

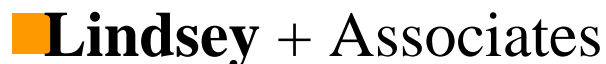
**TOWN OF HIGHLAND BEACH, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2022**

TOWN OF HIGHLAND BEACH, MARYLAND

TABLE OF CONTENTS

JUNE 30, 2022

	Page
INDEPENDENT AUDITOR’S REPORT	1 – 3
REQUIRED SUPPLEMENTARY INFORMATION	
• Management’s Discussion and Analysis	4 – 9
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
• Statement of Net Position	10
• Statement of Activities	11
Fund Financial Statements	
• Balance Sheet – Governmental Funds	12
• Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
NOTES TO BASIC FINANCIAL STATEMENTS	14 – 27
REQUIRED SUPPLEMENTARY INFORMATION	
• Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund – unaudited	28
SUPPLEMENTAL SCHEDULES	
• Schedule of Revenues – Budget and Actual General Fund	29
• Schedule of Expenditures – Budget and Actual General Fund	30



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Independent Auditor’s Report

Honorable Mayor
Board of Commissioners
Town of Highland Beach, Maryland

Opinion

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Highland Beach, Maryland (the “Town”), as of June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town as of June 30, 2022, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Highland Beach and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Highland Beach's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Highland Beach's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 4 through 9 and 28, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Highland Beach, Maryland's financial statements as a whole. The Schedule of Revenues-Budget and Actual and Schedule of Expenditures-Budget and Actual ("supplemental schedules") on pages 29 through 30 are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Hindley & Associates, LLC

October 21, 2022

**TOWN OF HIGHLAND BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

Our discussion and analysis of the financial performance of the Town of Highland Beach provides an overview of the Town's financial activities for the year ended June 30, 2022. Please read it in conjunction with the transmittal letter and the Town's financial statements.

Financial Highlights

- The Town had one employee during the fiscal year, the Town Manager.
- Elected officials are considered employees by the IRS. The Mayor is entitled to be compensated for each monthly meeting. Mayor Sanders has chosen not to receive compensation, which is why the Town only has one employee instead of two at this time. Each commissioner is required to submit an Employment Verification Form.
- The Town still has contracts with various independent contractors or corporate entities for the provision of various services. For example, during the summer months, there is a contract to provide traffic control services, of which Venice Beach pays 1/3 of the cost. There is also a contract for landscaping and lawncare. In July 2017, the Town contracted with Tina Smith to provide accounting services.
- Citizens of Highland Beach can use the Town Hall and common areas of the beach for a set non-refundable fee and deposit, if required. An agreement with the Venice Beach Citizens Association allows it to have meetings in the Town Hall at the rate of \$50 per meeting.
- The Town continues to receive money as a result of franchise agreements with Verizon and Comcast. Five percent of the amount spent per household for cable franchise taxes is returned to the community.
- Monthly inspections take place on Town property and any repairs needed are made. These inspection reports, in turn, are reported to the Local Government Insurance Trust (LGIT) which insures the Town's properties. The Town did not file any claims this year.
- The Town's property tax rate was \$0.1505 per \$100 of assessed value.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities are government-wide statements that provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements report the Town's operation in more detail than the government-wide statements by providing information about the Town's most significant funds and individual parts.

**TOWN OF HIGHLAND BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

Reporting the Town as a Whole

The Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the Town as a whole. These statements include all assets and deferred outflows and liabilities and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report changes in the Town's net position. You can think of the Town's net position (the difference between assets and deferred outflows and liabilities and deferred inflows) as one way to measure the Town's financial health or position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Town's property tax base and the condition of the Town's roads to assess the overall health of the Town.

- Governmental activities — Most of the Town's basic services are reported here, including the general administration and public works. Taxes finance most of these activities.

Reporting the Town's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the Town as a whole.

- Government funds — Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, 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 government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation to the side of the fund financial statements.

**TOWN OF HIGHLAND BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

The Town as a Whole

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General Government

Cable TV Fees

Public Works

Highway User Revenues

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted to a specific purpose.

**TOWN OF HIGHLAND BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

Governmental-Wide Financial Information

The following is selected information as of June 30, 2022 and June 30, 2021 for the years then ended.

