



The Commissioners of Leonardtown Leonardtown, Maryland

Financial Statements
Year Ended June 30, 2021



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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, 2021, 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, 2021, 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 26, 2021, 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 26, 2021

THE COMMISSIONERS OF LEONARDTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

June 30, 2021

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, 2021. Please read it in conjunction with the Town's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$58,925,246 (net position). Of this amount, \$4,964,295 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors, \$249,722 is restricted for future road maintenance, \$8,260,543 is restricted for future growth related projects (impact fees), and \$45,450,686 is invested in capital assets, net of related debt.
- During FY21, the Town's total net position increased by \$1,224,730. After adjusting for depreciation expense, *governmental activities* yielded an addition to net position of \$494,690. This large increase resulted from a significant excess of income tax revenue over budget, combined with certain maintenance and one-time capital items that were not completed or purchased before year end. After adjusting for depreciation expense, capital fees and donated capital assets, the *business type activities* yielded an addition to net position of \$108,781. The water and sewer departments yielded favorable operating results for FY21.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,580,503, an increase of \$382,418 from the prior year. Fund balance is reported in the following categories: \$231 is classified as *nonspendable* and represents prepayments for various services; \$249,722 is restricted for future road maintenance; \$327,628 is *assigned* for a number of specific purposes. The most significant portion of assigned fund balance (\$251,352) is to fund FY22 approved expenditures that are in excess of projected revenues. The next highest amount (\$52,800) is parking fee in lieu revenue collected in prior years that is assigned for future parking projects. Note I on page 29 provides a detailed accounting of the assigned portion of fund balance. The remaining \$1,002,922 is *unassigned* and available for spending and equals 54 percent of budgeted FY22 governmental funds operating expenditures.
- The increase in unassigned fund balance of \$50,887 in the governmental funds is exclusively tied to the surplus income tax receipts of \$185,194. Since a surplus was anticipated prior to the end of fiscal year 2021, the approved FY22 budget included using some of this surplus to fund one-time expenditures.

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 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.

THE COMMISSIONERS OF LEONARDTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

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.

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.

THE COMMISSIONERS OF LEONARDTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

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 \$58,925,246 at the close of the most recent fiscal year.

By far, the largest portion of the Town's net position (77 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 (14 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$4,964,295 may be used to meet the government's ongoing obligations to citizens and creditors.

The Commissioners of Leonardtown's Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 1,761,682	\$ 1,374,314	\$12,327,453	\$11,477,158	\$14,089,135	\$12,851,472
Capital assets	<u>21,059,355</u>	<u>21,748,886</u>	<u>31,348,741</u>	<u>31,135,693</u>	<u>52,408,096</u>	<u>52,884,579</u>
Total assets	<u>22,821,037</u>	<u>23,123,200</u>	<u>43,676,194</u>	<u>42,612,851</u>	<u>66,497,231</u>	<u>65,736,051</u>
Long-term debt outstanding	751,307	848,268	6,206,102	6,538,283	6,957,409	7,386,551
Other liabilities	<u>191,081</u>	<u>199,189</u>	<u>423,495</u>	<u>449,795</u>	<u>614,576</u>	<u>648,984</u>
Total liabilities	<u>942,388</u>	<u>1,047,457</u>	<u>6,629,597</u>	<u>6,988,078</u>	<u>7,571,985</u>	<u>8,035,535</u>
Net position						
Net investment in capital assets	20,308,048	20,900,618	25,142,638	24,597,410	45,450,686	45,498,028
Restricted	249,722	137,567	8,260,543	6,730,410	8,510,265	6,867,977
Unrestricted	<u>1,320,879</u>	<u>1,037,558</u>	<u>3,643,416</u>	<u>4,296,953</u>	<u>4,964,295</u>	<u>5,334,511</u>
Total net position	<u>\$21,878,649</u>	<u>\$22,075,743</u>	<u>\$37,046,597</u>	<u>\$35,624,773</u>	<u>\$58,925,246</u>	<u>\$57,700,516</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, 2021

The Commissioners of Leonardtown's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Revenues						
Program revenues						
Charges for service	\$ 62,308	\$ 67,352	\$ 2,751,955	\$ 2,657,743	\$ 2,814,263	\$ 2,725,095
Operating grants	264,773	221,459	30,000	30,000	294,773	251,459
Capital grants	24,298	275,329	3,004,938	1,884,324	3,029,236	2,159,653
General revenues						
Property taxes	698,451	661,978	-	-	698,451	661,978
Other taxes	946,380	753,709	-	-	946,380	753,709
Other	82,595	120,168	18,733	162,650	101,328	282,818
Total revenues	<u>2,078,805</u>	<u>2,099,995</u>	<u>5,805,626</u>	<u>4,734,717</u>	<u>7,884,431</u>	<u>6,834,712</u>
Expenses						
General government	564,184	508,742	-	-	564,184	508,742
Community development	226,619	190,453	-	-	226,619	190,453
Planning and zoning	117,038	124,715	-	-	117,038	124,715
Public safety	94,593	82,161	-	-	94,593	82,161
Public works	818,310	773,422	-	-	818,310	773,422
Parks and recreation	455,155	452,718	-	-	455,155	452,718
Water	-	-	643,230	632,179	643,230	632,179
Wastewater	-	-	2,809,656	2,604,508	2,809,656	2,604,508
Refuse	-	-	<u>930,916</u>	<u>875,962</u>	<u>930,916</u>	<u>875,962</u>
Total expenses	<u>2,275,899</u>	<u>2,132,211</u>	<u>4,383,802</u>	<u>4,112,649</u>	<u>6,659,701</u>	<u>6,244,860</u>
Change in net position	(197,094)	(32,216)	1,421,824	622,068	1,224,730	589,852
Net position - beginning 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>
Net position - end of year	<u>\$21,878,649</u>	<u>\$22,075,743</u>	<u>\$37,046,597</u>	<u>\$35,624,773</u>	<u>\$58,925,246</u>	<u>\$57,700,516</u>

Governmental Activities

Governmental activities decreased the Town's net position by \$197,094. Several elements contributed to this decrease. Depreciation of \$691,784 was offset by surplus income tax of \$185,194 and significant expenditure savings due to the timing of road maintenance projects (\$123,537) and delayed one-time capital outlay items (\$115,785).

