



**TOWN OF CHESAPEAKE BEACH
CHESAPEAKE BEACH, MARYLAND**

BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

TOWN OF CHESAPEAKE BEACH

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INDEPENDENT AUDITOR'S REPORT

November 19, 2020

Members of Council
Town of Chesapeake Beach
Chesapeake Beach, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Town of Chesapeake Beach ("the Town"), Chesapeake Beach, Maryland, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or

Members of Council
Town of Chesapeake Beach

error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Chesapeake Beach as of June 30, 2020, and the respective changes in its financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the beginning net position for the business-type activities and utility fund has been restated to correct an error. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Members of Council
Town of Chesapeake Beach

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2020, on our consideration of the Town'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**TOWN OF CHESAPEAKE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2020**

As management of the Town of Chesapeake Beach, Maryland ("the Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2020 to enhance the understanding of the Town's financial performance. It should be read in conjunction with the Town's basic financial statements, which begin on page 9.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$41,855,431. Of this amount, \$13,061,193 (or its unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's net position increased by \$1,710,173 in fiscal year 2020.
- As of June 30, 2020, the Town's governmental fund reported a combined ending fund balance of \$12,115,349, an increase of \$2,109,107 from the prior year's balance. Approximately 94 percent of the total fund balance, or \$11,332,170, is available for spending at the Town's discretion (unassigned fund balance). The remainder is currently nonspendable for prepaid expenditures (\$82,594) and committed for dredging projects (\$700,585).

Overview of the Financial Statements

The Town's basic financial statements are comprised of three components: 1) entity-wide financial statements; 2) fund financial statements; and 3) notes to the basic financial statements.

Entity-wide Financial Statements – The entity-wide financial statements provide 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 and 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 the related cash flows. Thus, revenue and expenses are reported in this statement for some items that will result in cash flows only in the future periods (e.g. uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Town that are governmental activities (those principally supported by taxes and revenues from other governments) and functions of the Town that are business-type activities (those that are intended to recover all or a significant portion of their costs through user fees and charges). The governmental activities of the Town include general government, public safety, public works, capital outlay, and debt service. The business-type activities of the Town include utility services and water park.

**TOWN OF CHESAPEAKE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
JUNE 30, 2020**

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 Fund** – All of the Township's basic services are reported in governmental fund, which focus on how money flows into and out of the fund and the balances left at year end that are available for spending. This fund is reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds are described in the reconciliation after the fund financial statements. The Town's only governmental fund is the General Fund.
- **Proprietary Funds** – The Town maintains two enterprise type proprietary funds to account for the operations of providing utility services and the water park. Enterprise funds are used to present the same functions as business-type functions in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements. The notes to the financial statements can be found beginning on page 19 of this report.

Financial Analysis of the Town

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At June 30, 2020, the Town's assets exceeded its liabilities by \$41,855,431, which is a \$1,710,173 increase from the prior year.

A summary of the Town's net position is presented in Table 1:

**Table 1
NET POSITION
JUNE 30, 2020 AND 2019**

	June 30, 2020			June 30, 2019		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current assets	\$ 12,378,880	\$ 1,290,931	\$ 13,669,811	\$ 10,506,879	\$ 1,191,820	\$ 11,698,699
Noncurrent assets	10,010,355	25,379,791	35,390,146	9,482,447	26,287,103	35,769,550
Total Assets	22,389,235	26,670,722	49,059,957	19,989,326	27,478,923	47,468,249

**TOWN OF CHESAPEAKE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
JUNE 30, 2020**

**Table 1
NET POSITION
JUNE 30, 2020 AND 2019**

	June 30, 2020			June 30, 2019		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
(cont'd)						
Current liabilities	288,681	749,294	1,037,975	525,787	1,058,503	1,584,290
Long-term liabilities	141,014	6,025,537	6,166,551	90,228	6,582,440	6,672,668
Total Liabilities	<u>429,695</u>	<u>6,774,831</u>	<u>7,204,526</u>	<u>616,015</u>	<u>7,640,943</u>	<u>8,256,958</u>
Net investment in capital assets	9,985,205	18,809,033	28,794,238	9,367,069	19,116,204	28,483,273
Unrestricted	11,974,335	1,086,858	13,061,193	10,006,242	721,776	10,728,018
Total Net Position	<u>\$ 21,959,540</u>	<u>\$ 19,895,891</u>	<u>\$ 41,855,431</u>	<u>\$ 19,373,311</u>	<u>\$ 19,837,980</u>	<u>\$ 39,211,291</u>

As shown in Table 2, revenues exceeded expenses by \$1,710,173 in fiscal 2020, resulting in an overall increase in net position.

