Standards Board ("**GASB**") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which sets forth guidance on classifying and reporting fund balances for governmental funds. The following categories are reported in the General Fund.

Nonspendable fund balance of \$2,231 represents amounts prepaid in FY20 that cover services that will be provided in FY21.

Restricted fund balance of \$137,567 must be used for road maintenance projects.

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Assigned fund balance of \$106,252 is comprised of the following:

Parking fees-in-lieu	\$ 52,800
HRA liabilities	9,204
War memorials maintenance	6,468
Encumbrances	<u>37,780</u>
	<u>\$106,252</u>

(J) DEFICIT FUND EQUITY

The special revenue fund had a deficit fund balance of \$20,680 as of June 30, 2020. This special revenue fund accounts for activity related to the Chesapeake Bay Critical Area Grant received annually from The State of Maryland. The deficit represents the matching Town appropriations not transferred from the General Fund for the last several years. The Town plans to transfer funds from the General Fund and close the fund when this grant is no longer available.

(K) DEFERRED COMPENSATION PLAN

The Town has a deferred compensation plan available to all Town employees which is established in accordance with the Internal Revenue Code section 457. A deferred compensation plan offers employees an opportunity to defer a portion of their wages, along with the related federal and state income tax, until future years. For eligible employees, the Town contributes an amount equal to 5% of an employee's salary. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is administered by the ICMA Retirement Corporation. The Town's only responsibility is to withhold the amounts from employees' payroll and forward those amounts and the Town's contribution to the plan administrator. Total expense incurred by the Town was \$44,491, and total employee contributions were \$47,582 for the year ended June 30, 2020.

The plan administrator has the responsibility for investing the deferred monies, maintaining detailed accounting records for both the individual employee and the Town, and disbursing funds to plan participants. Generally, the plan assets, including all income earned and rights purchased, are the exclusive property of the participants and are not assets of the Town. The only exception to this occurs when employees do not complete one year of service with the Town. In those cases, all Town contributions, including income earnings, are returned to the Town directly from the plan administrator.

(L) HEALTH REIMBURSEMENT ACCOUNT

All full time Town employees are eligible for health insurance coverage through the Town's small group plan. The Town is responsible for paying 80% of the plan premium for each employee. Effective June 1, 2020, the Town renewed its single-employer health insurance and Health Reimbursement Account ("**HRA**") plan. A HRA is an IRS approved, employer funded defined contribution plan account that can be used to pay for qualified medical expenses for the employee or his/her dependents.

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

As part of the annual budget approval process, the Town Council sets the annual contribution to each eligible employee's HRA account. The medical plan for individual coverage has a \$1,500 annual deductible; all other plans have a \$3,000 annual deductible. For FY20, the town contribution to each HRA account was approved at \$1,500 per participating employee. There are seven active employees and two inactive employees covered by the plan. The Town's contribution is available to each employee on the first day of the plan year. Unspent funds accumulate for each employee without expiration. Employees separating from service are allowed to access their HRA accounts and continue to make reimbursement claims for qualified medical expenses. The total contribution to employee accounts was \$10,500 for the year ended June 30, 2020. All health reimbursement contributions are accrued when incurred in the government wide, proprietary fund and budgetary basis financial statements. Governmental fund financial statements report these expenses as claims are made and unspent health reimbursement balances fall in the *assigned* fund balance category. Claims totaling \$7,115 were reimbursed before June 30, 2020. The remainder carries over to future years and is recorded as a liability in the government wide statement of net position. The total HRA plan liability at June 30, 2020 is \$48,832.

The third-party plan administrator, further, has the responsibility for managing employee health reimbursement accounts, ensuring claims are valid and in accordance with Internal Revenue Code Section 213(d) and reimbursing employees when claims are made.

