

**TOWN OF ROCK HALL, MARYLAND  
FINANCIAL STATEMENTS  
JUNE 30, 2021**

**TOWN OF ROCK HALL**

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## **Independent Auditor's Report**

Honorable Mayor, Members of the Town Council and Town Manager  
Town of Rock Hall, Maryland

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Rock Hall, Maryland, as of and for the year ended June 30, 2021, and the related notes to the financial statements which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and 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 Rock Hall, Maryland, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required supplementary information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, and the pension-related supplementary information on pages 4 through 10, 48 and 49, 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 Rock Hall, Maryland's financial statements as a whole. The schedule of revenues – budget and actual – general fund, the schedule of expenditures – budget and actual – general fund and the schedule of revenues, expenses and changes in net position – budget and actual – utility fund (“supplementary information”) on pages 48 through 54 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The supplementary 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2022, on our consideration of the Town of Rock Hall, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Rock Hall, Maryland's internal control over financial reporting and compliance.

*Kindley's Associates, LLC*

November 9, 2022

**TOWN OF ROCK HALL, MARYLAND  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

Our discussion and analysis of the financial performance of the Town of Rock Hall provides an overview of the Town’s financial activities for the year ended June 30, 2021. Please read it in conjunction with the transmittal letter and the Town’s financial statements.

Introduction:

Fiscal Year 2021 proved to be very challenging for the Town of Rock Hall, possibly one of its most difficult years to date. As with most small municipalities, adjusting to the new “norm” due to COVID only added to our list of challenges.

There were several significant challenges in FY’21:

Supply and demand for basic parts, services, and repairs was a struggle due to COVID. Many of our contractors were faced with the same obstacles. This delayed projects and repairs that were out of the Town’s control.

Continued unexpected major infrastructure failures due to lack of maintenance and repairs are at a point of no return. The Town will be taking on an unprecedented amount of debt and grants in the foreseeable future.

The Town Hall was closed indefinitely due to serious mold, asbestos, and structural issues. Administrative staff worked remotely, and the Police Department was relocated to the elementary school. Neither situation has been ideal for staff. It made working conditions difficult to perform ordinary, daily tasks. There continues to be a lack of determination on the future of the building.

The size of our municipal staff is significantly smaller than other municipalities of comparable population. While in years past, this may have been a plus for the Town because we could rely on private contractors, this is no longer the case. The number of projects on the Town’s plate and day to day operations have stretched our employees thin. Additional staffing in all departments is needed to continue to properly and diligently function. It is also imperative to provide software to manage day to day operations of office staff. We desperately need to move away from being inundated with paper.

The most significant financial challenge in FY21 continued to be insufficient revenues to support the services provided and unexpected infrastructure issues. Property taxes and utility rates were not raised in FY21. Recommendations remain to increase taxes and adopt a utility rate structure that covers expenses and begins to create reserves for upcoming infrastructure projects.

**TOWN OF ROCK HALL, MARYLAND  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**Financial Highlights:**

- Property tax rate did not increase
- Water & Sewer rates did not increase
- Building Permits – slight decrease
- There were 2 water & sewer connections
- Water and Sewer charges were down; penalties slightly decreased
- State Income Taxes increased

**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.

**Reporting the Town as a Whole**

**The Statement of Net Position and the Statement of Activities**

One of the most important questions asked about the Town’s finances is, “Is the Town as a whole, better off or worse off as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. 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 plus deferred outflows and liabilities plus 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.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities:

- Governmental activities – Most of the Town’s basic services are reported here, including the police, general administration, public works, and parks. Taxes, franchise fees, fines, and state and federal grants finance most of these activities.



**TOWN OF ROCK HALL, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

- Business-type activities – The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's water and sewer system is reported here.

**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. The Town's two kinds of funds, governmental and proprietary, use different accounting approaches.

- Governmental funds – Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using 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 right of the fund financial statements.
- Proprietary funds – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash-flows.

**TOWN OF ROCK HALL, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**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	Building Permit Fees, Rental Housing Licenses, Public Works Agreement Fees, Zoning Appeals Fees, Penalties
Public Safety	Federal Grants, State Grants, Fines, Impact Fees, Report Fees
Public Works	Highway User Revenues, County Overlapping Grants, State Sidewalk Grants, Grading Permit Fees
Recreation & Culture	State Grants

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 ROCK HALL, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**Governmental-Wide Financial Information**

The following is selected information as of June 30, 2021 and for the previous year ended provided for comparison purposes.

	2021			2020		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current assets	\$ 911,436	\$ (6,676)	\$ 904,760	\$ 482,917	\$ 213,575	\$ 696,492
Capital assets	1,438,003	5,969,249	7,407,252	1,466,109	6,053,534	7,519,643
Total assets	2,349,439	5,962,573	8,312,012	1,949,026	6,267,109	8,216,135
Deferred outflows	74,808	-	74,808	58,458	-	58,458
Total assets and deferred outflows	2,424,247	5,962,573	8,386,820	2,007,484	6,267,109	8,274,593
Current liabilities	32,022	194,059	226,081	41,935	166,299	208,234
Long-term liabilities	549,610	2,340,635	2,890,245	603,606	2,458,588	3,062,194
Total liabilities	581,632	2,534,694	3,116,326	645,541	2,624,887	3,270,428
Deferred inflows	26,069	-	26,069	38,535	-	38,535
Net position						
Net investment in capital assets	1,267,100	3,488,124	4,755,224	1,265,050	3,491,435	4,756,485
Restricted	-	-	-	-	-	-
Unrestricted	549,446	(60,245)	489,201	58,358	150,787	209,145
Total net position	1,816,546	3,427,879	5,244,425	1,323,408	3,642,222	4,965,630
Total liabilities, deferred inflows and net position	2,424,247	5,962,573	8,386,820	2,007,484	6,267,109	8,274,593
Program revenues						
Charges for Services	49,068	988,796	1,037,864	97,232	1,119,228	1,216,460
Grants and contributions	102,764	-	102,764	117,398	-	117,398
General Revenues						
Income Taxes	135,546	-	135,546	124,120	-	124,120
Property Taxes	827,575	-	827,575	797,847	-	797,847
Total general revenues	1,379,693	2,400	1,382,093	1,090,299	1,200	1,091,499
Total revenues and transfers	1,531,525	991,196	2,522,721	1,304,929	1,120,428	2,425,357
Expenses						
General government	279,848	-	279,848	422,625	-	422,625
Public Safety	275,635	-	275,635	260,208	-	260,208
Public works	458,315	-	458,315	418,272	-	418,272
Recreation and parks	17,357	-	17,357	26,653	-	26,653
Transfers	-	-	-	-	-	-
Total expenses and transfers	1,038,387	1,205,539	2,243,926	1,136,892	1,171,594	2,308,486
Change in net position	493,138	(214,343)	278,795	168,037	(51,166)	116,871
Net position, beginning - 2020 restated	1,323,408	3,642,222	4,965,630	1,155,371	3,693,388	4,848,759
Net position, end of year	\$ 1,816,546	\$ 3,427,879	\$ 5,244,425	\$ 1,323,408	\$ 3,642,222	\$ 4,965,630

**TOWN OF ROCK HALL, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**Business-type Activities – Water and Sewer Activities**

Business-type activities consist of the water, sewer, and pumping stations operations. The utility fund shows an operating loss of (\$146,022) resulting from repairs, upgrades, and general maintenance offset by grant revenue received in fiscal year 2021.