**Table 2
CHANGE IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	June 30, 2020			June 30, 2019		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
REVENUES						
Program Revenues:						
Charges for service	\$ 382,343	\$ 3,275,005	\$ 3,657,348	\$ 231,390	\$ 3,560,695	\$ 3,792,085
Operating grants	413,969	-	413,969	169,916	-	169,916
Capital grants	269,510	-	269,510	277,832	-	277,832
General Revenues:						
Taxes	5,521,816	-	5,521,816	5,482,091	-	5,482,091
Franchise fees	55,846	-	55,846	109,186	-	109,186
Investment earnings	117,333	42,367	159,700	157,452	33,498	190,950
Miscellaneous	25,305	-	25,305	4,260	12,540	16,800
Total Revenues	<u>6,786,122</u>	<u>3,317,372</u>	<u>10,103,494</u>	<u>6,432,127</u>	<u>3,606,733</u>	<u>10,038,860</u>
EXPENSES						
General government	1,422,355	-	1,422,355	2,664,779	-	2,664,779
Public safety	865,809	-	865,809	1,132,371	-	1,132,371
Public works	1,911,729	-	1,911,729	1,645,348	-	1,645,348
Water park	-	1,107,617	1,107,617	-	1,355,853	1,355,853
Water and sewer services	-	3,085,811	1,968,212	-	2,138,747	2,138,747
Total Expenses	<u>4,199,893</u>	<u>4,193,428</u>	<u>7,275,722</u>	<u>5,442,858</u>	<u>3,494,600</u>	<u>8,937,458</u>
CHANGE IN NET POSITION	<u>\$ 2,586,229</u>	<u>\$ (876,056)</u>	<u>\$ 1,710,173</u>	<u>\$ 989,629</u>	<u>\$ 112,133</u>	<u>\$ 1,101,402</u>

**TOWN OF CHESAPEAKE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
JUNE 30, 2020**

Financial Analysis of the Town's Funds

Governmental Funds

The Town maintains a General Fund which serves as the chief operating fund of the Town. The focus of the Town's governmental fund 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 June 30, 2020, the Town's governmental fund reported ending fund balance of \$12,115,349, an increase of \$2,109,107 compared to the prior year. Approximately 94 percent, or \$11,332,170, constitutes unassigned fund balance, which is available for spending at the Town's discretion. The remainder of the fund balance is nonspendable or committed, which means it is not available for new spending because it has already been used for prepaid expenditures or committed to pay for dredging projects.

Proprietary Funds

The Town's proprietary funds provide the same type of information found in the business-type activities part of the government-wide financial statements, but in greater detail.

Total net position of the utility and water park funds at the fiscal year end was \$19,895,891. Net position invested in capital assets, net of related debt was \$18,809,033, and unrestricted net position was \$1,086,858.

General Fund Budgetary Highlights

There were no revisions to the original General Fund budget. All budgeted appropriations lapse at year end. Based on actual figures, revenues were more than budgeted amounts by \$902,696, and expenditures were less than budgeted amounts by \$1,206,411.

Capital Assets

The Town's investment in capital assets as of June 30, 2020 amounts to \$35,390,146, net of accumulated depreciation. Capital assets include land, land improvements, buildings and improvements, water and sewer systems, and equipment and vehicles.

Additional information on the Town's capital assets can be found in Note 3 of this report.

Long-term Debt

As of June 30, 2020, the Town had \$6,570,758 in bonds and loans outstanding – a decrease of \$600,141 from the prior year. The Town also has a note outstanding in the amount of \$25,150 – a decrease of \$25,150 from the prior year.

**TOWN OF CHESAPEAKE BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
JUNE 30, 2020**

Additional information about the Town's long-term debt can be found in Note 5 of this report.

Economic Factors

In fiscal 2020, total taxable property valuations in Chesapeake Beach, as assessed by the State of Maryland Department of Assessment and Taxation, amounted to \$791,691,794. The Town's tax rate was \$0.3393 per \$100 of assessed value.

Requests for Information

This financial report is designed to provide a general overview for those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Dale Clark, Treasurer, Town of Chesapeake Beach, 8200 Bayside Road, Chesapeake Beach, MD, 20732.

TOWN OF CHESAPEAKE BEACH
STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 8,475,915	\$ 4,596,643	\$ 13,072,558
Taxes receivable	51,683	-	51,683
Accounts receivable	-	451,446	451,446
Prepaid expenses	82,594	-	82,594
Inventory	-	11,530	11,530
Due from other funds	3,768,688	(3,768,688)	-
Total Current Assets	12,378,880	1,290,931	13,669,811
Noncurrent Assets:			
Land	1,346,596	21,875	1,368,471
Capital assets, net	8,663,759	25,357,916	34,021,675
Total Noncurrent Assets	10,010,355	25,379,791	35,390,146
TOTAL ASSETS	\$ 22,389,235	\$ 26,670,722	\$ 49,059,957
LIABILITIES AND NET POSITION			
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 58,822	\$ 60,496	\$ 119,318
Accrued liabilities	195,469	79,398	274,867
Deposits	9,240	-	9,240
Current portion bonds and loans payable	-	609,400	609,400
Current portion notes payable	25,150	-	25,150
Total Current Liabilities	288,681	749,294	1,037,975
Noncurrent Liabilities:			
Bonds and loans payable	-	5,961,358	5,961,358
Compensated absences	141,014	64,179	205,193
Total Noncurrent Liabilities	141,014	6,025,537	6,166,551
TOTAL LIABILITIES	429,695	6,774,831	7,204,526
NET POSITION			
Net investment in capital assets	9,985,205	18,809,033	28,794,238
Unrestricted	11,974,335	1,086,858	13,061,193
TOTAL NET POSITION	21,959,540	19,895,891	41,855,431
TOTAL LIABILITIES AND NET POSITION	\$ 22,389,235	\$ 26,670,722	\$ 49,059,957