(M) METCOMM AGREEMENT

The Town has entered into an agreement with St. Mary's County Metropolitan Commission whereby certain areas outside the Town's jurisdiction receive sewer service from Leonardtown rather than from the County. In exchange, the Metropolitan Commission ("*Metcomm*") is billed its pro-rata share of operating and debt service costs. In the current year, Leonardtown earned \$144,644 of operational reimbursement and \$95,524 of debt service reimbursement based on the aforementioned agreement. As the Town makes debt service payments on the Maryland Water Quality Financing Loan for the ENR project, Metcomm reimburses the Town its proportionate share of the debt service. Of the \$7,500,000 approved loan amount, Metcomm's share of the original principal balance was \$1,514,121 or 20%.

(N) 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 related disasters. The Town is a member of the Local Government Insurance Trust sponsored by the Maryland Municipal League (MML), and the Maryland Association of Counties. The LGIT is a self-insured public entity risk pool offering general liability, excess liability, business auto liability, police legal liability, public official liability, environmental liability, and property coverage. The Town utilizes LGIT for its liability coverages. Commercial policies for property, flood, and employee bond coverages are purchased from private insurance companies.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessments. The trust is owned by the participating counties, cities, and towns and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of annual premiums. Settled claims, if any, resulting from these risks have not exceeded commercial insurance coverage for the current year or the three prior years.

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(O) CONDUIT DEBT

On February 13, 2017, The Commissioners of Leonardtown approved Resolution 1-17 authorizing the Town, as a conduit borrower, to issue and sell economic development revenue bonds in an amount not to exceed \$24,000,000 and to loan the proceeds to St. Mary's Ryken Inc. These bonds were issued pursuant to the provisions of the Maryland Economic Development Revenue Bond Act and are to be used by St. Mary's Ryken to refund a previously outstanding bond and finance additional improvements to its high school campus. These bonds are limited obligations of the Town and are not considered debts against the general credit or taxing powers of the Town. At June 30, 2020, the outstanding principal balance was \$17,337,196.

(P) COMMITMENTS AND CONTINGENCIES

On July 8, 2019, the Town Council awarded a contract to Mahan Rykiel Associates, Inc. to provide consulting services for the implementation phase of the approved Leonardtown Downtown Plan. This contract value is not to exceed \$27,410. At June 30, 2020, the balance remaining on this contract is \$5,382.

On January 13, 2020, the Town Council approved Task Order #20 with GHD to provide design services for a new elevated water tower that will be constructed in the northern section of Town. The amount of this task order is \$225,000, and the balance remaining to be paid after June 30, 2020 is \$82,449.

On April 13, 2020, the Town Council approved Task Order #18 with GHD to provide design services for an expansion of the Leonardtown wastewater treatment plant to a capacity of 1 million gallons per day. The amount of this task order is \$934,775, and the balance remaining to be paid after June 30, 2020 is \$904,864.

On May 11, 2020, the Town Council awarded two contracts for roof repairs to be completed at Town Hall and on the sludge building roof at the wastewater treatment plant. Centennial Contractors will complete the roof repairs in the amounts of \$37,779.88 and \$38,271.98 respectively. None of this work was completed prior to June 30, 2020.

Leonardtown Recreation, Inc. ("**LRI**") is an inactive component unit of the Town. LRI was organized exclusively for non-profit and public purposes. The mission of the corporation is to relieve the government in providing and promoting recreational facilities. As part of that mission, LRI executed contracts with various contractors relating to the design, engineering, and construction of a golf course and conference center on the public portion of what is currently called the Tudor Hall Project. As of June 30, 2020, services valued at approximately \$1,600,000 were rendered under these contracts. The contracts stipulate that LRI will have no obligation to pay any amounts unless financing (bonds, grants, or loans) is obtained to proceed with the project. As of the date of these financial statements, financing has not been received.

The Town receives financial assistance from the State of Maryland in the form of grants. Expenditures from certain grants are subject to audit by the grantor, and the Town is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the Town's management, no material refunds will be required as a part of disallowed expenditures.