**The Town's Funds**

The following schedule presents a summary of general revenue and expenses for the fiscal year ended June 30, 2021 and percentage of increases and decreases in relation to the prior year.

	FY2021 Amount	Percent of Total	Increase (Decrease) From FY20
<b>Revenues</b>			
Taxes	\$ 1,001,162	66%	\$ 41,323
Intergovernmental	103,398	7%	(14,634)
Slip user revenue	-	0%	-
Charges for services	33,008	2%	(3,072)
Fines, licenses and permits	27,062	2%	(5,641)
Interest income	529	0%	(58)
Miscellaneous	354,240	23%	211,650
<b>TOTAL REVENUE</b>	<b>\$ 1,519,399</b>	<b>100%</b>	<b>\$ 229,568</b>
<b>Expenditures</b>			
General government	\$ 348,061	32%	\$ 162
Public safety	251,266	23%	14,868
Public works	397,024	36%	40,746
Recreation and parks	13,462	1%	(8,917)
Capital outlays	55,156	5%	32,024
Debt Service	37,388	3%	(25,975)
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,102,357</b>	<b>100%</b>	<b>\$ 52,908</b>

**TOWN OF ROCK HALL, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**General Fund Budgetary Highlights**

There were no budget revisions in fiscal year 2021. Refer to page 47 of this report for a detailed analysis of the original budget, final budget, and actual revenues and expenditures for the governmental funds.

**Capital Asset and Debt Administration**

**Capital Assets**

Capital assets for FY21 included continued infrastructure projects.

**Debt**

At year end, the Town's governmental activities had \$170,903 in outstanding long-term debt as compared to \$201,059 last year. This amount consists of pension contribution bond payable, transportation loan, and municipal building HVAC loan. In the utility funds, the Town had \$2,435,913 in outstanding long-term debt compared to \$2,562,099 last year.

The other obligations of the Town as of year-end include compensated absences, due to state, and the net pension liability.

**Economic Factors and Next Year's Budgets and Rates**

Property tax rates increased .04 per \$100 of assessed value and Utility rates increased 25% for FY 2022. It continues to be imperative to consider a structured plan for addressing property tax rates and utility rates for future years as well as normal advice of continuing to decrease and manage expenses.

**Contacting the Town's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, 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 Clerk Treasurer at PO Box 367, 5585 South Main Street, Rock Hall, Maryland 21661.

**TOWN OF ROCK HALL, MARYLAND**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2021**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 416,654	\$ 171,219	\$ 587,873
Accounts receivable - income tax	55,075	-	55,075
Amounts due from other governments	47,776	-	47,776
Other accounts receivable, net of allowances	-	206,536	206,536
Due from other funds	391,931	(384,431)	7,500
Total Current Assets	911,436	(6,676)	904,760
Noncurrent Assets			
Net capital assets	1,438,003	5,969,249	7,407,252
Total Noncurrent Assets	1,438,003	5,969,249	7,407,252
<b>TOTAL ASSETS</b>	<b>2,349,439</b>	<b>5,962,573</b>	<b>8,312,012</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	74,808	-	74,808
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
	<b>\$ 2,424,247</b>	<b>\$ 5,962,573</b>	<b>\$ 8,386,820</b>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable and accrued expenses	\$ 11,073	\$ 43,675	\$ 54,748
Due to State - current portion	90	-	90
Current portion of long-term debt	20,859	150,384	171,243
Total Current Liabilities	32,022	194,059	226,081
Noncurrent Liabilities			
Compensated absences	54,964	9,894	64,858
Due to State - see Note 12	1,622	-	1,622
Net pension liability	342,980	-	342,980
Loans payable - long-term	150,044	2,330,741	2,480,785
Total Noncurrent Liabilities	549,610	2,340,635	2,890,245
<b>TOTAL LIABILITIES</b>	<b>581,632</b>	<b>2,534,694</b>	<b>3,116,326</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
	26,069	-	26,069
<b>NET POSITION</b>			
Net investment in capital assets	1,267,100	3,488,124	4,755,224
Unrestricted	549,446	(60,245)	489,201
Total Net Position	1,816,546	3,427,879	5,244,425
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
	<b>\$ 2,424,247</b>	<b>\$ 5,962,573</b>	<b>\$ 8,386,820</b>

See accompanying notes to financial statements.

**TOWN OF ROCK HALL, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2021**

Functions/Programs	Direct Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
						Governmental Activities	Business-type Activities	Total
Primary Government								
Governmental Activities:								
General government	\$ 279,848	\$ 7,232	\$ 43,118	15,928	\$ -	\$ (228,034)	\$ -	\$ (228,034)
Public safety	275,635	-	-	13,142	-	(262,493)	-	(262,493)
Public works	458,315	-	1,560	71,694	-	(385,061)	-	(385,061)
Recreation and parks	17,357	-	4,390	2,000	-	(10,967)	-	(10,967)
Interest expense	7,232	(7,232)	-	-	-	-	-	-
Total Governmental Activities	<u>1,038,387</u>	<u>-</u>	<u>49,068</u>	<u>102,764</u>	<u>-</u>	<u>(886,555)</u>	<u>-</u>	<u>(886,555)</u>
Business-type Activities								
Water and sewer	<u>1,205,539</u>	<u>-</u>	<u>988,796</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(216,743)</u>	<u>(216,743)</u>
Total Business-type Activities	<u>1,205,539</u>	<u>-</u>	<u>988,796</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(216,743)</u>	<u>(216,743)</u>
Total Primary Government	<u>\$ 2,243,926</u>	<u>\$ -</u>	<u>\$ 1,037,864</u>	<u>\$ 102,764</u>	<u>\$ -</u>	<u>\$ (886,555)</u>	<u>\$ (216,743)</u>	<u>\$ (1,103,298)</u>
				General revenues:				
				Taxes				
				Income taxes		135,546	-	135,546
				Property taxes		827,575	-	827,575
				Other taxes		76,838	-	76,838
				Interest and investment earnings		529	-	529
				Miscellaneous		339,205	2,400	341,605
				Total General Revenues		<u>1,379,693</u>	<u>2,400</u>	<u>1,382,093</u>
				Transfers		-	-	-
				Change in Net Position		493,138	(214,343)	278,795
				Net Position, beginning of year		<u>1,323,408</u>	<u>3,642,222</u>	<u>4,965,630</u>
				Net Position, end of year		<u>\$ 1,816,546</u>	<u>\$ 3,427,879</u>	<u>\$ 5,244,425</u>

See accompanying notes to financial statements.