Business-Type Activities

Business-type activities increased the Town's net position by \$1,421,824. Depreciation expense of \$1,691,895 was offset by favorable departmental operating results and the capital contributions detailed below.

- Capacity allocation fees of \$314,338 were collected.
- Impact fees of \$2,078,400 were collected.
- A capital asset valued at \$612,200 was also donated to the Town during FY21.

THE COMMISSIONERS OF LEONARDTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

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 \$1,580,503, an increase of \$382,418 in comparison to the prior year. Approximately 63 percent of this total amount (\$1,002,922) constitutes *unassigned* fund balance, which is available for spending at the government's discretion. The next largest component of fund balance is *assigned* for several specific purposes and totals \$327,628. The intended uses of this balance are detailed in Note I on page 29. \$249,722 of fund balance is restricted for future road maintenance. 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 \$1,023,602, while total fund balance increased to \$1,601,183. 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 55 percent of budgeted FY22 General Fund operating expenditures.

Total fund balance of the Town's General Fund increased by \$382,418 during the current fiscal year. As mentioned before, this increase resulted from the significant income tax revenue surplus of \$185,194 and the delayed timing of certain expenditures during FY21.

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 \$3,643,416. The total increase in net position for the fund was \$1,421,824. 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 \$43,182 over the original approved budget. The largest amendment (\$37,800) was to carryforward funding from FY20 to repair the roof at Town Hall.

During the year, revenues were significantly higher than budgetary estimates by \$225,878, and expenditures were \$192,838 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.
 - Half of the general fund departments yielded significant expenditure savings. In most cases, certain one-time capital items budgeted for FY21 were not purchased or completed by the end of the fiscal year. Some of those have been carried over to the current FY22 budget. 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. Details of all departmental results can be found in the supplemental reports found on pages 33 – 36.
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THE COMMISSIONERS OF LEONARDTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2021 amounts to \$52,408,096 (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 1 percent (a 3% decrease for governmental activities and a 1% increase for business-type activities).

Depreciation of \$2,383,679 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)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Land	\$ 4,899,561	\$ 4,899,561	\$ 221,718	\$ 23,051	\$ 5,121,279	\$ 4,922,612
Construction in progress	-	7,715	1,098,712	214,894	1,098,712	222,609
Buildings and improvements	1,498,520	1,566,119	21,092,666	22,426,061	22,591,186	23,992,180
Improvements other than buildings	2,962,260	3,187,006	-	-	2,962,260	3,187,006
Equipment	14,957	25,884	288,838	270,640	303,795	296,524
Infrastructure	<u>11,684,057</u>	<u>12,062,601</u>	<u>8,646,807</u>	<u>8,201,047</u>	<u>20,330,864</u>	<u>20,263,648</u>
Total capital assets	<u>\$21,059,355</u>	<u>\$21,748,886</u>	<u>\$31,348,741</u>	<u>\$31,135,693</u>	<u>\$52,408,096</u>	<u>\$52,884,579</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 \$6,957,409. \$6,206,102 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. \$751,307 is the balance of mortgage debt related to property acquisition at the Wharf Park.

The Town's total debt decreased by \$429,142.

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 remain robust. Clark's Rest continues to prosper and add new residents to Leonardtown. As of the end of the fiscal year 242 homes had been occupied. The total project includes 344 residential units, and a large storage facility was recently completed and open for business. The construction of the Hamptons apartment complex is complete, and most units are 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 47 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, 2021

- 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 FY22. 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, 2021, trash collection charges increased by 5 percent. The Council approved a final two year extension of the existing contract with Goode Companies. The increases in fuel and labor expenses drove this increase that was negotiated with the contractor.
- The continued residential growth and low unemployment rate of Leonardtown residents has shielded the Town from financial hardship due to the COVID-19 pandemic. Recent reporting from Maryland Governor Hogan indicates that state government finances are also in good order reducing the likelihood that state shared revenues will be significantly impacted for Leonardtown.
- The infusion of federal funds from the Coronavirus Aid, Relief and Economic Security Act (CARES) of 2020 and the American Rescue Plan Act ("ARPA") of 2021 have served to stabilize local government funding to ensure maintenance of services. Leonardtown has received its first allocation of ARPA funding in the amount of \$1,883,816. The next allocation in the same amount will be received in August of 2022. These funds have specific limitations on how they can be used. Given the magnitude of upcoming infrastructure projects, Council generally agrees that these funds should be allocated to construction of a new water tower and expansion of the waste water treatment plant.
- FY21 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.

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, 2021

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 638,846	\$ -	\$ 638,846
Investments	4,158,937	-	4,158,937
Receivables, net	39,599	678,339	717,938
Intergovernmental receivables	228,714	53,302	282,016
Internal balances	(3,304,644)	3,304,644	-
Noncurrent assets			
Restricted cash and investments	-	8,260,543	8,260,543
Other	230	30,625	30,855
Net capital assets	<u>21,059,355</u>	<u>31,348,741</u>	<u>52,408,096</u>
Total assets	<u>\$ 22,821,037</u>	<u>\$ 43,676,194</u>	<u>\$ 66,497,231</u>
LIABILITIES			
Accounts payable	\$ 114,696	\$ 247,981	\$ 362,677
Other liabilities	1,434	37,463	38,897
Accrued interest payable	-	46,289	46,289
Noncurrent liabilities			
Due within one year	158,529	394,118	552,647
Due in more than one year	<u>667,729</u>	<u>5,903,746</u>	<u>6,571,475</u>
Total liabilities	<u>942,388</u>	<u>6,629,597</u>	<u>7,571,985</u>
NET POSITION			
Net investment in capital assets	20,308,048	25,142,638	45,450,686
Restricted for			
Road maintenance	249,722	-	249,722
Impact fees	-	8,260,543	8,260,543
Unrestricted	<u>1,320,879</u>	<u>3,643,416</u>	<u>4,964,295</u>
Total net position	<u>21,878,649</u>	<u>37,046,597</u>	<u>58,925,246</u>
Total liabilities and net position	<u>\$ 22,821,037</u>	<u>\$ 43,676,194</u>	<u>\$ 66,497,231</u>