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHESAPEAKE BEACH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total Primary Government
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	
GOVERNMENTAL ACTIVITIES							
General government	\$ 1,422,355	\$ 309,062	\$ 354,195	\$ -	\$ (759,098)	\$ -	\$ (759,098)
Public safety	865,809	73,281	57,874	-	(734,654)	-	(734,654)
Public works	1,911,729	-	1,900	269,510	(1,640,319)	-	(1,640,319)
TOTAL GOVERNMENTAL ACTIVITIES	<u>4,199,893</u>	<u>382,343</u>	<u>413,969</u>	<u>269,510</u>	<u>(3,134,071)</u>	<u>-</u>	<u>(3,134,071)</u>
BUSINESS-TYPE ACTIVITIES							
Water park	1,107,617	973,882	-	-	-	(133,735)	(133,735)
Water and sewer services	3,085,811	2,301,123	-	-	-	(784,688)	(784,688)
TOTAL BUSINESS-TYPE ACTIVITIES	<u>4,193,428</u>	<u>3,275,005</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(918,423)</u>	<u>(918,423)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 8,393,321</u>	<u>\$ 3,657,348</u>	<u>\$ 413,969</u>	<u>\$ 269,510</u>	<u>(3,134,071)</u>	<u>(918,423)</u>	<u>(4,052,494)</u>
GENERAL REVENUES							
Taxes:							
Property					2,722,352	-	2,722,352
Income tax					1,094,522	-	1,094,522
Admissions and amusement tax					1,618,132	-	1,618,132
Hotel tax					86,810	-	86,810
Franchise tax					55,846	-	55,846
Investment earnings					117,333	42,367	159,700
Miscellaneous					25,305	-	25,305
TOTAL GENERAL REVENUES					<u>5,720,300</u>	<u>42,367</u>	<u>5,762,667</u>
CHANGE IN NET POSITION					2,586,229	(876,056)	1,710,173
NET POSITION, BEGINNING OF YEAR (RESTATED)					19,373,311	20,771,947	40,145,258
NET POSITION, END OF YEAR					<u>\$ 21,959,540</u>	<u>\$ 19,895,891</u>	<u>\$ 41,855,431</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHESAPEAKE BEACH
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2020**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 8,475,915
Taxes receivable	51,683
Prepaid expenditures	82,594
Due from other funds	<u>3,768,688</u>
TOTAL ASSETS	<u><u>\$ 12,378,880</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE LIABILITIES	
Accounts payable	\$ 58,822
Accrued liabilities	195,469
Deposits	<u>9,240</u>
TOTAL LIABILITIES	<u>263,531</u>
FUND BALANCE	
Nonspendable - prepaid expenditures	82,594
Committed:	
Dredging projects	700,585
Unassigned	<u>11,332,170</u>
TOTAL FUND BALANCE	<u>12,115,349</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u><u>\$ 12,378,880</u></u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHESAPEAKE BEACH
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUND TO
STATEMENT OF NET POSITION
JUNE 30, 2020**

TOTAL GOVERNMENTAL FUND BALANCE	\$ 12,115,349
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	10,010,355
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Some liabilities are not due and payable in the current period and, therefore, are not reported in the fund. Those liabilities consist of:

Notes payable	(25,150)
Compensated absences	<u>(141,014)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 21,959,540</u></u>
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The accompanying notes are an integral part of these financial statements.

**TOWN OF CHESAPEAKE BEACH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	General Fund
REVENUES	
Taxes	\$ 5,577,662
Charges for services	382,343
Grants and contributions	683,479
Investment earnings	117,333
Miscellaneous	25,305
	<hr/>
TOTAL REVENUES	6,786,122
	<hr/>
EXPENDITURES	
Current:	
General government	1,406,069
Public safety	865,809
Public works	1,602,934
Capital outlay	777,053
Debt service:	
Principal	25,150
	<hr/>
TOTAL EXPENDITURES	4,677,015
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NET CHANGE IN FUND BALANCE	2,109,107
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FUND BALANCE, BEGINNING OF YEAR	10,006,242
	<hr/>
FUND BALANCE, END OF YEAR	<u><u>\$ 12,115,349</u></u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHESAPEAKE BEACH
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUND	\$ 2,109,107
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Amounts reported for governmental activities in the statement of activities are different because:

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the effect of these differences:

Capital outlays	\$ 1,336,130	
Depreciation expense	<u>(808,222)</u>	527,908

Repayment of loan payable principal is an expenditure in the governmental fund, but the repayment reduces non-current liabilities in the statement of net position.	25,150
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund:

Compensated absences	<u>(75,936)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,586,229</u></u>
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The accompanying notes are an integral part of these financial statements.