(Q) TAX ABATEMENT

On February 13, 2017, the Town Council approved an agreement with TSG Leonardtown LLC ("**TSG**") which sets out certain financial commitments from the Town and certain infrastructure improvements to be completed by TSG. Using its legislative powers as granted in Sections 201 and 501(25) of the Leonardtown Charter, this agreement stipulates that Leonardtown real property taxes will be abated in full each year until the total abatement reaches \$125,000. The first property tax abatement occurred in FY2018. The abatement for FY2020 was \$13,193. It is expected this property will not be required to pay property taxes until FY2026.

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(R) SUBSEQUENT EVENTS

Subsequent events and transactions were evaluated for potential recognition in the financial statements through October 20, 2020 which is the date the financial statements were available to be issued.

No additional disclosures are required.

SUPPLEMENTAL INFORMATION

THE COMMISSIONERS OF LEONARDTOWN

**SCHEDULE OF REVENUES AND OTHER FINANCING RESOURCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND**

For the year ended June 30, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
TAXES			
Local property			
Real property	\$ 619,000	\$ 642,841	\$ 23,841
Public utilities	18,000	18,400	400
Penalties and interest	2,300	3,067	767
Less: discount allowed	<u>(2,500)</u>	<u>(2,330)</u>	<u>170</u>
Total property taxes	<u>636,800</u>	<u>661,978</u>	<u>25,178</u>
INCOME TAXES	<u>583,000</u>	<u>720,793</u>	<u>137,793</u>
OTHER LOCAL TAXES			
Admissions and amusement	<u>1,000</u>	<u>1,141</u>	<u>141</u>
TAXES - STATE SHARED			
Highway users	<u>181,162</u>	<u>186,378</u>	<u>5,216</u>
Total taxes	<u>1,401,962</u>	<u>1,570,290</u>	<u>168,328</u>
LICENSES AND PERMITS			
Beer, wine and liquor	12,500	13,559	1,059
Traders	14,000	13,437	(563)
CATV franchise	27,000	31,775	4,775
Building, occupancy and sign permits	<u>32,200</u>	<u>64,283</u>	<u>32,083</u>
Total licenses and permits	<u>85,700</u>	<u>123,054</u>	<u>37,354</u>
INTERGOVERNMENTAL			
County tax rebate	43,487	43,487	-
Accomodation tax	14,000	-	(14,000)
Law enforcement grant	<u>13,246</u>	<u>13,090</u>	<u>(156)</u>
Total intergovernmental	<u>70,733</u>	<u>56,577</u>	<u>(14,156)</u>
CHARGES FOR SERVICES			
Event fees	2,500	2,282	(218)
Zoning and subdivision fees	<u>1,500</u>	<u>700</u>	<u>(800)</u>
Total charges for services	<u>4,000</u>	<u>2,982</u>	<u>(1,018)</u>

THE COMMISSIONERS OF LEONARDTOWN

**SCHEDULE OF REVENUES AND OTHER FINANCING RESOURCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND**

For the year ended June 30, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
MISCELLANEOUS REVENUE			
Community Legacy grant	50,000	27,000	(23,000)
Arts and Entertainment grant	10,000	15,000	5,000
Grants for events	4,100	4,100	-
Other grants	10,300	8,490	(1,810)
Interest	30,000	17,333	(12,667)
Miscellaneous	<u>25,909</u>	<u>1,767</u>	<u>(24,142)</u>
Total miscellaneous revenue	<u>130,309</u>	<u>73,690</u>	<u>(56,619)</u>
Total revenues	<u>1,692,704</u>	<u>1,826,593</u>	<u>133,889</u>
OTHER FINANCING SOURCES			
Appropriation of prior year fund balance	<u>43,863</u>	<u>-</u>	<u>(43,863)</u>
SPECIAL ITEM			
Proceeds from sale of real estate	<u>168,680</u>	<u>181,535</u>	<u>12,855</u>
Total revenues, other financing sources and special item	<u>\$ 1,905,247</u>	<u>\$ 2,008,128</u>	<u>\$ 102,881</u>