**TOWN OF ROCK HALL, MARYLAND  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2021**

**RECONCILIATION OF TOTAL GOVERNMENTAL  
FUND BALANCE TO NET POSITION OF  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2021**

	General Fund	Total Governmental Funds		
<b>ASSETS</b>				
Cash and cash equivalents - unrestricted	\$ 416,654	\$ 416,654	Capital assets used in governmental activities	
Investments	-	-	are not financial resources and therefore	
Accounts receivable - income tax	55,075	55,075	are not reported in the funds.	1,438,003
Amounts due from other governments	47,776	47,776		
Due from other funds	391,931	391,931	Receivables pertaining to revenue that is not	
<b>TOTAL ASSETS</b>	<b>911,436</b>	<b>911,436</b>	available in accordance with modified accrual	
			accounting, the income tax reserve portion of	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	which is reported as deferred inflows of resources	
			in the funds, and the due from other governments.	55,075
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 911,436</b>	<b>\$ 911,436</b>	Net pension liability is a long-term liability and	
			is not reported in the funds.	(342,980)
<b>LIABILITIES</b>			Deferred inflows of resources pertaining to	
Accounts payable and accrued expenditures	\$ 11,073	\$ 11,073	net pension liability are not reported in the funds.	(26,069)
<b>TOTAL LIABILITIES</b>	<b>11,073</b>	<b>11,073</b>	Long-term liabilities, including bonds payable	
			and compensated absences, are not due and	
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>55,075</b>	<b>55,075</b>	payable in the current period and therefore	
			are not reported in the funds.	(227,579)
<b>FUND BALANCES</b>			Deferred outflows of resources pertaining to	
Non-spendable	-	-	net pension liability are not reported in the funds.	74,808
Unassigned	845,288	845,288		
<b>TOTAL FUND BALANCES</b>	<b>845,288</b>	<b>845,288</b>	<i>Net Position of Governmental Activities</i>	<b>\$ 1,816,546</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 911,436</b>	<b>\$ 911,436</b>		

See accompanying notes to financial statements.



**TOWN OF ROCK HALL, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	General Fund	Total Governmental Funds
<b>REVENUES</b>		
Property taxes	\$ 877,742	\$ 877,742
Income taxes	123,420	123,420
Slip user revenue	-	-
Highway user revenue	71,694	71,694
State shared	634	634
Licenses and permits	27,062	27,062
Intergovernmental revenue	31,070	31,070
Miscellaneous revenue	387,777	387,777
<b>Total Revenues</b>	<u>1,519,399</u>	<u>1,519,399</u>
<b>EXPENDITURES</b>		
General government	348,061	348,061
Public safety	251,266	251,266
Public works	397,024	397,024
Recreation and parks	13,462	13,462
Capital outlays	55,156	55,156
Debt service		
Principal	30,156	30,156
Interest	7,232	7,232
<b>Total Expenditures</b>	<u>1,102,357</u>	<u>1,102,357</u>
<b>Excess of revenues over (under) expenditures and other financing uses</b>	<u>417,042</u>	<u>417,042</u>
<b>Other financing sources (uses)</b>		
Transfers in (out)	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>
<b>Excess of revenue and other financing sources over (under) expenditures and other financing uses</b>	417,042	417,042
<b>Fund balance, beginning of year</b>	<u>428,246</u>	<u>428,246</u>
<b>Fund balance, end of year</b>	<u>\$ 845,288</u>	<u>\$ 845,288</u>

**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, 2021**

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ 417,042
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.	(28,106)
Differences in accounting for compensated absences	(39,460)
Changes in deferred inflows of resources pertaining to income taxes do not use current financial resources and are not reported as revenue in the governmental funds.	12,126
Changes in receivables pertaining to revenue that is not available in accordance with modified accrual accounting	-
Pension expense pertaining to net pension liability is not reported in the funds.	101,380
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	<u>30,156</u>
<i>Change in Net Position of Governmental Activities</i>	<u>\$ 493,138</u>

See accompanying notes to financial statements.

**TOWN OF ROCK HALL, MARYLAND**  
**STATEMENT OF NET POSITION - PROPRIETARY FUND**  
**JUNE 30, 2021**

	Business-Type Activities	
	Utility	Total
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 171,219	\$ 171,219
Accounts receivable, net of allowances	206,536	206,536
Total Current Assets	377,755	377,755
Noncurrent Assets		
Net capital assets	5,969,249	5,969,249
Total Noncurrent Assets	5,969,249	5,969,249
<b>TOTAL ASSETS</b>	6,347,004	6,347,004
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
	-	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 6,347,004	\$ 6,347,004
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 10,423	\$ 10,423
Accrued expenses	33,252	33,252
Current portion of long-term debt	150,384	150,384
Due to other funds	384,431	384,431
Total Current Liabilities	578,490	578,490
Noncurrent Liabilities		
Compensated absences	9,894	9,894
Long-term debt, net of current liabilities	2,330,741	2,330,741
Total Noncurrent Liabilities	2,340,635	2,340,635
<b>TOTAL LIABILITIES</b>	2,919,125	2,919,125
<b>DEFERRED INFLOWS OF RESOURCES</b>		
	-	-
<b>NET POSITION</b>		
Net investment in capital assets	3,488,124	3,488,124
Unrestricted	(60,245)	(60,245)
<b>TOTAL NET POSITION</b>	3,427,879	3,427,879
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	\$ 6,347,004	\$ 6,347,004

See accompanying notes to financial statements.

**TOWN OF ROCK HALL, MARYLAND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	Business-Type Activities	
	Utility Fund	Total
<b>Operating Revenues</b>		
Charges for services	\$ 988,796	\$ 988,796
Miscellaneous	2,400	2,400
<b>Total Operating Revenues</b>	<u>991,196</u>	<u>991,196</u>
<b>Operating Expenses</b>		
Administration	157,500	157,500
Operations	613,538	613,538
Depreciation	371,680	371,680
<b>Total Operating Expenses</b>	<u>1,142,718</u>	<u>1,142,718</u>
<b>Operating Income (Loss)</b>	<u>(151,522)</u>	<u>(151,522)</u>
<b>Non-operating Revenues (Expenses)</b>		
Interest expense	(62,821)	(62,821)
<b>Net Non-operating Revenues (Expenses)</b>	<u>(62,821)</u>	<u>(62,821)</u>
<b>Income Before Contributions and Transfers</b>	(214,343)	(214,343)
<b>Capital contributions</b>	-	-
<b>Transfers (to) from other funds</b>	-	-
	<u>-</u>	<u>-</u>
<b>Changes in Net Position</b>	(214,343)	(214,343)
<b>Total net position at beginning of year</b>	<u>3,642,222</u>	<u>3,642,222</u>
<b>Total net position at end of year</b>	<u>\$ 3,427,879</u>	<u>\$ 3,427,879</u>

See accompanying notes to financial statements.