**TOWN OF CHESAPEAKE BEACH
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	Original and Final Appropriated Budget	Actual Amounts (Budgetary Basis)	Favorable (Unfavorable) Variance
REVENUES			
Taxes	\$ 4,874,535	\$ 5,577,662	\$ 703,127
Charges for services	312,600	382,343	69,743
Grants and contributions	204,000	683,479	479,479
Investment earnings	100,000	117,333	17,333
Miscellaneous	392,291	25,305	(366,986)
TOTAL REVENUES	<u>5,883,426</u>	<u>6,786,122</u>	<u>902,696</u>
EXPENDITURES			
Current:			
General government	1,656,235	1,406,069	250,166
Public safety	1,156,463	865,809	290,654
Public works	1,845,705	1,602,934	242,771
Capital outlay	1,199,873	777,053	422,820
Debt service:			
Principal	<u>25,150</u>	<u>25,150</u>	<u>-</u>
TOTAL EXPENDITURES	<u>5,883,426</u>	<u>4,677,015</u>	<u>1,206,411</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>2,109,107</u>	<u>2,109,107</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>2,109,107</u>	<u>\$ 2,109,107</u>
FUND BALANCE, BEGINNING OF YEAR		<u>10,006,242</u>	
FUND BALANCE, END OF YEAR		<u>\$ 12,115,349</u>	

The accompanying notes are an integral part of these financial statements.

TOWN OF CHESAPEAKE BEACH
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2020

	Water Park Fund	Utility Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,140,242	\$ 3,456,401	\$ 4,596,643
Accounts receivable	500	450,946	451,446
Inventory	11,530	-	11,530
Due from other funds	252	-	252
Total Current Assets	<u>1,152,524</u>	<u>3,907,347</u>	<u>5,059,871</u>
Noncurrent Assets:			
Land	-	21,875	21,875
Capital assets, net	808,698	24,549,218	25,357,916
Total Noncurrent Assets	<u>808,698</u>	<u>24,571,093</u>	<u>25,379,791</u>
TOTAL ASSETS	<u><u>\$ 1,961,222</u></u>	<u><u>\$ 28,478,440</u></u>	<u><u>\$ 30,439,662</u></u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 48,835	\$ 11,661	\$ 60,496
Accrued liabilities	2,301	77,097	79,398
Due to other funds	916,552	2,852,388	3,768,940
Current portion bonds and loans payable	-	609,400	609,400
Total Current Liabilities	<u>967,688</u>	<u>3,550,546</u>	<u>4,518,234</u>
Noncurrent Liabilities:			
Bonds and loans payable	-	5,961,358	5,961,358
Compensated absences	28,742	35,437	64,179
Total Noncurrent Liabilities	<u>28,742</u>	<u>5,996,795</u>	<u>6,025,537</u>
TOTAL LIABILITIES	<u>996,430</u>	<u>9,547,341</u>	<u>10,543,771</u>
NET POSITION			
Net investment in capital assets	808,698	18,000,335	18,809,033
Unrestricted	156,094	930,764	1,086,858
TOTAL NET POSITION	<u>964,792</u>	<u>18,931,099</u>	<u>19,895,891</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 1,961,222</u></u>	<u><u>\$ 28,478,440</u></u>	<u><u>\$ 30,439,662</u></u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHESAPEAKE BEACH
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	Water Park Fund	Utility Fund	Total
OPERATING REVENUES			
Current use charges	\$ 973,882	\$ 2,214,485	\$ 3,188,367
Miscellaneous	-	7,638	7,638
	<u>973,882</u>	<u>2,222,123</u>	<u>3,196,005</u>
TOTAL OPERATING REVNEUES			
OPERATING EXPENSES			
Personnel services	613,533	714,210	1,327,743
Operations and maintenance	373,042	1,414,946	1,787,988
Depreciation	121,042	956,655	1,077,697
	<u>1,107,617</u>	<u>3,085,811</u>	<u>4,193,428</u>
TOTAL OPERATING EXPENSES			
OPERATING LOSS	<u>(133,735)</u>	<u>(863,688)</u>	<u>(997,423)</u>
NONOPERATING REVENUES			
Investment interest	10,844	31,523	42,367
Connection fees	-	79,000	79,000
	<u>10,844</u>	<u>110,523</u>	<u>121,367</u>
TOTAL NONOPERATING REVENUES			
CHANGE IN NET POSITION	(122,891)	(753,165)	(876,056)
NET POSITION, BEGINNING OF YEAR (RESTATED)	<u>1,087,683</u>	<u>19,684,264</u>	<u>20,771,947</u>
NET POSITION, END OF YEAR	<u>\$ 964,792</u>	<u>\$ 18,931,099</u>	<u>\$ 19,895,891</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF CHESAPEAKE BEACH
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	Water Park Fund	Utility Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 973,382	\$ 2,210,804	\$ 3,184,186
Payments to suppliers and employees	(1,012,123)	(2,369,579)	(3,381,702)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(38,741)</u>	<u>(158,775)</u>	<u>(197,516)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Payments from other funds	415,335	1,159,648	1,574,983
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>415,335</u>	<u>1,159,648</u>	<u>1,574,983</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Connection fees	-	79,000	79,000
Purchase of capital assets	(73,045)	-	(73,045)
Principal payments on bonds and loans payable	-	(600,141)	(600,141)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(73,045)</u>	<u>(521,141)</u>	<u>(594,186)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	10,844	31,523	42,367
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>10,844</u>	<u>31,523</u>	<u>42,367</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	314,393	511,255	825,648
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>825,849</u>	<u>2,945,146</u>	<u>3,770,995</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,140,242</u></u>	<u><u>\$ 3,456,401</u></u>	<u><u>\$ 4,596,643</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating loss	\$ (133,735)	\$ (863,688)	\$ (997,423)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation expense	121,042	956,655	1,077,697
(Increase) decrease in assets:			
Accounts receivable	(500)	(11,319)	(11,819)
Inventory	-	-	-
Increase (decrease) in liabilities:			
Accounts payable	-	(268,928)	(268,928)
Accrued liabilities	(42,606)	(6,932)	(49,538)
Compensated absences	17,058	35,437	52,495
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (38,741)</u></u>	<u><u>\$ (158,775)</u></u>	<u><u>\$ (197,516)</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Chesapeake Beach ("the Town") was incorporated in 1894. The Town operates under a Mayor-Council form of government and provides the following services: Public Safety, Public Works (highway and street maintenance and solid waste collection), Utility services, Water Park, and General Administrative Services.