THE COMMISSIONERS OF LEONARDTOWN

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND

For the year ended June 30, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
GENERAL GOVERNMENT			
Salaries	\$ 231,788	\$ 227,056	\$ 4,732
Payroll taxes and benefits	54,374	54,965	(591)
Accounting services	19,500	19,500	-
Legal counsel	10,000	3,423	6,577
Election expenses	600	251	349
Other professional services	33,500	29,506	3,994
Occupancy expense	-	208	(208)
Insurance and bond	17,000	14,085	2,915
Building maintenance	11,000	8,547	2,453
Office supplies	12,581	9,380	3,201
Postage	6,200	4,433	1,767
Equipment maintenance	3,500	2,085	1,415
Utilities	18,240	16,739	1,501
Travel, meetings and training	16,450	2,697	13,753
Dues and memberships	5,500	5,138	362
Public notices	1,000	725	275
Hospitality	5,100	5,724	(624)
Lease payments	876	876	-
Other operating expenses	1,500	1,733	(233)
Payments to other agencies	750	750	-
Debt service	293,784	293,784	-
Capital outlay	64,845	43,004	21,841
Total general government	<u>808,088</u>	<u>744,609</u>	<u>63,479</u>
COMMUNITY DEVELOPMENT			
Salaries	85,913	90,915	(5,002)
Payroll taxes and benefits	17,098	17,450	(352)
Façade Grant expenses	50,000	27,000	23,000
Arts and entertainment district	3,257	6,548	(3,291)
Beach party	6,100	5,750	350
Tree lighting	5,400	4,860	540
Veteran's Day parade	4,250	3,181	1,069
Concerts on the square	2,550	2,614	(64)
Earth Day	2,875	2,975	(100)
Boat Races	1,500	1,500	-
Public relations/promotions	1,350	443	907
Other operating expenses	20,394	18,361	2,033
Capital outlay	11,200	10,106	1,094
Total community development	<u>211,887</u>	<u>191,703</u>	<u>20,184</u>

THE COMMISSIONERS OF LEONARDTOWN

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND

For the year ended June 30, 2020

	Final Budget	Actual	Variance Favorable (Unfavorable)
PLANNING AND ZONING			
Salaries	79,811	79,331	480
Payroll taxes and benefits	16,021	16,059	(38)
Legal counsel	2,500	4,218	(1,718)
Professional services	27,410	22,043	5,367
Office supplies	750	1,104	(354)
Other operating expenses	1,000	461	539
Total planning and zoning	<u>127,492</u>	<u>123,216</u>	<u>4,276</u>
PUBLIC SAFETY			
Salaries	13,849	13,793	56
Payroll taxes and benefits	4,332	4,286	46
Law enforcement	66,927	60,567	6,360
Fire department grant	1,000	1,000	-
Rescue squad grant	1,000	1,000	-
Other operating expenses	500	-	500
Capital outlay	1,500	-	1,500
Total public safety	<u>89,108</u>	<u>80,646</u>	<u>8,462</u>
PUBLIC WORKS			
Salaries	40,441	43,633	(3,192)
Payroll taxes and benefits	12,384	13,045	(661)
Professional services	1,750	-	1,750
Streets and street maintenance	113,670	101,565	12,105
Sidewalk/storm drain maintenance	25,000	50,732	(25,732)
Snow and ice removal	50,000	-	50,000
Street lighting	44,705	42,701	2,004
Street sweeping	41,232	37,152	4,080
Street signs and maintenance	2,500	3,600	(1,100)
Buildings and grounds	69,486	72,015	(2,529)
Other operating expenses	14,500	9,495	5,005
Capital outlay	9,213	9,884	(671)
Total public works	<u>424,881</u>	<u>383,822</u>	<u>41,059</u>
RECREATION AND PARKS			
Salaries	29,867	28,241	1,626
Payroll taxes and benefits	7,261	6,543	718
Facility maintenance	16,270	23,889	(7,619)
Utilities	6,000	4,741	1,259
Grounds maintenance	65,210	65,491	(281)
Other operating expenses	3,000	1,012	1,988
Capital outlay	67,965	66,126	1,839
Total recreation and parks	<u>195,573</u>	<u>196,043</u>	<u>(470)</u>
Total expenditures	<u>1,857,029</u>	<u>1,720,039</u>	<u>136,990</u>
OTHER FINANCING USES			
Transfers out	48,218	199,882	(151,664)
Total expenditures and other financing uses	<u>\$ 1,905,247</u>	<u>\$ 1,919,921</u>	<u>\$ (14,674)</u>