**TOWN OF ROCK HALL, MARYLAND**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	Business-Type Activities	
	Utility	Total
Cash flows from operating activities		
Cash received from customers	\$ 997,102	\$ 997,102
Cash paid to suppliers	(610,543)	(610,543)
Cash paid to employees	(147,606)	(147,606)
Other receipts	2,400	2,400
Net cash provided (used) by operating activities	241,353	241,353
Cash flows from capital and related financing activities		
Purchases of capital assets	(287,395)	(287,395)
Proceeds from new loans	878,454	878,454
Principal paid on debt	(710,716)	(710,716)
Interest paid on capital debt	(62,821)	(62,821)
Net cash (used) for capital and related financing activities	(182,478)	(182,478)
Cash flows from non-capital financing activities		
Transfers (to) from other funds	33,006	33,006
Net cash (used) for non-capital financing activities	33,006	33,006
Cash flows from investing activities		
Interest and dividends	-	-
Net cash provided by investing activities	-	-
Net increase (decrease) in cash and cash equivalents	91,881	91,881
Cash and cash equivalents at beginning of year	79,338	79,338
Cash and cash equivalents at end of year	\$ 171,219	\$ 171,219
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (151,522)	\$ (151,522)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	371,680	371,680
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	8,306	8,306
Increase (decrease) in accounts payable	2,950	2,950
Increase (decrease) in accrued expenses	45	45
Increase (decrease) in compensated absences	9,894	9,894
Cash provided (used) by operating activities	\$ 241,353	\$ 241,353

See accompanying notes to financial statements.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

The Town of Rock Hall, Maryland was incorporated in 1908, pursuant to authority of Article XIE of the Constitution of Maryland and Article 23A of the Annotated Code of Maryland. The Town operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety, highways and streets, water and sanitation, culture and recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the Town of Rock Hall 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 Rock Hall, 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 funds are grouped into two broad fund categories.

Governmental funds include the General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

The Proprietary Fund includes the Enterprise Fund. The Enterprise Fund is used to account for operations that are financed and operated in manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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 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 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, 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, 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.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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 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, public safety, public works, recreation, and culture 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.

**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.

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 general 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 funds.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Proprietary Funds**

The Town's water utility activities are reported in the proprietary fund. The proprietary fund is accounted for using the accrual basis of accounting. This fund accounts for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled water fund utility receivables are recorded at each year-end. Operating revenues are comprised primarily of charges for services, and non-operating revenues are comprised primarily of interest and investment earnings.

**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, excluding investments in the State of Maryland Local Government Investment Pool.

**Investments**

Investments held at June 30, 2021, 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**

Receivables at June 30, 2021, consist of taxes, water charges, and sewer charges. Accounts receivable are deemed collectible in full, and the allowance for doubtful accounts at June 30, 2021, is \$0.



**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**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.

**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 in the government wide statements. 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. The Town defines capital assets as assets with an initial individual cost of \$2,500 or more, and an estimated useful life in excess of one year. Donated capital assets are capitalized at estimated fair market value on the date donated. The Town recognizes intangible assets if identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and structures	50 years
Improvements other than buildings	15 – 25 years
Infrastructure	39 – 75 years
Furniture, machinery and equipment	5 – 10 years
Automobiles and trucks	7 – 8 years

**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.

**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.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**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.

As of June 30, 2021, in the government wide statements, the balance of deferred inflows of resources was comprised of \$26,069 for net pension liability, and the balance of deferred outflows of resources was comprised of \$74,808 related to the net pension liability.

**Local Tax Reserve Fund**

At June 30, 2021, the Town was advised by the State of Maryland that \$55,075 of the Local Tax Reserve Fund was allocable to the Town. The Town recorded receivable and deferred inflows of resources in the amount of \$55,075 in the fund financial statements. The change in this amount has been reflected as current year income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

**Compensated Absences**

Accumulated unpaid leave of the Town is recorded as a liability. Compensated absences consist of accumulated sick and vacation time. Upon termination, sick leave is limited to 50% of accumulated balances not to exceed 60 days or 480 hours. Vacation accrual is limited to 400 hours.

**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.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**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 their 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* – the remaining 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.

**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.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

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 Town Council may subsequently amend the budget, and the budget was not amended during fiscal year 2021. For day-to-day management control, expenditures may not exceed budget at the expenditure-type (i.e. personnel services, other operations and maintenance, etc.). The Town prepares an annual operating budget on a basis consistent with generally accepted accounting principles.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**Deposit Policies**

Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptance, and other available bank investments, provided that approved securities are pledged to secure those funds deposited in an amount equal to the amount of those funds. In addition, the Town can invest in direct debt securities of the United States, unless such an investment is expressly prohibited by law and can invest in the State of Maryland Local Government Investment Pool.

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.

**Pooling of Cash**

The Town pools all individual fund cash balances. Income is distributed to the funds based on contribution to the pool.

**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 \$416,654 and the bank balances totaled \$491,192. Of the bank balances, the entire amount was insured by Federal Depository Insurance Corporation (FDIC). However, at year end, the Town's bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized.

**Investment Policies**

**Credit Risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

**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 provides that to the extent practicable, investments are matched with anticipated cash flows.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 3 – DEPOSITS AND INVESTMENTS – continued**

**Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the Town's investment in a single issuer.

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 investment collateral is held by a third-party custodian with whom the Town has a current custodial agreement in the Town's name.

Generally, the Town's investing activities are managed by the Town Manager and the Town Council. Investing is performed in accordance with investment policies adopted by the Town Council complying with State Statutes and the Town Charter. Town funds may be invested in: 1) U.S. Treasury obligations; 2) U.S. Government Agency and U.S. Government-sponsored instrumentalities; 3) Repurchase agreements (master repurchase agreement required); 4) Collateralized certificates of deposit (only Maryland commercial banks); 5) Bankers' acceptances from domestic banks which also include the United States affiliates of large international banks with a short-term rating of A1 from Standard and Poor's Corporation and P1 from Moody's Investor Service; 6) Money market mutual funds, highest rating by at least one recognized rating agency; 7) Commercial paper with a minimum of an A1/P1 rating by at least one recognized rating agency; 8) State of Maryland Local Government Investment Pool; 9) Bonds, notes or other obligation (with the highest rating by at least one recognized rating agency) issued by or on behalf of any state or any agency, department, county, municipal or public corporation, special district authority or political subdivision thereof, or in any fund or trust that invests only in the securities described in this paragraph.

**Investments**

At June 30, 2021, the Town had no investments.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 4 – ACCOUNTS RECEIVABLE**

At June 30, 2021, accounts receivable consists of the following:

Income taxes	\$ 55,075
Real estate taxes	47,776
Utility receivables	<u>206,536</u>
	<u><u>\$ 309,387</u></u>

**NOTE 5 - INTERFUND TRANSFERS AND BALANCES**

As of June 30, 2021, the amount due to the general fund from the utility enterprise fund was \$391,931 as a result of the timing of revenue receipts in the utility fund.