	<u>2022</u>	<u>2021</u>
Current assets	\$ 396,770	\$ 436,817
Capital assets	979,687	973,646
Total assets	1,376,457	1,410,463
Deferred outflows	-	-
Total deferred outflows and assets	1,376,457	1,410,463
Current liabilities	41,202	7,320
Long-term liabilities	-	-
Total liabilities	41,202	7,320
Deferred inflows	-	-
Net position		
Net investment in capital assets	979,687	973,646
Restricted	-	-
Unrestricted	355,568	429,497
Total net position	1,335,255	1,403,143
Total liabilities, deferred inflows and net position	1,376,457	1,410,463
Program revenues		
Charges for services	4,065	3,713
Grants and contributions	16,101	12,872
General revenues		
Income taxes	32,030	28,566
Property taxes	51,454	50,668
Total general revenues	97,543	84,896
Transfers	-	-
Total revenues and transfers	117,709	101,481
Expenses		
General government	104,789	59,496
Recreation and culture	32,638	28,240
Public works	66,078	66,068
Total expenses and transfers	203,505	153,804
Change in net position	(85,796)	(52,323)
Net position, beginning of year	1,421,051	1,455,466
Net position, end of year	\$ 1,335,255	\$ 1,403,143

**TOWN OF HIGHLAND BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

The Town's Funds

The following schedule presents a summary of general revenue and expenses for the fiscal year ended June 30, 2022 and amount of increase or decrease in relation to the prior year.

	FY2022 Amount	Percent of Total	Increase (Decrease) From FY21
Revenues			
Taxes	\$ 83,484	74%	\$ 4,250
Fines, licenses and permits	14,583	13%	(1,927)
Interest income	1,955	2%	(3,097)
Miscellaneous	12,105	11%	11,420
Total Revenues	\$ 112,127	100%	\$ 10,646
Expenditures			
General government	\$ 63,219	30%	\$ 39,801
Public works	63,068	30%	10
Recreation and culture	23,076	11%	6,077
Capital outlays	60,183	29%	60,183
Total Expenditures	\$ 209,546	100%	\$ 106,071

General Fund Budgetary Highlights

- Tax revenues increased by \$786 from the prior fiscal year.
- General governmental expenses increased by \$106,067 from the prior fiscal year. The expenditures contributing to the increase from the prior fiscal year were funded from reserve funds or from American Rescue Plan Act (ARPA) grant funds. These total, together with unexpected legal fees associated with litigation at an unimproved lot of \$26,500, and capital assets noted below of \$76,344, and ARP expenditure of \$5,583, account for \$108,427 of the \$106,067 increase from fiscal year 2021 to fiscal year 2022. Consequently, all of the increase from the prior fiscal year came from sources beyond the planned operating budget.

**TOWN OF HIGHLAND BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

Capital Asset and Debt Administration

Capital Assets

- The town purchased a Mini Track Bobcat for beach and other management at an expenditure of \$28,178.
- A community-wide stormwater drainage study was completed for an expenditure of \$9,750.
- The Living Shoreline Project (Shoreline Stabilization) to address erosion of the beachfront resulted in an expenditure of \$16,500.
- The failed chair lift at the Frederick Douglass Museum and Cultural Center was replaced at a cost of \$13,654.
- The town also paid \$8,262 mostly for deck repair, repainting, and clean-up at the FDMCC.
- The town utilized \$5,583 of ARP funding to upgrade the HVAC systems and to equip both the Town Hall and Douglass Museum with whole-house and room air purifiers in response to the COVID-19 pandemic.

Debt

At June 30, 2022, the town had no debt.

Economic Factors and Next Year's Budgets and Rates

The property tax rate for next year remains the same at \$0.1505 per \$100 of assessed value.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer at Town Hall, 3243 Walnut Drive, Highland Beach, MD 21403.