THE COMMISSIONERS OF LEONARDTOWN

**SCHEDULE OF OPERATING REVENUES AND EXPENSES BY SEGMENT
PROPRIETARY FUND**

For the year ended June 30, 2020

	<u>Wastewater Treatment Plant</u>	<u>Collection System</u>	<u>Water System</u>	<u>Refuse Collection</u>	<u>Total</u>
Operating revenues					
Water service charges	\$ -	\$ -	\$ 535,882	\$ -	\$ 535,882
Sewer service charges	1,024,200	-	-	-	1,024,200
Refuse collection charges	-	-	-	857,493	857,493
Metcomm service fees	144,644	-	-	-	144,644
MDE operating grant	30,000	-	-	-	30,000
Late charges/fees collected	5,513	-	1,049	1,706	8,268
Total operating revenues	<u>1,204,357</u>	<u>-</u>	<u>536,931</u>	<u>859,199</u>	<u>2,600,487</u>
Operating expenses					
Salaries	297,904	51,773	121,857	26,000	497,534
Payroll taxes and benefits	62,806	11,811	27,969	3,990	106,576
Engineering and consultants	2,179	1,473	8,637	-	12,289
Insurance	20,099	6,468	3,964	-	30,531
Facility maintenance	89,968	2,315	107,422	-	199,705
Line maintenance	-	28,811	90,420	-	119,231
Utilities	123,251	7,857	56,268	-	187,376
Materials and supplies	65,434	-	9,662	-	75,096
Lab analysis	26,124	-	1,116	-	27,240
Sludge management	120,846	-	-	-	120,846
Refuse collection contract	-	-	-	839,069	839,069
Other operating expenses	35,899	19,077	18,242	6,903	80,121
Total operating expenses	<u>844,510</u>	<u>129,585</u>	<u>445,557</u>	<u>875,962</u>	<u>2,295,614</u>
Operating income (loss) before depreciation	359,847	(129,585)	91,374	(16,763)	304,873
Depreciation	<u>1,342,287</u>	<u>145,378</u>	<u>186,622</u>	<u>-</u>	<u>1,674,287</u>
Operating loss	<u>\$ (982,440)</u>	<u>\$ (274,963)</u>	<u>\$ (95,248)</u>	<u>\$ (16,763)</u>	<u>\$ (1,369,414)</u>