**NOTE 6 – PROPERTY TAX**

Real estate and personal property taxes are levied based on the State of Maryland assessments. Property taxes include amounts levied against all real and public utility property and tangible personal property which are used in businesses located in the Town. Real property taxes are levied on the first day of July on the assessed value. When taxes are overdue and the amount exceeds \$100, a lien is placed against the property. Taxes are due and payable on the first day of July in the year for which they are levied and become overdue and in arrears on the first day of the following October. Penalties and interest are charged on any unpaid taxes. The property tax rate for fiscal year 2021 is \$.34 per \$100 of assessed value for real property, and \$.00 per \$100 of assessed value for personal property.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 7 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Not being depreciated:				
Land	\$ 56,859	\$ -	\$ -	\$ 56,859
Construction in progress	-	-	-	-
Subtotal	<u>56,859</u>	<u>-</u>	<u>-</u>	<u>56,859</u>
Depreciable capital assets:				
Buildings	193,402	-	-	193,402
Machinery & equipment	551,341	43,467	-	594,808
Improvements	347,926	-	-	347,926
Infrastructure	2,959,010	2,142	-	2,961,152
Subtotal	<u>4,051,679</u>	<u>45,609</u>	<u>-</u>	<u>4,097,288</u>
Total capital assets	<u>4,108,538</u>	<u>45,609</u>	<u>-</u>	<u>4,154,147</u>
Accumulated depreciation:				
Buildings	156,062	3,927	-	159,989
Machinery & equipment	516,965	11,813	-	528,778
Improvements	322,906	5,090	-	327,996
Infrastructure	1,646,496	52,885	-	1,699,381
Subtotal, accumulated depreciation	<u>2,642,429</u>	<u>73,715</u>	<u>-</u>	<u>2,716,144</u>
Net capital assets	<u>\$ 1,466,109</u>	<u>\$ (28,106)</u>	<u>\$ -</u>	<u>\$ 1,438,003</u>

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 3,461
Public safety	5,068
Public works	61,291
Parks, recreation and culture	3,895
Total government activities depreciation expense	<u>\$ 73,715</u>



**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 7 – CAPITAL ASSETS AND DEPRECIATION - continued**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Subtotal	-	-	-	-
Other depreciable capital assets:				
Water plant assets	7,266,027	44,315		7,310,342
Sewer plant assets	10,817,677	5,483	-	10,823,160
Machinery & equipment	169,745	237,597	-	407,342
Furniture and fixtures	34,633	-	-	34,633
Subtotal	18,288,082	287,395	-	18,575,477
Total capital assets	18,288,082	287,395	-	18,575,477
Accumulated depreciation:				
Water plant assets	3,664,597	146,858	-	3,811,455
Sewer plant assets	8,388,641	223,917	-	8,612,558
Machinery & equipment	169,745	-	-	169,745
Furniture and fixtures	11,565	905	-	12,470
Subtotal accumulated depreciation	12,234,548	371,680	-	12,606,228
Net capital assets	\$ 6,053,534	\$ (84,285)	\$ -	\$ 5,969,249

Depreciation was charged as follows:

Business-type activities:	
Utility fund	\$ 371,680
Total business-type activities depreciation expense	<u>\$ 371,680</u>

The Town has no material construction commitments as of June 30, 2021.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 8 – DEFERRED COMPENSATION PLAN**

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all Town Employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants. The Town has no liability for losses under the plan.

Investments are managed by the plan’s administrator under several different investment options, or combinations thereof. The choice of the investment option(s) is made by the participants. The Town has no management control over the assets of the plan. Accordingly, the assets of the plan are not included in these financial statements.

The Plan Administrator, Nationwide Retirement Solutions, is the trustee.

As of June 30, 2021, there were no employees participating in the plan and Town contributions for the year were \$0.

**NOTE 9 – RETIREMENT PLAN**

The Town has adopted GASB No. 68 – Accounting and Financial Reporting for Pensions (“GASB 68”) for the year ended June 30, 2015. The Town participates in the Maryland State Pension System (the “System”) described below and qualifies as a Participating Governmental Unit (“PGU”). The State Retirement Agency (the “Agency”) is the Plan administrator and fiduciary. GASB No. 68 requires that a PGU recognize its proportionate share of the System’s net pension liability (i.e., unfunded pension liability) and pension expense. The Town’s proportionate share of the net pension liability is based on total System contributions and approximates \$342,980 as of the measurement date of June 30, 2020.

The Town has also adopted GASB No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No. 68. GASB No. 71 requires that contributions to the pension plan subsequent to the measurement date be recognized as a deferred outflow of resources. The Town’s fiscal 2021 contribution of \$43,000 is therefore recognized as a pension-related deferred outflow of resources.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 9 – RETIREMENT PLAN - continued**

**A. Description of Plans**

The State of Maryland identifies multiple-employer defined benefit pension plans as cost-sharing plans.

On October 1, 1941, the Employees' Retirement System of the State of Maryland was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension System was established.

The Employees' Pension System of the State of Maryland (Pension System) was established January 1, 1980. The Pension System covers employees hired after December 31, 1979, as well as Retirement System participants who have voluntarily joined the Pension System. The Employees Contributory Pension System of the State of Maryland (Contributory Pension System) was established July 1, 1998. The Town elected to participate in the Contributory Pension System effective May 1, 2005.

Under the terms of the Contributory Pension System, a member hired may retire with full benefits upon attaining age 60 or after completing 30 years of eligible service regardless of age. A member may retire with reduced benefits prior to attaining age 60 after completing 25 years of eligible service. A member terminating employment before attaining retirement age, but after completing five years of eligible service, becomes eligible for a vested retirement allowance upon age 60.

Under the terms of the Contributory Pension System, a member hired before July 1, 2011 may retire after 30 years of service regardless of age; at age 65 with two years of service; at age 64 with three years of service; at age 63 with four years of service; or at age 62 with at least five years of service. An employee hired before July 1, 2011 may also take early retirement with reduced benefits at age 55 with 15 years of service. A member hired before July 1, 2011 terminating employment before attaining retirement age, but after completing five years of eligible service, becomes eligible for a vested pension allowance upon reaching age 62. Members hired on or after July 1, 2011 may retire when their age and years of eligibility service totals 90 years or at age 65 with 10 years of eligibility service. Members hired on or after July 1, 2011 may retire with reduced benefits at age 60 with 15 years of eligibility service. A member hired on or after July 1, 2011 terminating employment before attaining retirement age, but after completing ten years of eligible service becomes eligible for a vested pension allowance upon reaching age 65.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 9 – RETIREMENT PLAN – continued**

On retirement from service, a member of any of these plans shall receive an annual service retirement allowance based on the member’s average final compensation and years of creditable service multiplied by a factor. This factor varies from 1.2% to 2.0% per eligible service year, depending on employee/employer contributions and other plan-specific provisions. Early retirement, where available, is subject to provisions that reduce the benefit received.

Benefits under the two plans are established under the State Personnel and Pensions Article of the Annotated Code of Maryland.

Benefits are established under the State Personnel and Pensions Article of the Annotated Code of Maryland. The plan is administered by the Maryland State Retirement Agency.