TOWN OF HIGHLAND BEACH, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2022

	<u>Governmental Activities</u>	<u>Total</u>
ASSETS		
Current Assets		
Cash and cash equivalents - unrestricted	\$ 76,104	\$ 76,104
Investments	272,973	272,973
Accounts receivable	34,542	34,542
Prepaid expenses	13,151	13,151
Total Current Assets	<u>396,770</u>	<u>396,770</u>
Noncurrent Assets		
Net capital assets	<u>979,687</u>	<u>979,687</u>
Total Noncurrent Assets	<u>979,687</u>	<u>979,687</u>
TOTAL ASSETS	<u>1,376,457</u>	<u>1,376,457</u>
DEFERRED OUTFLOWS OF RESOURCES		
	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,376,457</u>	<u>\$ 1,376,457</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 13,418	\$ 13,418
Unearned revenue	<u>27,784</u>	<u>27,784</u>
Total Current Liabilities	<u>41,202</u>	<u>41,202</u>
Noncurrent Liabilities		
Total Noncurrent Liabilities	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>41,202</u>	<u>41,202</u>
DEFERRED INFLOWS OF RESOURCES		
	<u>-</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	979,687	979,687
Restricted	-	-
Unrestricted	<u>355,568</u>	<u>355,568</u>
Total Net Position	<u>1,335,255</u>	<u>1,335,255</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 1,376,457</u>	<u>\$ 1,376,457</u>

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

TOWN OF HIGHLAND BEACH, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Total
Primary Government						
Governmental Activities:						
General government	\$ 104,789	\$ 4,065	\$ 5,583	\$ -	\$ (95,141)	\$ (95,141)
Public works	66,078	-	10,518	-	(55,560)	(55,560)
Recreation and culture	32,638	-	-	-	(32,638)	(32,638)
Total Governmental Activities	<u>203,505</u>	<u>4,065</u>	<u>16,101</u>	<u>-</u>	<u>(183,339)</u>	<u>(183,339)</u>
Total Primary Government	<u>\$ 203,505</u>	<u>\$ 4,065</u>	<u>\$ 16,101</u>	<u>\$ -</u>	<u>\$ (183,339)</u>	<u>\$ (183,339)</u>
			General revenues:			
			Taxes			
			Income taxes		32,030	32,030
			Property taxes		51,454	51,454
			Interest and investment earnings		1,955	1,955
			Miscellaneous		12,104	12,104
			Total General Revenues		<u>97,543</u>	<u>97,543</u>
			Change in Net Position		(85,796)	(85,796)
			Net Position, beginning of year		<u>1,421,051</u>	<u>1,421,051</u>
			Net Position, end of year		<u>\$ 1,335,255</u>	<u>\$ 1,335,255</u>

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

**TOWN OF HIGHLAND BEACH, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2022**

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2022**

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents - unrestricted	\$ 76,104	\$ 76,104
Investments	272,973	272,973
Accounts receivable	34,542	34,542
Prepaid expense	13,151	13,151
TOTAL ASSETS	396,770	396,770
 DEFERRED OUTFLOWS OF RESOURCES	 -	 -
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 \$ 396,770	 \$ 396,770
 LIABILITIES		
Accounts payable and accrued expenses	13,418	13,418
Unearned revenue	27,784	27,784
TOTAL LIABILITIES	41,202	41,202
 DEFERRED INFLOWS OF RESOURCES	 17,908	 17,908
 FUND BALANCES		
Nonspendable	13,151	13,151
Unassigned	324,509	324,509
TOTAL FUND BALANCES	337,660	337,660
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	 \$ 396,770	 \$ 396,770

<i>Total Governmental Fund Balances</i>	\$ 337,660
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	979,687
Receivables pertaining to revenue that is not available in accordance with modified accrual accounting are reported as deferred inflows of resources in the funds.	17,908
<i>Net Position of Governmental Activities</i>	\$ 1,335,255

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

TOWN OF HIGHLAND BEACH, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund	Total Governmental Funds
REVENUES		
Income taxes	\$ 32,030	\$ 32,030
Property taxes	51,454	51,454
Highway user revenue	10,518	10,518
Cable TV franchise fees	4,065	4,065
American Rescue Plan	5,583	5,583
Other revenues	12,104	12,104
Interest and investment earnings	1,955	1,955
Total Revenues	117,709	117,709
EXPENDITURES		
Current Operations		
General government	63,219	63,219
Public works	63,068	63,068
Recreation and culture	23,076	-
Capital outlays	60,183	60,183
Total Expenditures	209,546	186,470
Excess of revenues over (under)		
 expenditures and other financing uses	(91,837)	(68,761)
Other financing sources (uses)		
Transfers	-	-
Total other financing sources (uses)	-	-
Excess of revenue and other financing		
 sources over (under) expenditures		
 and other financing uses	(91,837)	(91,837)
Fund balance, beginning of year	429,497	429,497
Fund balance, end of year	\$ 337,660	\$ 337,660