The Town complies with accounting principles generally accepted in the United States of America ("GAAP"). GAAP includes all relevant standards as set forth in the Governmental Accounting Standards Board's ("GASB") Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification"). The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the Town is considered to be an independent reporting entity and has no component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Entity-wide Financial Statements

The entity-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Town (the primary government).

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The entity-wide financial statements are reported using the economic resources measurement focus. The entity-wide statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes and fines are recognized as revenue in the year for which they are levied. Grants and similar items (nonexchange transactions) are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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 who purchase, use, or directly benefit from goods, services, or privileges provided by a function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes (property, income, and franchise) and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

Separate financial statements are provided for the governmental funds.

The 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 become both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For governmental fund types, the Town considers all revenues to be available if they are collected within 60 days after fiscal year end. Revenues considered susceptible to accrual include property taxes, income taxes, franchise taxes, licenses, fines, investment income, and grants associated with the current fiscal year. Only the portion of the special assessments receivable due within the current fiscal year is considered to be susceptible to accrual and recognized as revenues in the current fiscal year. All other revenue items are considered measurable and available only when cash is received by the Town.

Expenditures are recorded when the related fund liability is incurred (upon receipt of goods or services), except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town reports the following major governmental fund:

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

General Fund – to account for all financial resources, except those required to be accounted for in another fund. Town revenues are derived primarily from real estate taxes, licenses and permits, departmental earnings, and intergovernmental grants. Some of the important activities accounted for in the General Fund are Town operations pertaining to general government, police and fire protection, and street maintenance.

Proprietary Fund Types

Proprietary Fund types are used to account for a government's ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows. The accrual basis of accounting is used under this measurement focus.

An enterprise fund is used to finance and account for the acquisition, operation, and maintenance of the Town's facilities and services, which are supported primarily by user charges. The Water Park Fund accounts for the operation and maintenance of the water park activities. The Utility Fund accounts for operation of the water and wastewater system.

Cash and Cash Equivalents

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.

Receivables

The Town considers all receivables at year end to be collectible; therefore, no allowance for doubtful accounts has been recorded.

Capital Assets

Capital assets, including land, land improvements, buildings and improvements, equipment, and vehicles, are reported in the statement of net position. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets may be purchased or constructed and are recorded at cost or estimated historical cost. Estimated historical costs are based either on similar assets of the same era or on deflated current values. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets of the Town are depreciated using the straight-line method over the estimated useful lives of the related assets. Unless an asset's life has been adjusted based on actual experience, the Town generally uses the following estimated useful lives:

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Building and improvements	10 - 75 years
Land improvements	2 - 50 years
Equipment and vehicles	5 - 20 years
Water and sewer systems	5 - 45 years

Compensated Absences

It is the Town's policy to permit employees to be paid for accumulated earned but unused vacation upon separation of service, up to a maximum of 30 days. Additionally, it is the Town's policy to permit employees to be paid for accumulated compensatory leave upon separation of service, up to a maximum of 240 hours. Vacation and compensatory leave is accrued when earned in the government-wide statements, as well as the proprietary fund statements. The compensated absences liability was \$169,756 at June 30, 2020.

Fund Equity

The difference between assets and liabilities is "net position" on the entity-wide statements. The difference between assets and liabilities and deferred inflows of resources is "fund balance" on the governmental statements.

Fund Balance

Fund balance will be displayed in the following classification, as applicable, depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – amounts that cannot be spent because they are in nonspendable form (e.g., inventory), or legally or contractually required to be maintained intact (e.g., principal of a permanent fund).