The Maryland State Retirement Agency issues a comprehensive annual financial report that includes disclosures regarding: plan assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position. The pension plans’ fiduciary net position has been determined on the same basis used by the pension plans. The pension plans’ financial statements are prepared on the accrual basis of accounting and are prepared in accordance with principles generally accepted in the United States of America that apply to governmental accounting for fiduciary funds. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Actual employer contributions billed to participating governmental units for the year ending June 30, 2020 are used as the basis for determining each employer’s proportionate share of the collective pension amounts reported in the Schedule of Employer Allocations. The contributions were not adjusted to adjust for differences between actuarially determined contributions and actual contributions by the State of Maryland. This report can be obtained from the agency’s office as follows:

State Retirement and Pension System of Maryland  
120 E. Baltimore Street, Suite 1601  
Baltimore, Maryland 21202-1600

*Funding Policy*

Obligations to contribute to the plans are under the Annotated Code of Maryland. Members of the pension plan contribute 7% of annual compensation during employment. The required contribution rate is determined on an actuarially determined basis. During the year ended June 30, 2021 the Town contributed \$43,000. The Town contributed 100% of its required contribution for the year ended June 30, 2021. For members of the pension plan, full-service pension allowances equal 2% of average final compensation (AFC) up to a maximum benefit of 60% of AFC (30 years of credit).

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 9 – RETIREMENT PLAN – continued**

Required contributions under the plans are not funded by both employee and Town contributions but are funded entirely by the Town. Contributions by the Town take place during the fiscal year and are based upon salaries for the preceding fiscal year. The Town contributions for the year ending June 30, 2021 are based on salaries for the year ending June 30, 2020. The contribution requirements of plan members of the reporting entity are established and may be amended by the Maryland State Pension System Board of Trustees, and contributions by the Town are authorized by the Town Council. The required and actual contributions for the fiscal years ending June 30<sup>th</sup> were as follows:

	Fiscal Year Ending June 30		
	2021	2020	2019
Retirement plan contributions	<u>\$ 43,000</u>	<u>\$ 32,537</u>	<u>\$ 39,197</u>

The Town contributed \$43,000 to the System for fiscal year 2021 which was actuarially determined based on statutory provisions. The Town has also recognized in Pension Expense its proportionate share of the System’s deferred inflows of resources (an increase in Pension Expense) attributable to the net difference between projected and actual investment earnings on pension plan assets and its proportionate share of the System’s deferred outflows of resources (a decrease in Pension Expense) attributable to changes in assumptions.

Required disclosures aggregate for the plan:

	<u>Maryland State Pension System</u>
Total pension liability	\$ 77,187,397,000
Total fiduciary net position	54,586,037,000
Town's proportionate share of total pension liabilities	1,171,334
Town's proportionate share of net pension liabilities	0.001742%
Total pension assets	54,586,037,000
Measurement date of collective net pension liability	June 30, 2020
Date of actuarial valuation	June 30, 2020
Deferred outflows related to pensions	74,808
Deferred inflows related to pensions	26,069
Pension expense/expenditures for the period	(101,380)

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 9 – RETIREMENT PLAN – continued**

*Actuarial assumptions*

The annual required contribution for the current year was determined as part of the actuarial valuation as of June 30, 2020. The key assumptions used to perform the June 30, 2020 pension liability calculation for the System are as follows:

Actuarial Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Asset valuation method	5-year smoothed market; 20% collar
Inflation (b)	2.60% general, 3.10% wage
Salary Increases	3.10%
Discount Rate (a)	7.40%
Investment Rate of Return (b)	7.40%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period July 1, 2014 to July 30, 2018.
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale.

- (a) Discount rate at prior measurement date was 7.40%.
- (b) There were no benefit changes during the year. Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2020 valuation:
  - a. Investment return assumption remained the same at 7.40%.
  - b. Inflation assumption decreased from 2.65% to 2.60%.

The components of the net pension liability for the System as of June 30, 2020, calculated in accordance with GASB Statement No. 67, are shown in the following table:

Total pension liability	\$ 77,187,397,000
Plan fiduciary net position	54,586,037,000
Net pension liability	<u>\$ 22,601,360,000</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 <u>70.72%</u>

**TOWN OF ROCK HALL, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 9 – RETIREMENT PLAN – continued**

**Investments**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Pension System’s Board after considering input from the investment consultant(s) and actuary(s). For each major asset class that is included in the Pension System’s target asset allocation, these best estimates are summarized in the following table:

Asset Class	Target Allocations	Long-term Expected Real Rate of Return
Public equity	37%	6.3%
Private equity	13%	7.5%
Rate sensitive	19%	1.3%
Credit opportunity	9%	3.9%
Real assets	14%	4.5%
Absolute return	8%	3.0%
Total	100%	

The above was the Pension System’s Board of Trustee’s adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2020.

**Discount Rate**

A single discount rate of 7.40% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.40%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**TOWN OF ROCK HALL, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 9 – RETIREMENT PLAN – continued**

**Sensitivity of the Net Pension Liability**

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the System’s net pension liability and the Town’s proportionate share of the System’s net pension liability, calculated using a single discount rate of 7.40%, a single discount rate that is 1-percentage point lower (i.e., 6.40%), and a single discount rate that is 1-percentage point higher (i.e., 8.50%).

	1% Lower - 6.40%	Current Rate - 7.40%	1% Higher - 8.40%
The System's Net Pension Liability	\$ 32,176,695,000	\$ 22,601,360,000	\$ 14,626,005,000
The Town's Proportionate Share of Net Pension Liability	\$ 488,288	\$ 342,980	\$ 221,953



**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 9 – RETIREMENT PLAN – continued**

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

At June 30, 2021, the Town reported a liability of \$342,980 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. At June 30, 2020, the Town’s proportion was approximately 0.00151752 percent.

For the year ended June 30, 2021, the Town recognized pension expense of \$101,380. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Changes of assumptions	\$ 1,722	\$ 6,699
Differences in actual and expected experience	-	14,488
Net difference between projected and actual earnings on pension plan investments	30,086	4,882
Contributions subsequent to the measurement date	43,000	-
<b>Total</b>	<b>\$74,808</b>	<b>\$26,069</b>

The deferred outflows of resources of \$43,000 relating to contributions subsequent to the measurement date will be recognized as a reduction of the Town’s net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources are being amortized over a five-year period beginning in fiscal 2021. These unamortized amounts will be ratably recognized in pension expense over the next four years.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 9 – RETIREMENT PLAN – continued**

**Net Pension Liability**

The components of the Town’s proportionate share of the Pension System’s net pension liability as of the measurement date of June 30, 2020 were as follows:

Total pension liability	\$	1,171,334
Plan Fiduciary Net Position		828,354
Net Pension Liability	\$	342,980
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		70.72%

**NOTE 10 – LONG-TERM DEBT**

**Governmental Activities**

On June 2, 2005, the Town entered into an interest-bearing note payable with The People’s Bank, in the amount of \$350,000 for the purpose of buying into the State pension system. This is a general obligation debt of the Town. Monthly principal and interest payments are \$1,819. The balance outstanding as of June 30, 2021 was \$165,754 and the interest rate was 3.85%.