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ (91,837)
Governmental funds report 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 amount by which depreciation exceeded capital outlays in the current period.	6,041
Decreases in deferred inflows of resources relating to income taxes are do not use current period financial resources and are not reported as revenues in the governmental funds.	-
<i>Change in Net Position of Governmental Activities</i>	\$ (85,796)

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

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Town of Highland Beach, Maryland (the “Town”) is a municipal corporation governed by an elected mayor and Board of Commissioners and provides the following services as authorized by its charter: traffic control, highways and streets, public improvements, recreation and general administrative services. The Town is located within Anne Arundel County, Maryland, and has an estimated population of 103 in an area of approximately 40 acres.

The accounting policies of the Town of Highland Beach conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

In evaluating how to define the Town of Highland Beach, for financial reporting purposes, management has considered all potential component units. The decision whether to include a potential component unit in the reporting entity was made by applying the criteria set by the Governmental Accounting Standards Board. Component units are legally separate organizations for which the elected officials of the Town are financially accountable and a financial benefit or burden relationship exists. In addition, component units can be other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town’s financial statements to be misleading. Based upon the application of criteria set by the Governmental Accounting Standards Board, there are no separate component units of the Town.

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The Town’s governmental funds consist of the General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources of the Town.

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Accounting

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. The Town has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, including the reclassification or elimination of internal activity (between or within funds). This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the Town, if any, and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect costs are allocated to programs. 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 needed. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town. Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Fiduciary funds are excluded from the government-wide financial statements.

Separate financial statements are provided for governmental funds, proprietary funds, if any, and fiduciary funds, if any, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds, if any, are reported as separate columns in the fund financial statements.

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Financial Statements

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise, if any, financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column.

Governmental Funds

Town activities pertaining to general government, streets, sanitation, recycling, health and social services, and public park improvements are reported in the governmental funds. All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

The major governmental funds are:

- General Fund – This is the Town’s primary operating fund. It is used to account for all financial resources except for those required to be accounted for in another fund.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within two months of year-end and available to pay obligations of the current period). These include property taxes, franchise taxes, investment earnings, charges for services and intergovernmental revenues.

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues are recorded as receivables and deferred inflows of resources.

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which has not matured, are recognized when paid.

Allocations of costs, such as depreciation and amortization, are not recognized in the governmental activities.

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.

Investments

Investments held at June 30, 2022 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables

The balance of receivables at June 30, 2022 is \$16,634. Accounts receivable are deemed collectible in full.

Inventory of Supplies

Inventories, if any, are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the Town as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as bridges, roads, curbs and gutters, streets, sidewalks, drainage systems and lighting systems are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated. Intangible assets are recognized if they are identifiable, and are amortized over their useful lives, if they do not have indefinite useful lives.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 20 years.

Deferred Outflows and Inflows of Resources

A *deferred outflow of resources* represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Likewise, a *deferred inflow of resources* represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The balance of deferred inflows of resources as of June 30, 2022 consists of income taxes of \$17,908.

Restricted Reserves

The Town uses restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Interest Expense

Interest is expensed as incurred except when interest is incurred during the construction period and is capitalized as part of the cost of the asset.

Compensated Absences

The Town has one employee. Employees do not receive paid vacation leave, therefore there is no amount recorded for accumulated vacation leave at June 30, 2022.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that were used.

Equity Classifications

Equity is classified as net position and is displayed in three components:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings, and reduced or increased by deferred inflows and outflows attributable to the acquisition, construction or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on its use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation and are reduced by liabilities and deferred inflows of resources related to those constraints.

Unrestricted net position – consist of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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 needed.

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

1. Non-Spendable Fund Balance – amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
2. Restricted Fund Balance – amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the Town Charter, Town Code or enabling legislation.
3. Committed Fund Balance – amounts that can be used only for specific purposes determined by a formal action by Town Council, the Town’s highest level of decision-making authority, ordinance or resolution.
4. Assigned Fund Balance – amounts that are constrained by the Town’s intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the Town Charter, the Town Manager and the Town Council are authorized to assign amounts for specific purposes.
5. Unassigned Fund Balance – all amounts not included in other spendable classifications.