See accompanying notes

THE COMMISSIONERS OF LEONARDTOWN

STATEMENT OF ACTIVITIES

For the year ended June 30, 2021

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary Government							
Governmental activities							
General government	\$ 536,040	\$ -	\$ 11,898	\$ -	\$ (524,142)	\$ -	\$ (524,142)
Community development	226,619	1,728	32,956	24,298	(167,637)	-	(167,637)
Planning and zoning	117,038	60,580	1,500	-	(54,958)	-	(54,958)
Public safety	94,593	-	12,969	-	(81,624)	-	(81,624)
Public works	818,310	-	205,450	-	(612,860)	-	(612,860)
Recreation and parks	455,155	-	-	-	(455,155)	-	(455,155)
Interest expense on long-term debt	28,144	-	-	-	(28,144)	-	(28,144)
Total governmental activities	2,275,899	62,308	264,773	24,298	(1,924,520)	-	(1,924,520)
Business-type activities							
Water	643,230	510,433	-	434,531	-	301,734	301,734
Wastewater	2,809,656	1,305,795	30,000	2,570,407	-	1,096,546	1,096,546
Refuse	930,916	935,727	-	-	-	4,811	4,811
Total business-type activities	4,383,802	2,751,955	30,000	3,004,938	-	1,403,091	1,403,091
Total primary government	\$ 6,659,701	\$ 2,814,263	\$ 294,773	\$ 3,029,236	(1,924,520)	1,403,091	(521,429)
General revenues							
Property taxes				698,451	-	698,451	
Income tax				910,194	-	910,194	
Other local taxes				36,186	-	36,186	
Licenses and permits				15,638	-	15,638	
Contributions not restricted to specific programs				43,446	-	43,446	
Investment earnings				12,996	10,111	23,107	
Other revenue				10,515	8,622	19,137	
Total general revenues				1,727,426	18,733	1,746,159	
Change in net position				(197,094)	1,421,824	1,224,730	
Net position - beginning				22,075,743	35,624,773	57,700,516	
Net position - ending				\$ 21,878,649	\$ 37,046,597	\$ 58,925,246	

See accompanying notes

THE COMMISSIONERS OF LEONARDTOWN

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2021

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 638,846	\$ -	\$ -	\$ 638,846
Investments	4,158,937	-	-	4,158,937
Receivables, net	39,599	-	-	39,599
Intergovernmental receivables	228,714	-	-	228,714
Other assets	230	-	-	230
Due from other funds	<u>20,680</u>	<u>-</u>	<u>-</u>	<u>20,680</u>
Total assets	<u>\$ 5,087,006</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,087,006</u>
LIABILITIES				
Accounts payable	\$ 114,696	\$ -	\$ -	114,696
Other liabilities	1,434	-	-	1,434
Due to other funds	<u>3,304,644</u>	<u>-</u>	<u>20,680</u>	<u>3,325,324</u>
Total liabilities	<u>3,420,774</u>	<u>-</u>	<u>20,680</u>	<u>3,441,454</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	<u>65,049</u>	<u>-</u>	<u>-</u>	<u>65,049</u>
FUND BALANCES (DEFICIT)				
Nonspendable	231	-	-	231
Restricted	249,722	-	-	249,722
Assigned	327,628	-	-	327,628
Unassigned (deficit)	<u>1,023,602</u>	<u>-</u>	<u>(20,680)</u>	<u>1,002,922</u>
Total fund balances (deficit)	<u>1,601,183</u>	<u>-</u>	<u>(20,680)</u>	<u>1,580,503</u>
Total liabilities, deferred inflows of resources and fund balances (deficit)	<u>\$ 5,087,006</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,087,006</u>

See accompanying notes

THE COMMISSIONERS OF LEONARDTOWN

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

June 30, 2021

Fund balance of governmental funds (page 12)	\$ 1,580,503
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds. 21,059,355

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	9,963
Highway user tax receivable	53,394
Accommodation tax receivable	1,692

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

Mortgage obligation	(751,307)
Accrued compensated absences	(65,528)
Health insurance obligations	<u>(9,423)</u>

Net position of governmental activities (page 10)	<u>\$ 21,878,649</u>
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THE COMMISSIONERS OF LEONARDTOWN

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

For the year ended June 30, 2021

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,794,980	\$ -	\$ -	\$ 1,794,980
Licenses and permits	108,705	-	-	108,705
Intergovernmental	68,313	-	1,500	69,813
Charges for services	3,664	-	-	3,664
Miscellaneous	86,993	-	-	86,993
Total revenues	<u>2,062,655</u>	<u>-</u>	<u>1,500</u>	<u>2,064,155</u>
EXPENDITURES				
Current				
General government	503,782	-	-	503,782
Community development	222,341	-	-	222,341
Planning and zoning	115,466	-	-	115,466
Public safety	94,576	-	-	94,576
Public works	429,294	-	-	429,294
Recreation and parks	189,673	-	-	189,673
Grant expenditures	-	-	1,500	1,500
Debt service				
Principal	96,961	-	-	96,961
Interest	28,144	-	-	28,144
Total expenditures	<u>1,680,237</u>	<u>-</u>	<u>1,500</u>	<u>1,681,737</u>
Excess (deficiency) of revenues over expenditures	<u>382,418</u>	<u>-</u>	<u>-</u>	<u>382,418</u>
Fund balances (deficit) - beginning	<u>1,218,765</u>	<u>-</u>	<u>(20,680)</u>	<u>1,198,085</u>
Fund balances (deficit) - ending	<u>\$ 1,601,183</u>	<u>\$ -</u>	<u>\$ (20,680)</u>	<u>\$ 1,580,503</u>