On October 7, 2016, the Town entered into an interest-bearing note payable with The People’s Bank, in the amount of \$70,000 for the purpose of upgrading the municipal building heating and air conditioning. This is a general obligation debt of the Town. Monthly principal and interest payments are \$1,297. The loan matures October 2021. The balance outstanding as of June 30, 2021 was \$5,149 and the interest rate was 4.25%.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 10 – LONG-TERM DEBT – continued**

The changes in general long-term debt as of June 30, 2021, are summarized as follows:

Lender	Beginning Balance July 1, 2020	Retired During Year	New Loans During Year	Ending Balance June 30, 2021	Amount Due Within 1 Year
People's Bank of Kent County					
Pension contribution bond payable	\$ 180,910	\$ 15,156	\$ -	\$ 165,754	\$ 15,716
Municipal building loan	20,149	15,000	-	5,149	5,143
	<u>\$ 201,059</u>	<u>\$ 30,156</u>	<u>\$ -</u>	<u>\$ 170,903</u>	<u>\$ 20,859</u>

Interest costs charged to expense during the year ended June 30, 2021, were \$7,232.

**Business-Type Activities**

FMHA #91-14: On January 18, 1982, the Town entered into an unsecured note payable with the USDA Office of Rural Development in the amount of \$397,800 for the purpose of upgrading the water distribution system and rehabilitation of the water treatment plant. This is a general obligation debt of the Town and matures July 2022. Payments of \$11,744, including principal and interest, are due semi-annually. At June 30, 2021, \$21,941 was outstanding and the interest rate was 5%.

FMHA #92-18: On August 25, 1993, the Town entered into an unsecured note payable with the USDA Office of Rural Development in the amount of \$1,113,800 for the purpose of upgrading the wastewater treatment facility. This is a general obligation debt of the Town and matures in August 2033. Payments of \$16,139, including principal and interest, are due quarterly. The interest rate is 5%. To achieve debt service savings on June 24, 2021, the Town refunded the outstanding WWTP Facilities Bond in the amount of \$586,936.47 through a direct loan with Truist Bank. At June 30, 2021, \$0 was outstanding.

WWTP Refunding Bond: On June 24, 2021, the Town issued 2.26% interest-bearing bonds in the amount of \$629,136 with Truist Bank for the purpose of refunding the FMHA #92-18 Loan to achieve debt service savings. This is a general obligation debt of the Town and matures in August 2033. Varying principal and interest payments will be made monthly beginning in August 2021. Payments totaling \$59,276 per year will be made for FY22. At June 30, 2021, \$629,136 was outstanding.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 10 – LONG-TERM DEBT – continued**

Water Quality Bond 2004: On November 22, 2004, the Town issued 0.4% interest-bearing bonds in the amount of \$1,020,183 with the State of Maryland for the purpose of constructing water distribution to the Wesley Chapel corridor and for the rehabilitation of the Town water system. This is a general obligation debt of the Town and matures in February 2035. Interest payments are due semi-annually, with principal paid annually. Total annual payments are \$39,103. At June 30, 2021, \$506,756 was outstanding.

Water Quality Bond 2021: On May 26, 2021, the Town issued 0.4% interest-bearing bonds in the amount of \$249,318 with the State of Maryland for the purpose of upgrading the water meter system. This is a general obligation debt of the Town and matures in February 2044. Interest payments are due semi-annually, with principal paid annually. Total annual payments will be \$12,996. At June 30, 2021, \$249,318 was outstanding.

Pumping Station Loan: On July 30, 2013, the Town entered into interest-bearing note payable with the People's Bank in the amount of \$188,366 for the purpose of upgrading Pumping Station #4. This is a general obligation debt of the Town and matures August 2028. Payments of \$1,418, including principal and interest, are due monthly. At June 30, 2019, \$128,914 was outstanding and the interest rate was 4.25%. The loan was renewed on October 1, 2019 in the amount of \$125,301, subsequent to fiscal year end. This is a general obligation debt of the Town and matures in September 2024. Payments of \$1,291 including principal and interest, are due monthly. At June 30, 2021, \$107,830 was outstanding. The interest rate of 4.25%.

FMHA #91-20: On December 18, 2014, the Town entered into an unsecured note payable with the USDA Office of Rural Development in the amount of \$260,000 for the purpose of upgrading the water distribution system and rehabilitation of water treatment plant. This is a general obligation debt of the Town and matures in December 2054. Payments of \$2,418, including principal and interest, are due quarterly. At June 30, 2021, \$230,902 was outstanding and the interest rate was 2.125%.

FMHA #91-22: On June 25, 2015, the Town entered into an unsecured note payable with the USDA Office of Rural Development in the amount of \$100,000 for the purpose of upgrading the water distribution system and rehabilitation of water treatment plant. This is a general obligation debt of the Town and matures in June 2055. Payments of \$930, including principal and interest, are due quarterly. At June 30, 2021, \$89,822 was outstanding and the interest rate was 2.125%.

FMHA #91-24: On October 18, 2018, the Town entered into an unsecured note payable with the USDA Office of Rural Development in the amount of \$939,000 for the purpose of upgrading the water main on Catholic Avenue. This is a general obligation debt of the Town and matures in October 2058. Payments of \$7,644 including principal and interest are due quarterly. At June 30, 2020, \$894,121 was outstanding and the interest rate was 1.375%.

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 10 – LONG-TERM DEBT – continued**

The changes in long-term debt during the year ended June 30, 2021 follows:

	Beginning Balance July 1, 2020	Retired During Year	New Loans During Year	Ending Balance June 30, 2021	Amount Due Within 1 Year
Water quality bond - 2004	\$ 541,881	\$ 35,125	\$ -	\$ 506,756	\$ 35,125
FMHA #91-14	43,522	21,581	-	21,941	21,581
FHMA #91-24	912,257	18,125	-	894,132	18,125
Pumping station loan	118,450	10,620	-	107,830	10,663
FMHA #92-18	618,777	618,777	-	-	-
WWTP refunding bond	-	-	629,136	629,136	46,403
Water meter system upgrades	-	-	249,318	249,318	11,999
FMHA #91-20	235,602	4,700	-	230,902	4,700
FMHA #91-22	91,610	1,788	-	89,822	1,788
	<u>\$ 2,562,099</u>	<u>\$ 710,716</u>	<u>\$ 878,454</u>	<u>\$ 2,729,837</u>	<u>\$ 150,384</u>

The principal requirements to maturity of the long-term debt of all funds are as follows:

Principal			
Year(s) Ended June 30	Governmental Activities	Business-type Activities	Total
2022	\$ 28,584	\$ 153,411	\$ 181,995
2023	16,332	132,795	149,127
2024	16,972	134,989	151,961
2025	17,637	137,320	154,957
2026	18,328	139,670	157,998
2027-2031	73,050	687,545	760,595
2032-2036	-	484,710	484,710
2037-2041	-	227,773	227,773
2042-2046	-	177,122	177,122
2047-2051	-	191,864	191,864
2052-2056	-	188,275	188,275
2057-2061	-	74,363	74,363
	<u>\$ 170,903</u>	<u>\$ 2,729,837</u>	<u>\$ 2,900,740</u>

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 10 – LONG-TERM DEBT – continued**

The interest requirements to maturity of the long-term debt of all funds are as follows:

Interest				
Year(s) Ended	Governmental	Business-type		
June 30	Activities	Activities	Total	
2022	\$ 6,250	\$ 40,715	\$ 46,965	
2023	5,491	38,607	44,098	
2024	4,851	36,460	41,311	
2025	4,186	34,178	38,364	
2026	3,494	31,878	35,372	
2027-2031	6,508	125,643	132,151	
2032-2036	-	80,595	80,595	
2037-2041	-	56,276	56,276	
2042-2046	-	42,718	42,718	
2047-2051	-	27,976	27,976	
2052-2056	-	12,182	12,182	
2057-2061	-	1,405	1,405	
	\$ 30,780	\$ 528,633	\$ 559,413	

**NOTE 11 – CONCENTRATIONS**

The Town derives most of its revenues, except grants, from its citizens. The Town provides various services to its residents. The Town is located in Kent County, Maryland. Credit may be granted to its residents for back taxes and water bills. The Town may place a lien on any property associated with taxes and water services.