The Town considers restricted fund balances to be spent for governmental expenditures first when both restricted and unrestricted resources are available. The Town also considers committed fund balances to spend first when other unrestricted fund balance classifications are available for use.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Requirements for all funds:

Annual budgets are adopted for all Town funds. The Board of Commissioners may subsequently amend the budget. The budget was not amended during fiscal year 2022. For day-to-day management control, expenditures may not exceed budget at the department level.

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

Statutes authorize the Town to invest only in the following securities:

- Any obligation for which the United States has pledged its faith and credit for the payment of the principal and interest.
- Federally insured accounts at one or more banks or savings and loan associations.

The Town's deposits are insured or collateralized with securities held by the Town, its agent, or by the pledging financial institution's trust department or agent in the name of the Town.

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned or the Town will not be able to recover collateral securities in the possession of an outside party. The Town's policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by collateral valued at 102 percent of principal and accrued interest. Collateral is to be held by the Town, its agent, or by the pledging financial institution's trust department or agent in the name of the Town.

At year-end, the carrying amounts of the Town's deposits were \$76,104 and the bank balances totaled \$91,674. The entire amount of the bank balances was insured by Federal Depository Insurance Corporation (FDIC). At year end, the Town's bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized.

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Investment Policies

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Town's policy is to limit its interest rate risk by primarily investing in securities with maturity dates under one year.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town has no policy regarding credit risk.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town has no policy regarding credit risk.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Town policy provides that collateral is to be held by the Town, its agent, or by the pledging financial institution's trust department or agent in the name of the Town.

Generally, the Town's investing activities are managed by the Town Treasurer. Investing is performed in accordance with investment policies adopted by the Board of Commissioners complying with State Statutes and the Town Charter. Town funds may be invested in: 1) bankers' acceptances; 2) secured certificates of deposit issued by Maryland banks; 3) commercial paper of the highest investment grade; 4) money market funds whose portfolio is operated consistent with the SEC rule 2a-7 and that invest only in obligations that a federal agency or instrumentality issues; and 5) the Maryland Local Government Investment Pool (MLGIP).

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Investments

As of June 30, 2022, the Town had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings</u>
Certificate of Deposit			
CFG Community Bank	\$ 272,973	\$ 272,973	N/A
Total Investments	<u>\$ 272,973</u>	<u>272,973</u>	

Note: Ratings are provided where applicable to indicate associated Credit Risk.
N/A indicates not applicable.

NOTE 4 - RECEIVABLES

Receivables are comprised of the following as of June 30, 2022:

Real estate tax	\$ 1,092
Cable TV	655
Reimbursements	4,063
Interest	2,309
Highway user revenue	2,350
Other	24,073
	<u>\$ 34,542</u>

NOTE 5 – PROPERTY TAX

The Board of Commissioners holds an annual public hearing no later than May 31, for residents to voice their opinion on the proposed tax rate and annual budget. After the hearing, the Board sets the tax rate by ordinance by May 31. Anne Arundel County (the “County”) tax offices are informed of the approved rate and County tax bills have these amounts included on them. Property taxes are levied as of July 1, on property values as of the same date. Town residents pay all property taxes directly to the County. The County then forwards all payments to the Town office. Tax billings are considered past due after September 30. When taxes are overdue, a lien is placed against the property. The Town’s real property tax rate for the year ended June 30, 2022 was \$0.1505 per \$100 of assessed value.