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, 2021

Net change in fund balance - total governmental funds (page 14)	\$ 382,418
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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	7,085
Change in deferred highway user taxes	12,030
Change in deferral of interest income	(6,156)
Change in deferral of accommodation taxes	1,692

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	96,961
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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	2,253
Depreciation expense	(691,784)

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	(1,374)
Change in health insurance contribution liability	(219)

Change in net position of governmental activities (page 11)	<u>\$ (197,094)</u>
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THE COMMISSIONERS OF LEONARDTOWN

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

For the year ended June 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,621,436	\$ 1,621,436	\$ 1,814,095	\$ 192,659
Licenses and permits	88,050	88,050	108,705	20,655
Intergovernmental	74,692	74,692	70,005	(4,687)
Charges for services	4,000	4,000	3,664	(336)
Miscellaneous	<u>63,250</u>	<u>63,250</u>	<u>80,837</u>	<u>17,587</u>
Total revenues	<u>1,851,428</u>	<u>1,851,428</u>	<u>2,077,306</u>	<u>225,878</u>
EXPENDITURES AND ENCUMBRANCES				
General government	625,919	663,719	584,600	79,119
Community development	266,439	266,439	223,811	42,628
Planning and zoning	106,089	111,471	115,538	(4,067)
Public safety	91,197	91,197	94,593	(3,396)
Public works	530,855	530,855	432,349	98,506
Recreation and parks	<u>173,023</u>	<u>173,023</u>	<u>192,975</u>	<u>(19,952)</u>
Total expenditures and encumbrances	<u>1,793,522</u>	<u>1,836,704</u>	<u>1,643,866</u>	<u>192,838</u>
Excess (deficiency) of revenues over expenditures and encumbrances	<u>57,906</u>	<u>14,724</u>	<u>433,440</u>	<u>418,716</u>
OTHER FINANCING SOURCES (USES)				
Appropriation of prior year fund balance	-	43,182	-	(43,182)
Operating transfers in (out)	<u>(57,906)</u>	<u>(57,906)</u>	<u>-</u>	<u>57,906</u>
Total other financing sources (uses)	<u>(57,906)</u>	<u>(14,724)</u>	<u>-</u>	<u>14,724</u>
Excess (deficiency) of revenues, other financing sources and speical item over expenditures and encumbrances and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 433,440</u>	<u>\$ 433,440</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	\$ 433,440
Timing difference of revenue recognition	(14,651)
Effect of year end salary accrual	(6,395)
Effect of encumbrances	(30,195)
Effect of future health insurance reimbursements	<u>219</u>
Excess (deficiency) of revenues over expenditures - GAAP basis (page 14)	<u>\$ 382,418</u>

See accompanying notes

THE COMMISSIONERS OF LEONARDTOWN

STATEMENT OF NET POSITION

PROPRIETARY FUND - WATER, WASTEWATER AND REFUSE COLLECTION

June 30, 2021

ASSETS

Current assets

Receivables, net	\$ 678,339
Intergovernmental receivables	53,302
Due from other funds	<u>3,304,644</u>
Total current assets	<u>4,036,285</u>

Noncurrent assets

Restricted cash and cash equivalents	8,260,543
Other	30,625
Net capital assets	<u>31,348,741</u>
Total noncurrent assets	<u>39,639,909</u>
Total assets	<u>\$ 43,676,194</u>

LIABILITIES

Current liabilities

Accounts payable	\$ 247,981
Accrued interest payable	46,289
Other liabilities	37,463
Current portion of long-term debt	<u>338,161</u>
Total current liabilities	<u>669,894</u>

Noncurrent liabilities

Long-term debt, net of current portion	5,867,941
Compensated absences	10,574
Other noncurrent liabilities	<u>81,188</u>
Total noncurrent liabilities	<u>5,959,703</u>
Total liabilities	<u>6,629,597</u>

NET POSITION

Net investment in capital assets	25,142,638
Restricted	
Impact fees	8,260,543
Unrestricted	<u>3,643,416</u>
Total net position	<u>37,046,597</u>
Total liabilities and net position	<u>\$ 43,676,194</u>

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, 2021

OPERATING REVENUES

Water service charges	\$ 510,433
Sewer service charges	1,062,783
Refuse collection charges	935,727
Operating grant from MDE	30,000
Metcomm service fees	148,318
Late charges/fees collected	<u>8,622</u>
Total operating revenues	<u>2,695,883</u>

OPERATING EXPENSES

Operating income before depreciation	<u>2,555,076</u>
	140,807

DEPRECIATION

Operating loss	<u>1,691,895</u>
	(1,551,088)

NONOPERATING REVENUES (EXPENSES)

Interest income	10,111
Interest expense	(136,831)
Metcomm debt service reimbursement	94,694
Total nonoperating revenues (expenses)	<u>(32,026)</u>

Loss before capital contributions	<u>(1,583,114)</u>
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CAPITAL CONTRIBUTIONS

Impact fees	2,078,400
Capacity allocation fees	314,338
Donated assets	612,200
Total capital contributions	<u>3,004,938</u>

CHANGE IN NET POSITION

Total net position - beginning	<u>35,624,773</u>
Total net position - ending	<u>\$ 37,046,597</u>

THE COMMISSIONERS OF LEONARDTOWN

STATEMENT OF CASH FLOWS

PROPRIETARY FUND - WATER, WASTEWATER AND REFUSE COLLECTION

For the year ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 2,651,428
Payments to suppliers	(1,948,382)
Payments to employees	(584,689)
Late charges/fees collected	8,537
Net cash provided by operating activities	126,894

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Net cash received from other funds	702,916
Receipts payable to third parties	7,715
Net cash received for noncapital financing activities	710,631

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(1,333,945)
Capital contribution	
Capacity allocation fees	314,338
Impact fees	2,078,400
Metcomm debt service reimbursement	95,194
Principal paid on capital debt	(332,181)
Interest paid on capital debt	(139,309)
Net cash provided by capital and related financing activities	682,497

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	10,111
Net increase in cash and cash equivalents	1,530,133
Beginning of year	6,730,410
End of year	\$ 8,260,543

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (1,551,088)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	1,691,895
(Increase) decrease in	
Accounts receivable	(35,178)
Other receivables	(6,904)
Increase (decrease) in	
Accounts payable and accrued expenses	28,169
Net cash provided by operating activities	\$ 126,894

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(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, 2021

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, 2021

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 FY21, 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, 2021, compensated absences totaled \$76,102.