Restricted – amounts limited by external parties or legislation (e.g., grants or donations and constraints imposed through a debt covenant).

Committed – amounts limited by Town Council policy (e.g., future anticipated costs). These constraints can be removed or changed by equal levels of action. Action or constraint resources should occur prior to fiscal year end.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Town Council has designated the Finance Manager the authority to assign amounts for specific purposes.

Unassigned – amounts available for consumption or not restricted in any manner.

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds as needed.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets (if applicable). Net position is reported as restricted when there are limitations imposed and their use is either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. Any remaining portions of net position are reflected as unrestricted. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first and then unrestricted resources as they are needed.

Property Taxes

Property taxes are recognized as a receivable at the time they are levied. The Town's property tax is levied on property values as assessed on January 1, billed on July 1, and payable either by September 30, or in two equal installments on September 30 and December 31. Property taxes are attached as an enforceable lien on the underlying properties as of the succeeding June 1 and are thereafter sold at public auction. Calvert County, Maryland bills and collections property taxes for the Town and remits cash collections to the Town once a month. Property taxes are considered available if received within 60 days of year-end. Delinquent tax receivables not received within 60 days of year-end are reflected as deferred inflows of resources and recognized at the date of receipt.

Use of Estimates in the Preparation of Financial Statements

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

Budgets and Budgetary Accounting

The budget of the General Fund is prepared on the same basis as that used to account for the historical financial data in accordance with accounting principles generally accepted in the United States of America.

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND CASH EQUIVALENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. The Town does not have a policy for custodial credit risk on deposits. At June 30, 2020, the carrying amount of the Town's deposits was \$4,002,412, and the bank balance was \$4,426,752. Of the bank balance, \$250,000 was covered by federal depository insurance and \$4,173,752 was fully covered by pledged collateral held by the depository's agent in the Town's name.

Investment Pool

The Town is a participant of the MLGIP, which provides all local government units of the State a safe investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by PNC Capital Advisors, LLC. An MLGIP Advisory Committee comprised of current participants was formed to review, on a quarterly basis, the activities of the fund and to provide suggestions to enhance the pool.

Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, MLGIP acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit. These external investment pools are considered 2a7-like pools and are recorded at amortized cost. The amortized cost, which approximates fair value of the pool, is determined by the pool's share price. As of June 30, 2020, MLGIP was rated AA by a nationally recognized statistical rating organization. As of June 30, 2020, the Town had \$9,070,146 invested in MLGIP.

NOTE 3 CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$ 1,346,596	\$ -	\$ -	\$ 1,346,596
Construction-in-progress	80,073	-	(80,073)	-
Total Capital Assets Not Being Depreciated	<u>1,426,669</u>	<u>-</u>	<u>(80,073)</u>	<u>1,346,596</u>

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets being depreciated:				
Land improvements	16,868,666	1,276,257	-	18,144,923
Buildings and improvements	1,717,055	42,050	-	1,759,105
Equipment and vehicles	1,513,156	97,896	-	1,611,052
Total Capital Assets Being Depreciated	20,098,877	1,416,203	-	21,515,080
Less accumulated depreciation for:				
Land improvements	9,972,080	699,348	-	10,671,428
Buildings and improvements	691,639	52,582	-	744,221
Equipment and vehicles	1,379,380	56,292	-	1,435,672
Total Accumulated Depreciation	12,043,099	808,222	-	12,851,321
Total Capital Assets Being Depreciated, Net	8,055,778	607,981	-	8,663,759
Governmental Activities Capital Assets, Net	<u>\$ 9,482,447</u>	<u>\$ 607,981</u>	<u>\$ (80,073)</u>	<u>\$10,010,355</u>
<i>Business-type Activities</i>				
Capital assets not being depreciated:				
Land	\$ 21,875	\$ -	\$ -	\$ 21,875
Total Capital Asset Not Being Depreciated	21,875	-	-	21,875
Capital assets being depreciated:				
Land improvements	1,032,776	-	-	1,032,776
Buildings and improvements	4,948,182	27,671	-	4,975,853
Water system	6,656,209	-	-	6,656,209
Sewer system	30,255,251	-	-	30,255,251
Equipment and vehicles	907,932	45,374	-	953,306
Total Capital Assets Being Depreciated	40,800,350	73,045	-	43,873,395
Less accumulated depreciation	17,437,782	1,077,697	-	18,515,479
Total Capital Assets Being Depreciated, Net	26,362,568	(1,004,652)	-	25,357,916
Business-type Activities Capital Assets, Net	<u>\$26,384,443</u>	<u>\$ (1,004,652)</u>	<u>\$ -</u>	<u>\$25,379,791</u>

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

Depreciation was charged to the following activities:

Governmental Activities:	
General government	\$ 52,582
Public works	<u>755,640</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 808,222</u>
 Business-type Activities:	
Water and sewer services	\$ 956,655
Water park	<u>121,042</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 1,077,697</u>