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Not being depreciated:				
Land	\$ 472,250	\$ -	\$ -	\$ 472,250
Construction in progress	-	-	-	-
Subtotal	<u>472,250</u>	<u>-</u>	<u>-</u>	<u>472,250</u>
Depreciable capital assets:				
Buildings and improvements	1,196,748	-	-	1,196,748
Machinery and equipment	42,630	60,183	-	102,813
Subtotal	<u>1,239,378</u>	<u>60,183</u>	<u>-</u>	<u>1,299,561</u>
Total capital assets	<u>1,711,628</u>	<u>60,183</u>	<u>-</u>	<u>1,771,811</u>
Accumulated depreciation:				
Buildings and improvements	708,666	53,246	-	761,912
Machinery and equipment	29,316	896	-	30,212
Subtotal, accumulated depreciation	<u>737,982</u>	<u>54,142</u>	<u>-</u>	<u>792,124</u>
Net capital assets	<u>\$ 973,646</u>	<u>\$ 6,041</u>	<u>\$ -</u>	<u>\$ 979,687</u>

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 41,570
Public works	3,010
Recreation and culture	9,562
Total government activities depreciation	<u>\$ 54,142</u>

The Town has no material construction commitments as of June 30, 2022.

NOTE 7 – LONG-TERM DEBT

As of June 30, 2022, the Town had no long-term debt.

NOTE 8 – RETIREMENT PLAN

The Town does not have a retirement plan.

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 8 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to workers, and natural disasters.

The Town has an insurance agreement with the Local Government Insurance Trust (LGIT), a public entity risk pool. LGIT provides the Town's property, general, automobile, employee, police and public officials' legal liability insurance coverage.

This is a total risk and cost sharing pool for all participants. In the event that the Trust's General Fund falls into a deficit that cannot be satisfied by transfers from the Trust's capital and surplus accounts, the Trustees shall determine a method to fund the deficit. The Trust agreement empowers the Trustees to assess an additional premium to each deficit-year participant. Debt issues could also be used to fund a deficit.

Premiums are charged to the Town's General Fund, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments during the year ended June 30, 2022, and the amount of settlements has not exceeded coverage for each of the past three years. During the year ended June 30, 2022, the Town paid premiums of \$1,989 to the Trust.

The Town also has an agreement with Chesapeake Employers Insurance Company to provide a workers' compensation policy.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants

The Town receives grants from time-to-time. 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 result of disallowed expenditures.

NOTE 12 – CONCENTRATION OF CREDIT RISK

The Town derives most of its revenues from the citizens of the Town. The Town is located in Anne Arundel County, Maryland.

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 13 – FUND BALANCE REPORTING

Fund balances for the Town’s governmental funds consisted of the following as of June 30, 2022:

Non-spendable Fund Balance

At June 30, 2022, the non-spendable fund balance in the General Fund was \$13,151.

Unassigned Fund Balance

At June 30, 2022, the unassigned fund balance in the General Fund was \$324,509.

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

Statement No. 87, *Leases*, issued June 2018, effective for financial statements for fiscal years beginning after June 15, 2021 (postponed 18 months by Statement No. 95).

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, issued June 2018, effective for reporting periods beginning after December 15, 2020 (postponed one year by Statement No. 95).

Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, issued August 2018, effective for reporting periods beginning after December 15, 2019 (postponed one year by Statement No. 95).

Statement No. 91, *Conduit Debt Obligations*, issued May 2019, effective for reporting periods beginning after December 15, 2021 (postponed one year by Statement No. 95).

Statement No. 92, *Omnibus 2020*, issued January 2020, effective for reporting periods beginning after June 15, 2021 (postponed one year by Statement No. 95).

Statement No. 93, *Replacement of Interbank Offered Rates*, issued March 2020, effective for reporting periods beginning after June 15, 2020 (postponed one year by Statement No. 95).

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, issued March 2020, effective for reporting periods beginning after June 15, 2022.

Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, issued May 2020, effective immediately.

TOWN OF HIGHLAND BEACH, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS – continued

Statement No. 96, *Subscription-Based Information Technology Arrangements*, issued May 2020, effective for reporting periods beginning after June 15, 2022.

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, issued June 2020, effective for reporting periods beginning after June 15, 2021.

Statement No. 98, *The Annual Comprehensive Financial Report*, issued October 2021, effective immediately.

Statement No. 99, *Omnibus 2022*, issued April 2022, sections effective for reporting periods ending after June 15, 2022 and 2023.

Statement No. 100, *Accounting Changes and Error Corrections*, issued June 2022, effective for reporting periods beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, issued June 2022, effective for reporting periods beginning after December 15, 2023.

The Town will implement these statements as necessary as of their effective dates. While the Town is still in the process of determining the effect of implementing these GASB statements, they are not expected to have a material effect on the financial position of the Town.