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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, 2021, this liability was \$54,806.

Fund Equity

The government-wide and business-type activities financial statements utilize a net position presentation with three classifications.

- ***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, 2021

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 accountsBudget 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, 2021

Revenues – budgetary basis	\$2,077,306
Change in property tax deferral	(7,085)
Change in interest income deferral	6,156
Change in accommodation tax deferral	(1,692)
Change in highway user deferral	<u>(12,030)</u>
Revenues – GAAP basis	<u>\$2,062,655</u>
Expenditures – budgetary basis	\$1,643,866
To adjust for salary accrual	6,395
To adjust for encumbrances	30,195
To adjust for future health reimbursement claims	<u>(219)</u>
Expenditures – GAAP basis	<u>\$1,680,237</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 not 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 \$638,686 and the bank balance was \$801,204. The bank balance and certificates of deposit balance were partially covered by \$250,000 of federal depository insurance and an additional \$769,178 (market value at June 30, 2021) in securities pledged as collateral held by the Bank's agent in the Bank's name. This resulted in a deficit of pledged collateral in the amount of \$442,795 on June 30, 2021. Thirteen instances of undercollateralized balances occurred during the fiscal year ranging from \$3,606 to \$469,771.

The Town's investments at June 30, 2021 are shown below.

	<u>Carrying Amount</u>	<u>Fair Value</u>
Investment in Maryland Local Government Investment Pool	\$ 11,759,854	\$ 11,759,854
Certificates of deposit	\$ 659,626	\$ 659,626

The Maryland Local Government Investment Pool ("**MLGIP**") is managed by PNC Capital Advisors, LLC and administered by the State Treasurer. MLGIP is rated AAA 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, 2021, approximately 70% 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 FY21, investment income of \$2,815 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, 2021

(E) CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2021 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>7,715</u>	<u>-</u>	<u>7,715</u>	<u>-</u>
Total capital assets, not being depreciated	<u>4,907,276</u>	<u>-</u>	<u>7,715</u>	<u>4,899,561</u>
Capital assets being depreciated				
Buildings and improvements	2,066,400	-	-	2,066,400
Improvements other than buildings	5,597,166	9,968	-	5,607,134
Streets and infrastructure	14,744,483	-	-	14,744,483
Machinery and equipment	<u>136,496</u>	<u>-</u>	<u>6,666</u>	<u>129,830</u>
Total capital assets being depreciated	<u>22,544,545</u>	<u>9,968</u>	<u>6,666</u>	<u>22,547,847</u>
Accumulated depreciation				
Buildings and improvements	(500,281)	(67,599)	-	(567,880)
Improvements other than buildings	(2,410,160)	(234,714)	-	(2,644,874)
Streets and infrastructure	(2,681,882)	(378,544)	-	(3,060,426)
Machinery and equipment	<u>(110,612)</u>	<u>(10,927)</u>	<u>(6,666)</u>	<u>(114,873)</u>
Total accumulated depreciation	<u>(5,702,935)</u>	<u>(691,784)</u>	<u>(6,666)</u>	<u>(6,388,053)</u>
Total capital assets being depreciated, net	<u>16,841,610</u>	<u>(681,816)</u>	<u>-</u>	<u>16,159,794</u>
Governmental activities capital assets, net	<u>\$ 21,748,886</u>	<u>\$ (681,816)</u>	<u>\$ 7,715</u>	<u>\$ 21,059,355</u>
<u>Business-Type Activities</u>				
Capital assets not being depreciated				
Land	\$ 23,051	\$ 198,667	\$ -	\$ 221,718
Construction in progress	<u>214,894</u>	<u>883,818</u>	<u>-</u>	<u>1,098,712</u>
Total capital assets not being depreciated	<u>237,945</u>	<u>1,082,485</u>	<u>-</u>	<u>1,320,430</u>
Capital assets being depreciated				
Buildings and improvements	32,022,354	-	-	32,022,354
Infrastructure	12,773,696	749,887	-	13,523,583
Machinery and equipment	<u>837,459</u>	<u>72,571</u>	<u>-</u>	<u>910,030</u>
Total capital assets being depreciated	<u>45,633,509</u>	<u>822,458</u>	<u>-</u>	<u>46,455,967</u>
Accumulated depreciation				
Buildings and improvements	(9,596,293)	(1,333,395)	-	(10,929,688)
Infrastructure	(4,572,649)	(304,129)	-	(4,876,778)
Machinery and equipment	<u>(566,819)</u>	<u>(54,371)</u>	<u>-</u>	<u>(621,190)</u>
Total accumulated depreciation	<u>(14,735,761)</u>	<u>(1,691,895)</u>	<u>-</u>	<u>(16,427,656)</u>
Total capital assets being depreciated, net	<u>30,897,748</u>	<u>(869,437)</u>	<u>-</u>	<u>30,028,311</u>
Business-type activities capital assets, net	<u>\$ 31,135,693</u>	<u>\$ 213,048</u>	<u>\$ -</u>	<u>\$ 31,348,741</u>

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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

Governmental activities				
General government	\$ 31,262			
Community development	6,334			
Public works	388,777			
Recreation and parks	<u>265,411</u>			
Total depreciation expense – governmental activities	<u>\$ 691,784</u>			
Business-type activities				
Water	\$ 190,789			
Wastewater	<u>1,501,106</u>			
Total depreciation expense – business-type activities	<u>\$1,691,895</u>			

(F) LONG-TERM LIABILITIES

Changes in long-term obligations for the year ended June 30, 2021, are as follows:

	Balance at July 1, 2020	Increases	Decreases	Balance at June 30, 2021	Due Within One Year
Governmental Activities					
Notes from direct borrowings	<u>\$ 848,268</u>	<u>\$ -</u>	<u>\$ (96,961)</u>	<u>\$ 751,307</u>	<u>\$ 83,578</u>
Business-Type Activities					
Note from-direct borrowing	<u>\$6,538,283</u>	<u>\$ -</u>	<u>\$(332,181)</u>	<u>\$6,206,102</u>	<u>\$338,161</u>

The Town's one remaining outstanding note from direct borrowings related to governmental activities of \$751,307 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 \$6,206,102 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, 2021, 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>Note from direct borrowing</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 83,578	\$24,963	\$ 338,161	\$111,710
2023	86,550	21,991	344,247	105,623
2024	89,629	18,912	350,444	99,426
2025	92,817	15,725	356,752	93,119
2026	398,733	3,420	363,173	86,697
2027-2031	-	-	1,916,310	333,043
2032-2036	-	-	2,095,099	154,253
2037	-	-	441,916	7,954
Total	<u>\$751,307</u>	<u>\$85,011</u>	<u>\$6,206,102</u>	<u>\$991,825</u>

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

During the year ended June 30, 2021, the following changes occurred in other long-term liabilities reported for governmental and business-type activities:

	<u>Balance at July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2021</u>	<u>Due Within One Year</u>
Governmental Activities					
Health reimbursement obligations	\$ 9,204	\$ 219	\$ -	\$ 9,423	\$ 9,423
Compensated absences	<u>64,154</u>	<u>1,374</u>	<u>-</u>	<u>65,528</u>	<u>65,528</u>
	<u>\$73,358</u>	<u>\$ 1,593</u>	<u>\$ -</u>	<u>\$74,951</u>	<u>\$74,951</u>
Business-Type Activities					
Customer deposits	\$27,226	\$ 8,578	\$ -	\$35,804	\$ -
Health reimbursement obligations	39,628	5,755	-	45,383	45,383
Compensated absences	<u>17,284</u>	<u>-</u>	<u>(6,710)</u>	<u>10,574</u>	<u>10,574</u>
	<u>\$84,138</u>	<u>\$14,333</u>	<u>(\$6,710)</u>	<u>\$91,761</u>	<u>\$55,957</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, 2021:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 20,680	\$3,304,644
Other Governmental Fund	-	20,680
Proprietary Fund	<u>3,304,644</u>	<u>-</u>
	<u>\$3,325,324</u>	<u>\$3,325,324</u>

(H) DEFERRED INFLOWS OF RESOURCES

At year end, the Town reported \$65,049 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, 2021, the detail of deferred inflows of resources is:

Deferred property tax revenue	\$ 9,963
Deferred highway tax user revenue	53,394
Deferred accommodation tax revenue	<u>1,692</u>
	<u>\$65,049</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 \$231 represents amounts prepaid in FY21 that cover services that will be provided in FY22.

Restricted fund balance of \$249,722 must be used for road maintenance projects.

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Assigned fund balance of \$327,628 is comprised of the following:

Appropriation of fund balance in FY22 budget	\$251,352
Parking fees-in-lieu	52,800
HRA liabilities	9,423
War memorials maintenance	6,468
Encumbrances	<u>7,585</u>
	<u><u>\$327,628</u></u>

(J) DEFICIT FUND EQUITY

The special revenue fund had a deficit fund balance of \$20,680 as of June 30, 2021. 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 \$45,697, and total employee contributions were \$40,843 for the year ended June 30, 2021.

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, 2021, 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, 2021

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 FY21, the town contribution to each HRA account was approved at \$1,500 per participating employee. There are eight 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 \$13,500 for the year ended June 30, 2021. 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 \$7,525 were reimbursed before June 30, 2021. 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, 2021 is \$54,806.

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 \$148,318 of operational reimbursement and \$94,694 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, property and employee bond coverages. Commercial policies for flood, and workers' compensation 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, 2021

(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, 2021, the outstanding principal balance was \$16,917,808.

(P) COMMITMENTS AND CONTINGENCIES

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, 2021 is \$20,800.

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, 2021 is \$139,825.

On February 8, 2021, the Town Council approved a contract with SE Davis Construction to construct Phase II of the Wharf Dock project. The contract cost is \$100,350, and construction had not begun prior to June 30, 2021, so the full amount of this contract remains to be paid.

On March 8, 2021, the Town Council approved Task Order #22 with GHD to provide engineering and inspection services for the construction of Phase II of the Wharf Dock project. The amount of this task order is \$15,000 and the full amount of this contract remains to be paid at June 30, 2021.

On March 8, 2021, the Town Council approved Task Order #23 with GHD to provide Floodplain Study Services in order to address repetitive flooding events at the Leonardtown wastewater treatment plant. This effort was undertaken before construction of the plant expansion so necessary mitigation measures could be incorporated into the final design. The amount of this task order is \$67,200 and \$15,355 remains to be paid at June 30, 2021.

On May 10, 2021, the Town Council approved Task Order #24 with GHD to provide technical assistance required to apply for a new water appropriation permit for a new water production well and the complementary update required in the St. Mary's Comprehensive Water and Sewer Master Plan. The amount of this task order is \$12,500 and \$6,250 remains to be paid at June 30, 2021

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, 2021, 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.

THE COMMISSIONERS OF LEONARDTOWN

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(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 FY2021 was \$16,160. It is expected this property will not be required to pay property taxes until FY2026.