NOTE 4 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2020 is as follows:

<u>Due To</u>	<u>Amount</u>	<u>Due From</u>	<u>Amount</u>
General Fund	<u>\$ 3,768,688</u>	Utility Fund	\$ 2,852,136
		Water Park Fund	<u>916,552</u>
	<u>\$ 3,768,688</u>		<u>\$ 3,768,688</u>

NOTE 5 LONG-TERM LIABILITIES

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2020:

	<u>Balance 7/1/2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2020</u>	<u>Due Within One Year</u>
<i>Governmental Activities:</i>					
Notes payable	\$ 50,300	\$ -	\$ 25,150	\$ 25,150	\$ 25,150
Compensated absences	65,078	75,936	-	141,014	-
Governmental Activities, Long-term Liabilities	<u>\$ 115,378</u>	<u>\$ 75,936</u>	<u>\$ 25,150</u>	<u>\$ 166,164</u>	<u>\$ 25,150</u>

The following summarizes the changes in the long-term liabilities of business-type activities for the year ended June 30, 2020:

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM LIABILITIES (cont'd)

	Balance 7/1/2019	Additions	Deductions	Balance 6/30/2020	Due Within One Year
<i>Business-type Activities:</i>					
Bonds and loans payable	\$ 7,170,899	\$ -	\$ 600,141	\$ 6,570,758	\$ 609,400
Compensated absences	11,684	52,495	-	64,179	-
Business-type Activities, Long-term Liabilities	<u>\$ 7,182,583</u>	<u>\$ 52,495</u>	<u>\$ 600,141</u>	<u>\$ 6,634,937</u>	<u>\$ 609,400</u>

Governmental Activities

Notes payable relating to governmental activities at June 30, 2020 consists of the following:

Various non-interest bearing Shore Erosion Control notes payable through the Maryland Department of Natural Resources; currently being liquidated in annual installments totaling \$25,150, with varying due dates through September 2020

\$ 25,150

Payments of long-term liabilities for governmental activities are expected to be funded by the General Fund.

Business-type Activities

Bonds and loans payable relating to business-type activities at June 30, 2020 consist of the following:

ARRA Sewer Improvement Loan of 2009, \$683,000; interest payable semi-annually on February 1 and August 1 at 1.00%; annual principal payments due February 1 at varying amounts up to \$38,046; due February 1, 2028

\$ 273,371

Maryland Department of Housing and Community Development Local Government Infrastructure Financing Bond 2010 Series A-1, \$2,164,385; interest payable semi-annually on May 1 and November 1 at varying rates up to 4.25%; annual principal payments due May 1 at varying amounts up to \$149,000; due May 1, 2030

1,257,800

Water Quality Bond, Series 2007, \$4,720,489; interest payable semi-annually on February 1 and August 1 at 1.10%; annual principal payments due February 1 at varying amounts up to \$293,499; due February 1, 2027

1,817,983

Maryland Department of the Environment Water Quality 2014 construction loan, \$3,950,000; interest payable semi-annually on February 1 and August 1 at 1.0%; annual principal payments beginning February 1, 2017 at varying amounts up to \$216,723; due February 1, 2036

3,221,604

\$ 6,570,758

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM LIABILITIES (cont'd)

Maturities and interest requirements of the bonds and loans payable relating to business-type activities as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2021	\$ 609,400	\$ 104,828	\$ 714,228
2022	618,215	95,940	714,155
2023	627,887	86,460	714,347
2024	637,515	77,014	714,529
2025	647,500	67,220	714,720
2026 - 2030	2,161,665	190,482	2,352,147
2031 - 2035	1,051,851	42,604	1,094,455
2036	<u>216,725</u>	<u>2,168</u>	<u>218,893</u>
	<u>\$ 6,570,758</u>	<u>\$ 666,716</u>	<u>\$ 7,237,474</u>

Payments of long-term liabilities for business-type activities are expected to be funded by the Utility Fund.

NOTE 6 INTER-JURISDICTIONAL AGREEMENT

On January 16, 1981, and further amended on May 29, 1990, the Town, along with the Town of North Beach and Calvert County, Maryland, entered into an inter-jurisdictional agreement to build and operate a waste treatment plant located in the Town. The terms of the agreement remain in effect in perpetuity and provide that fee simple title to the plant is held by the Town in trust for all parties with cost sharing being allocated 47 percent to the Town, 24 percent to the Town of North Beach, and 29 percent to Calvert County, Maryland. On August 15, 1996, the municipalities above entered into another inter-jurisdictional agreement with Anne Arundel County, Maryland, whereby, Anne Arundel County agreed to construct improvements to increase the capacity of the plant by a minimum of 177,500 gallons per day ("gpd"). Under this agreement, Anne Arundel does not have any ownership of the plant but is entitled to an allocation of 157,500 gpd.