**TOWN OF HIGHLAND BEACH, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2022**

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues				
Income taxes	\$ 20,000	\$ 20,000	\$ 32,030	\$ 12,030
Property taxes	48,704	48,704	51,454	2,750
Cable TV franchise fees	3,550	3,550	4,065	515
Highway user	11,600	11,600	10,518	(1,082)
Other revenues	4,125	4,125	12,104	7,979
Interest	1,000	1,000	1,955	955
American Rescue Plan	-	-	5,583	5,583
Total Revenues	\$ 88,979	\$ 88,979	\$ 117,709	\$ 28,730
Expenditures				
General government	\$ 20,600	\$ 20,600	\$ 63,219	\$ (42,619)
Public works	42,350	42,350	63,068	(20,718)
Recreation and culture	20,100	20,100	23,076	(2,976)
Capital outlays	-	-	60,183	(60,183)
Total Expenditures	\$ 83,050	\$ 83,050	\$ 209,546	\$ (126,496)

TOWN OF HIGHLAND BEACH, MARYLAND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Income taxes	\$ 20,000	\$ 32,030	\$ 12,030
Property taxes	48,704	51,454	2,750
Cable TV franchise fees	3,550	4,065	515
Highway User	11,600	10,518	(1,082)
Other revenues	4,125	12,104	7,979
Interest	1,000	1,955	955
American Rescue Plan	-	5,583	5,583
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 88,979</u>	<u>\$ 117,709</u>	<u>\$ 28,730</u>

**TOWN OF HIGHLAND BEACH, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
EXPENDITURES			
General Government			
Administrative	\$ 6,900	\$ 8,371	\$ (1,471)
Bank charges	-	36	(36)
Legal and accounting	3,200	30,271	(27,071)
Municipal building	3,500	9,200	(5,700)
Payroll	1,000	938	62
Donations	-	4,200	(4,200)
Air purifiers	-	5,583	(5,583)
Town Manager	6,000	4,620	1,380
Total General Government	<u>20,600</u>	<u>63,219</u>	<u>(42,619)</u>
Capital Expenditures			
Gazebo	-	1,849	(1,849)
Heavy equipment	-	28,179	(28,179)
Shoreline stabilization	-	16,500	(16,500)
Chair lift	-	13,655	(13,655)
Total Capital Expenditures	<u>-</u>	<u>60,183</u>	<u>(60,183)</u>
Public Works			
Road maintenance	6,000	170	5,830
Signs	500	236	264
Snow removal	6,000	7,200	(1,200)
Street lights	3,000	4,197	(1,197)
Traffic control	15,500	12,188	3,312
Utilities/Maintenance	10,350	18,411	(8,061)
Bay drainage assessment	-	9,750	(9,750)
Repairs	-	7,250	(7,250)
Miscellaneous	1,000	3,666	(2,666)
Total Public Works	<u>42,350</u>	<u>63,068</u>	<u>(20,718)</u>
Recreation and Culture			
Equipment	16,000	10,745	5,255
F.D. Museum	4,100	12,331	(8,231)
Total Recreation and Culture	<u>20,100</u>	<u>23,076</u>	<u>(2,976)</u>
Total Expenditures	<u>\$ 83,050</u>	<u>\$ 209,546</u>	<u>\$ (126,496)</u>

October 21, 2022

To the Honorable Mayor and Board of Commissioners
Town of Highland Beach, Maryland

We audited the financial statements of the governmental activities and each major fund of the Town of Highland Beach (the “Town”) for the year ended June 30, 2022, and have issued our report thereon dated October 21, 2022. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U. S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 28, 2022, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U. S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Town. Such consideration was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Town’s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our test was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Town are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2022 except as may be explained in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

There were no difficulties encountered during the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements:

- Fixed assets, depreciation expense, and related accumulated depreciation
- Revenue, cash, and expense accounts
- Receivables and related revenue

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representation from management that is included in the management representation letter dated October 21, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationships and our responses were not a condition to our retention.

We also provided management with a letter dated October 21, 2022 pertaining to our audit findings and recommendations.

This information is intended solely for the use of the, Board of Commissioners and Mayor and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lindsay & Associates, LLC". The signature is written in black ink and is positioned below the typed name.