(R) SUBSEQUENT EVENTS

Subsequent events and transactions were evaluated for potential recognition in the financial statements through October 26, 2021 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, 2021

	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
TAXES			
Local property			
Real property	\$ 670,000	\$ 678,147	\$ 8,147
Public utilities	18,000	19,170	1,170
Penalties and interest	2,300	3,632	1,332
Less: discount allowed	<u>(2,500)</u>	<u>(2,498)</u>	<u>2</u>
Total property taxes	<u>687,800</u>	<u>698,451</u>	<u>10,651</u>
INCOME TAXES	<u>725,000</u>	<u>910,194</u>	<u>185,194</u>
OTHER LOCAL TAXES			
Admissions and amusement	1,000	-	(1,000)
TAXES - STATE SHARED			
Highway users	207,636	205,450	(2,186)
Total taxes	<u>1,621,436</u>	<u>1,814,095</u>	<u>192,659</u>
LICENSES AND PERMITS			
Beer, wine and liquor	14,000	1,698	(12,302)
Traders	14,000	13,940	(60)
CATV franchise	27,000	34,494	7,494
Building, occupancy and sign permits	<u>33,050</u>	<u>58,573</u>	<u>25,523</u>
Total licenses and permits	<u>88,050</u>	<u>108,705</u>	<u>20,655</u>
INTERGOVERNMENTAL			
County tax rebate	43,446	43,446	-
CARES Act grant	-	11,898	11,898
Accomodation tax	18,000	1,692	(16,308)
Law enforcement grant	<u>13,246</u>	<u>12,969</u>	<u>(277)</u>
Total intergovernmental	<u>74,692</u>	<u>70,005</u>	<u>(4,687)</u>
CHARGES FOR SERVICES			
Event fees	2,500	1,728	(772)
Zoning and subdivision fees	<u>1,500</u>	<u>1,936</u>	<u>436</u>
Total charges for services	<u>4,000</u>	<u>3,664</u>	<u>(336)</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, 2021

	Final Budget	Actual	Variance Favorable (Unfavorable)
MISCELLANEOUS REVENUE			
Community Legacy grant	25,000	24,298	(702)
Arts and Entertainment grant	10,000	13,425	3,425
Grants for events	5,000	5,000	-
Other grants	-	12,931	12,931
Interest	20,000	12,996	(7,004)
Miscellaneous	<u>3,250</u>	<u>12,187</u>	<u>8,937</u>
Total miscellaneous revenue	<u>63,250</u>	<u>80,837</u>	<u>17,587</u>
Total revenues	<u>1,851,428</u>	<u>2,077,306</u>	<u>225,878</u>
OTHER FINANCING SOURCES			
Appropriation of prior year fund balance	<u>43,182</u>	<u>-</u>	<u>(43,182)</u>
Total revenues, other financing sources and special item	<u>\$ 1,894,610</u>	<u>\$ 2,077,306</u>	<u>\$ 182,696</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, 2021

	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
GENERAL GOVERNMENT			
Salaries	\$ 257,639	\$ 256,323	\$ 1,316
Payroll taxes and benefits	58,577	59,119	(542)
Accounting services	19,500	19,500	-
Legal counsel	7,500	4,738	2,762
Other professional services	34,000	31,239	2,761
Insurance and bond	17,750	14,512	3,238
Building maintenance	13,313	12,504	809
Office supplies	12,000	9,019	2,981
Postage	6,540	3,879	2,661
Equipment maintenance	3,500	2,277	1,223
Utilities	18,120	19,250	(1,130)
Travel, meetings and training	16,450	5,732	10,718
Dues and memberships	5,500	5,242	258
Public notices	1,000	585	415
Hospitality	5,700	3,589	2,111
Lease payments	876	879	(3.00)
Other operating expenses	1,500	2,321	(821)
Payments to other agencies	750	750	-
Debt service	125,104	125,105	(1.00)
Capital outlay	58,400	8,037	50,363
Total general government	<u>663,719</u>	<u>584,600</u>	<u>79,119</u>
COMMUNITY DEVELOPMENT			
Salaries	104,117	92,506	11,611
Payroll taxes and benefits	22,065	19,314	2,751
Professional services	5,000	-	5,000
Façade Grant expenses	25,000	24,298	702
Arts and entertainment district	3,218	11,222	(8,004)
Beach party	8,300	-	8,300
Tree lighting	5,600	2,195	3,405
Veteran's Day parade	4,660	1,116	3,544
Concerts on the square	3,450	3,539	(89)
Earth Day	4,675	2,326	2,349
Boat Races	1,500	1,500	-
Public relations/promotions	2,750	3,374	(624)
Other operating expenses	19,894	32,878	(12,984)
Capital outlay	56,210	29,543	26,667
Total community development	<u>266,439</u>	<u>223,811</u>	<u>42,628</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, 2021

	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
PLANNING AND ZONING			
Salaries	83,204	80,275	2,929
Payroll taxes and benefits	16,335	15,949	386
Legal counsel	2,500	6,167	(3,667)
Professional services	5,382	9,981	(4,599)
Office supplies	750	479	271
Other operating expenses	1,000	1,307	(307)
Capital outlay	2,300	1,380	920
Total planning and zoning	<u>111,471</u>	<u>115,538</u>	<u>(4,067)</u>
PUBLIC SAFETY			
Salaries	14,022	13,980	42
Payroll taxes and benefits	4,490	4,420	70
Law enforcement	68,685	73,033	(4,348)
Fire department grant	1,000	1,000	-
Rescue squad grant	1,000	1,000	-
Other operating expenses	500	-	500
Capital outlay	1,500	1,160	340
Total public safety	<u>91,197</u>	<u>94,593</u>	<u>(3,396)</u>
PUBLIC WORKS			
Salaries	42,616	51,720	(9,104)
Payroll taxes and benefits	13,143	15,967	(2,824)
Professional services	1,750	-	1,750
Streets and street maintenance	157,636	34,099	123,537
Sidewalk/storm drain maintenance	50,000	82,783	(32,783)
Snow and ice removal	50,000	62,135	(12,135)
Street lighting	44,460	39,445	5,015
Street sweeping	41,232	37,152	4,080
Street signs and maintenance	2,500	3,903	(1,403)
Buildings and grounds	78,171	86,047	(7,876)
Other operating expenses	21,600	6,960	14,640
Capital outlay	27,747	12,138	15,609
Total public works	<u>530,855</u>	<u>432,349</u>	<u>98,506</u>
RECREATION AND PARKS			
Salaries	31,029	30,989	40
Payroll taxes and benefits	7,014	6,846	168
Professional services	-	555	(555)
Facility maintenance	16,270	39,071	(22,801)
Utilities	6,000	4,447	1,553
Grounds maintenance	66,710	89,123	(22,413)
Other operating expenses	3,000	830	2,170
Payments to other agencies	10,000	10,000	-
Capital outlay	33,000	11,114	21,886
Total recreation and parks	<u>173,023</u>	<u>192,975</u>	<u>(19,952)</u>
Total expenditures	<u>\$ 1,836,704</u>	<u>\$ 1,643,866</u>	<u>\$ 192,838</u>