Upon the completion of the increased capacity of the plant, all fixed charges of the plant are allocated proportionally to all jurisdictions involved, based upon gpd allocations of 789,640 gpd to the Town; 250,200 gpd to the Town of North Beach; 302,325 gpd to Calvert County Maryland; and 157,500 gpd to Anne Arundel County, Maryland. Variable charges of the plant are allocated based upon actual EDU flows for the year. All capital expenditures are allocated based upon the plant ownership percentages discussed above. The Town provides all of their

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 6 INTER-JURISDICTIONAL AGREEMENT (cont'd)

accounting functions for the treatment plant and invoices the other government participants for their proportional share of all operating expense and capital expenditures. The Town accounts for its respective allocations of the operations of the treatment plant in the Utility Fund and recovers its costs through user charges to its citizens.

NOTE 7 RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has purchases commercial insurance and joined the Local Government Insurance Trust ("LGIT") to handled potential losses. LGIT was organized for the purpose of minimizing the cost of insurance and related administrative expenses. The Town pays an annual premium to LGIT for its general insurance coverage. The agreement with LGIT provides that LGIT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000,000. The Town continues to carry commercial insurance for employee health and accident insurance and workers compensation. Settled claims resulting from these risks have not exceeded coverage amounts, and no significant reductions in insurance coverage have occurred, in any of the past three fiscal years.

NOTE 8 RETIREMENT PLAN

The Town sponsors at 401(a) retirement plan on behalf of its eligible employees. Employees are eligible upon obtaining the age of 18. Elective deferrals by employees are not permitted under the plan. The Town makes quarterly contributions to the plan based on 10 percent of the compensation of all eligible participants during the plan year. All assets and income of the plan are held in trust for the exclusive benefit of each of the participants and their beneficiaries; as such, plan assets are not reflected in the Town's financial statements.

The Town also provides employees the opportunity to participate in a deferred compensation 457(b) plan covering all eligible employees. Employees are eligible upon completion of a six-month probationary period at the start of their employment. Under the plan, participants may make voluntary contributions to the plan up to maximum amount allowable by law, but not to exceed the lesser of \$18,500 or 100 percent of an employee's total compensation. The Town makes additional 100 percent matching contributions made by the Town are made into the 401(a) retirement plan discussed above. Similar to the 401(a) retirement plan, assets are not reflected in the Town's financial statements.

Total contributions made by the Town under these plans for the year ended June 30, 2020 was \$142,006.

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 9 COMMITMENTS

Litigation

The Town is contingently liable with respect to lawsuits and other claims that arise in the ordinary course of its operations. The Town is involved with the following litigation and claims as of June 30, 2020:

The Town is in dispute, with no claims yet filed, related to work done by a contractor on the Wastewater Reclamation and Treatment Plant. The Town claims the work did not meet performance requirements and is withholding retainage of approximately \$100,000 until the issue is settled. The Town has filed a motion to dismiss as they are past their statute of limitations to file suit against the Town.

Leasing Arrangements

The Town participates in a lease for library services, which are accounted for as operating leases. The Town is responsible for 25 percent of the combined rents, and Calvert County, Maryland is responsible for the remaining 75 percent of the combined rents. Under the terms of these agreements, annual rent increases are provided based upon the Consumer Price Index, with a minimum of two percent and up to a maximum of four percent. The lease renewed July 1, 2020 for a period of five years ending June 30, 2025, with a current monthly payment of \$2,212. The Town's portion of rent expense incurred under this agreement for the year ended June 30, 2020 was \$38,108. As of June 30, 2020, future minimum lease payments for the year ended June 30, 2021 were \$29,111.

NOTE 10 UNCERTAINTIES

As a result of the spread of the COVID-19 coronavirus which is ongoing at June 30 2020, economic and operational uncertainties have arisen which may impact the Town in fiscal year 2021. There exist uncertainties surrounding the Town's ability to open the water park in summer 2021, as well as the impact on summer 2021 tourism in the Town. These uncertainties may have a direct impact on individual revenue and expense items that are dependent on services being provided. The extent of the potential impact is unknown as the COVID-19 pandemic continues to develop.

NOTE 11 PRIOR PERIOD RESTATEMENT

The Town restated its July 1, 2019 net position in its business type activities, and utility fund due to an error detected in recording the activity for the treatment plant. The net result of this change is an increase of \$2,646,649 in business-type activities and utility fund net position.

TOWN OF CHESAPEAKE BEACH
NOTES TO FINANCIAL STATEMENTS

NOTE 12 SUBSEQUENT EVENTS

The Town has evaluated all subsequent events through November 19, 2020, the date the financial statements were available to be issued.



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

November 19, 2020

Members of Council
Town of Chesapeake Beach
Chesapeake Beach, Maryland

We have audited, 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, the financial statements of the governmental activities, business-type activities, and each major fund of the Town of Chesapeake Beach ("the Town"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 19, 2020.

Internal Control over Financial Reporting

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

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

Members of Council
Town of Chesapeake Beach

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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described as item 2020-001 below that we consider to be a material weakness.

2020-001 – During our current year audit, a material prior period adjusting entry relating to the activity of the Town's treatment plant was required as part of the audit process to correct the Town's beginning net position in the financial statements.

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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BARBACANE, THORNTON & COMPANY LLP