THE COMMISSIONERS OF LEONARDTOWN

SCHEDULE OF REVENUES, EXPENSES AND OTHER FINANCING SOURCES BUDGET AND ACTUAL (BUDGETARY BASIS) - PROPRIETARY FUND

For the year ended June 30, 2020

	Wastewater Treatment Plant			Collection System			Water System			Refuse Collection		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenue												
Service charges	\$ 962,000	\$ 1,024,200	\$ 62,200	\$ -	\$ -	\$ -	\$ 496,000	\$ 526,109	\$ 30,109	\$ 811,741	\$ 856,110	\$ 44,369
Metcomm fees	248,001	230,322	(17,679)	-	-	-	-	-	-	-	-	-
MDE operating grant	30,000	30,000	-	-	-	-	-	-	-	-	-	-
Capacity allocation charges	-	96,428	96,428	-	-	-	-	89,696	89,696	-	-	-
Impact fees	-	1,469,000	1,469,000	-	-	-	-	229,200	229,200	-	-	-
Miscellaneous income	51,446	113,729	62,283	-	-	-	21,650	47,215	25,565	2,900	1,706	(1,194)
Total revenue	<u>1,291,447</u>	<u>2,963,679</u>	<u>1,672,232</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>517,650</u>	<u>892,220</u>	<u>374,570</u>	<u>814,641</u>	<u>857,816</u>	<u>43,175</u>
Expenses												
Salaries	295,466	294,451	1,015	50,227	50,750	(523)	137,037	121,473	15,564	27,854	26,000	1,854
Payroll taxes and benefits	60,178	62,806	(2,628)	10,249	11,811	(1,562)	31,332	27,969	3,363	4,235	3,990	245
Engineering/consultants	2,500	2,179	321	30,000	1,473	28,527	30,000	8,637	21,363	-	-	-
Insurance	21,000	20,099	901	6,600	6,468	132	4,000	3,964	36	-	-	-
Facility maintenance	66,819	60,238	6,581	17,544	2,315	15,229	18,591	47,497	(28,906)	-	-	-
Line maintenance	-	-	-	39,783	28,811	10,972	97,576	90,420	7,156	-	-	-
Utilities	144,000	112,095	31,905	12,500	7,857	4,643	55,000	56,268	(1,268)	-	-	-
Materials and supplies	70,254	65,434	4,820	1,344	-	1,344	11,849	9,662	2,187	-	-	-
Laboratory analysis	25,395	26,124	(729)	-	-	-	1,997	1,116	881	-	-	-
Sludge management	52,098	120,846	(68,748)	-	-	-	-	-	-	-	-	-
Debt service	471,490	471,490	-	-	-	-	-	-	-	-	-	-
Capital outlay	79,800	76,173	3,627	-	-	-	-	70,369	(70,369)	-	-	-
Contingency/reserve fund	94,406	-	94,406	57,555	-	57,555	108,262	-	108,262	-	-	-
Refuse collection contract	-	-	-	-	-	-	-	-	-	792,711	839,069	(46,358)
Other operating expenses	22,910	23,863	(953)	23,602	19,077	4,525	22,006	17,298	4,708	6,000	6,903	(903)
Total expenses	<u>1,406,316</u>	<u>1,335,798</u>	<u>70,518</u>	<u>249,404</u>	<u>128,562</u>	<u>120,842</u>	<u>517,650</u>	<u>454,673</u>	<u>62,977</u>	<u>830,800</u>	<u>875,962</u>	<u>(45,162)</u>
Excess (deficiency) of revenue over expenses	(114,869)	1,627,881	1,742,750	(249,404)	(128,562)	120,842	-	437,547	437,547	(16,159)	(18,146)	(1,987)
Other financing sources (uses)												
Appropriation of retained earnings	364,273	376,296	12,023	-	-	-	-	-	-	-	-	-
Transfer to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>364,273</u>	<u>376,296</u>	<u>12,023</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenue and other financing sources over expenses and other financing uses	<u>\$ 249,404</u>	<u>\$ 2,004,177</u>	<u>\$ 1,754,773</u>	<u>\$ (249,404)</u>	<u>\$ (128,562)</u>	<u>\$ 120,842</u>	<u>\$ -</u>	<u>\$ 437,547</u>	<u>\$ 437,547</u>	<u>\$ (16,159)</u>	<u>\$ (18,146)</u>	<u>\$ (1,987)</u>



**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**

**The Commissioners of Leonardtown
Leonardtown, 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 Commissioners of Leonardtown (the "**Town**"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 20, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BBD, LLP

**Philadelphia, Pennsylvania
October 20, 2020**