THE COMMISSIONERS OF LEONARDTOWN

SCHEDULE OF OPERATING REVENUES AND EXPENSES BY SEGMENT PROPRIETARY FUND

For the year ended June 30, 2021

	Wastewater Treatment Plant	Collection System	Water System	Refuse Collection	Total
Operating revenues					
Water service charges	\$ -	\$ -	\$ 510,433	\$ -	\$ 510,433
Sewer service charges	1,062,783	-	-	-	1,062,783
Refuse collection charges	-	-	-	935,727	935,727
Metcomm service fees	148,318	-	-	-	148,318
MDE operating grant	30,000	-	-	-	30,000
Late charges/fees collected	5,852	-	978	1,792	8,622
Total operating revenues	1,246,953	-	511,411	937,519	2,695,883
Operating expenses					
Salaries	244,136	59,030	137,542	28,629	469,337
Payroll taxes and benefits	62,955	15,268	33,874	4,348	116,445
Engineering and consultants	16,619	2,818	22,427	-	41,864
Insurance	14,029	5,268	2,669	-	21,966
Facility maintenance	208,184	14,132	24,703	-	247,019
Line maintenance	-	153,614	143,442	-	297,056
Utilities	97,789	11,910	56,323	-	166,022
Materials and supplies	84,278	193	11,730	-	96,201
Lab analysis	25,227	-	1,760	-	26,987
Sludge management	103,119	-	-	-	103,119
Refuse collection contract	-	-	-	890,782	890,782
Other operating expenses	32,080	21,069	17,972	7,157	78,278
Total operating expenses	888,416	283,302	452,442	930,916	2,555,076
Operating income (loss) before depreciation	358,537	(283,302)	58,969	6,603	140,807
Depreciation	1,340,023	161,084	190,788	-	1,691,895
Operating loss	\$ (981,486)	\$ (444,386)	\$ (131,819)	\$ 6,603	\$ (1,551,088)

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, 2021

	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	\$1,025,000	\$1,062,783	\$37,783	\$-	\$-	\$-	\$540,000	\$510,102	\$ (29,898)	\$921,389	\$934,261	\$12,872
Metcomm fees	246,291	243,512	(2,779)	-	-	-	-	-	-	-	-	-
MDE operating grant	30,000	30,000	-	-	-	-	-	-	-	-	-	-
Capacity allocation charges	-	164,207	164,207	-	-	-	-	150,131	150,131	-	-	-
Impact fees	-	1,794,000	1,794,000	-	-	-	-	284,400	284,400	-	-	-
Miscellaneous income	43,700	13,057	(30,643)	-	-	-	17,900	4,074	(13,826)	2,400	1,602	(798)
Total revenue	<u>1,344,991</u>	<u>3,307,559</u>	<u>1,962,568</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>557,900</u>	<u>948,707</u>	<u>390,807</u>	<u>923,789</u>	<u>935,863</u>	<u>12,074</u>
Expenses												
Salaries	287,658	248,432	39,226	58,033	59,629	(1,596)	138,215	137,310	905	28,630	28,629	1
Payroll taxes and benefits	61,638	62,956	(1,318)	11,754	15,268	(3,514)	31,568	33,874	(2,306)	4,320	4,348	(28)
Engineering/consultants	2,500	16,619	(14,119)	30,000	2,818	27,182	-	22,427	(22,427)	-	-	-
Insurance	21,500	14,029	7,471	6,850	5,268	1,582	4,250	2,669	1,581	-	-	-
Facility maintenance	130,976	174,607	(43,631)	16,726	14,132	2,594	21,609	24,703	(3,094)	-	-	-
Line maintenance	-	-	-	37,103	153,614	(116,511)	95,845	143,442	(47,597)	-	-	-
Utilities	132,000	95,991	36,009	7,500	11,910	(4,410)	56,000	56,323	(323)	-	-	-
Materials and supplies	146,951	84,278	62,673	1,344	193	1,151	11,677	11,730	(53)	-	-	-
Laboratory analysis	23,293	25,227	(1,934)	-	-	-	2,438	1,760	678	-	-	-
Sludge management	78,288	103,119	(24,831)	-	-	-	-	-	-	-	-	-
Debt service	471,490	471,490	-	-	-	-	-	-	-	-	-	-
Capital outlay	57,750	-	57,750	43,800	32,783	11,017	39,000	39,785	(785)	-	-	-
Contingency/reserve fund	25,615	-	25,615	28,657	-	28,657	134,462	-	134,462	-	-	-
Refuse collection contract	-	-	-	-	-	-	-	-	-	885,700	890,782	(5,082)
Other operating expenses	22,599	32,080	(9,481)	17,262	21,069	(3,807)	22,836	17,972	4,864	6,000	7,157	(1,157)
Total expenses	<u>1,462,258</u>	<u>1,328,828</u>	<u>133,430</u>	<u>259,029</u>	<u>316,684</u>	<u>(57,655)</u>	<u>557,900</u>	<u>491,995</u>	<u>65,905</u>	<u>924,650</u>	<u>930,916</u>	<u>(6,266)</u>
Excess (deficiency) of revenue over expenses	(117,267)	1,978,731	2,095,998	(259,029)	(316,684)	(57,655)	-	456,712	456,712	(861)	4,947	5,808
Other financing sources (uses)												
Appropriation of retained earnings	376,296	376,296	-	-	-	-	-	-	-	-	-	-
Transfer to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	376,296	376,296	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenue and other financing sources over expenses and other financing uses	\$ 259,029	\$ 2,355,027	\$ 2,095,998	\$ (259,029)	\$ (316,684)	\$ (57,655)	\$ -	\$ 456,712	\$ 456,712	\$ (861)	\$ 4,947	\$ 5,808



**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, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 26, 2021.

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 26, 2021