**TOWN OF ROCK HALL, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 12 – COMPTROLLER OF THE TREASURY OF MARYLAND V. WYNNE**

In 2015, in *Comptroller of the Treasury of Maryland v. Wynne*, the Supreme Court invalidated a portion of Maryland’s personal income tax scheme after determining that it inherently burdened the earnings of individuals who resided in one state but earned income in another.

In response, Maryland has enacted corrective legislation allowing a credit for Maryland residents against personal income tax for income taxed by other states. The Court had ruled that the failure of Maryland law to allow such a credit rendered Maryland’s personal income tax scheme unconstitutional.

The original impact of the ruling on the Town was \$1,802 in total. During FY2021, the Comptroller’s Office stated that repayment will be made in 80 payments over 20 years, beginning in May 2021. Tax revenues will be reduced by a minimal amount each year going forward. The changes in this liability are as follows:

	Balance June 30, 2020	Retired During Year	Balance June 30, 2021	Amount Due Within 1 Year
State of Maryland	\$ 1,802	\$ 23	\$ 1,779	\$ 90

The annual deductions will be as follows:

FY	Amount
2022	\$ 90
2023	90
2024	90
2025	90
2026	90
Thereafter	1,329
	\$ 1,779

**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 13 – 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 Crime Shield policies with Selective Insurance Co. Local Government Insurance Trust provides the Town's general, automobile, employee, police and public officials' legal liability insurance coverage and property coverage. Chesapeake Employers Trust provides the Town's Workers Compensation Insurance.

Premiums are charged to the Town's expenditure accounts. There have been no assessments or settlements during the year ended June 30, 2021.

**NOTE 14 – 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 15 – DEFICIT OF UNRESTRICTED NET POSITION**

**Business-Type Activities**

For the year ended June 30, 2021, the Town has a deficit in unrestricted net position of \$96,945 for business-type activities.

**NOTE 16 – FUND BALANCE REPORTING**

Fund balances for the Town's governmental funds consisted of the following as of June 30, 2021:

Unassigned fund balance totals \$845,288.



**TOWN OF ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 18 – 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.

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.

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.

Statement No. 91, *Conduit Debt Obligations*, issued May 2019, effective for reporting periods beginning after December 15, 2021.

Statement No. 92, *Omnibus 2020*, issued January 2020, effective for reporting periods beginning after June 15, 2021.

Statement No. 93, *Replacement of Interbank Offered Rates*, issued March 2020, effective for reporting periods beginning after June 15, 2020.

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.

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.

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 ROCK HALL, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 19 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 8, 2022, the date that the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.

**TOWN OF ROCK HALL, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL - Governmental Funds**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<b>Governmental Funds</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
Property taxes	\$ 856,406	\$ 856,406	\$ 877,742	\$ 21,336
Income taxes	95,000	95,000	123,420	28,420
Slip user revenue	-	-	-	-
Highway user revenue	86,522	86,522	71,694	(14,828)
State shared	634	634	634	-
Licenses and permits	26,500	26,500	27,062	562
Intergovernmental revenue	13,358	13,358	31,070	17,712
Miscellaneous revenue	56,253	56,253	387,777	331,524
<b>Total Revenues</b>	<b>\$ 1,134,673</b>	<b>\$ 1,134,673</b>	<b>\$ 1,519,399</b>	<b>\$ 384,726</b>
<b>Expenditures</b>				
General government	\$ 390,069	\$ 390,069	\$ 326,453	\$ 63,616
Public safety	245,477	245,477	251,266	(5,789)
Public works	415,409	415,409	452,180	(36,771)
Recreation and parks	20,730	20,730	13,462	7,268
Debt service - principal	30,124	30,124	30,156	(32)
Debt service - interest	7,264	7,264	7,232	32
Miscellaneous	3,200	3,200	21,608	(18,408)
<b>Total Expenditures</b>	<b>\$ 1,112,273</b>	<b>\$ 1,112,273</b>	<b>\$ 1,102,357</b>	<b>\$ 9,916</b>

**Town of Rock Hall, MD**  
**SCHEDULES OF REQUIRED PENSION-RELATED**  
**SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**

	<b>FY 2021</b>	<b>FY 2020</b>	<b>FY 2019</b>	<b>FY 2018</b>	<b>FY 2017</b>	<b>FY 2016</b>
Town's proportion (%) of collective net pension liability	0.001742%	0.001742%	0.0020737%	0.00191%	0.00196%	0.00206%
Town's proportionate share (\$) of collective net pension liability	\$ 342,980	\$ 393,700	\$ 435,098	\$ 412,201	\$ 461,583	\$ 427,125
Town's covered payroll(\$)	\$ 409,332	\$ 335,310	\$ 423,473	\$ 470,414	\$ 461,623	\$ 434,085
Town's proportionate share of collective net pension liability as a percentage of its covered-employee payroll	83.79%	117.41%	102.75%	87.63%	99.99%	98.40%
Pension plan's fiduciary net position as a percentage of the total pension liability	70.72%	72.34%	71.86%	69.38%	65.79%	68.78%

(FY reported)

**SCHEDULE OF THE TOWN'S PENSION PLAN CONTRIBUTIONS**  
**Last 10 Fiscal Years**

	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ 43,000	\$ 32,537	\$ 39,197	\$ 41,352	\$ 38,798	\$ 38,111
Contributions in relation to the contractually required contribution	43,000	32,537	39,197	41,352	38,798	38,111
Contribution deficiency (excess)	-	-	-	-	-	-
Town's covered-employee payroll	\$ 409,332	335,310	423,473	470,414	461,623	434,085
Contributions as a percentage of covered-employee payroll	10.5%	9.7%	9.3%	8.8%	8.4%	8.8%

The above schedules are presented to illustrate the requirement for specific information for 10 years; however, until a full 10-year trend is compiled, information is only presented for those years for which information is available.

**TOWN OF ROCK HALL, MARYLAND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Expenditures</b>				
<b>General Government</b>				
Advertising	\$ 1,500	\$ 1,500	\$ 3,322	\$ (1,822)
Audit	7,750	7,750	7,643	107
Cell phone allowance	360	360	450	(90)
Legal	15,000	15,000	14,776	224
Telephone	3,720	3,720	4,019	(299)
COVID-19 related expenses	-	-	27,101	(27,101)
Special events	12,500	12,500	-	12,500
Mayor and council	14,522	14,522	11,353	3,169
Salaries	158,333	158,333	141,257	17,076
Employee benefits	34,216	34,216	32,389	1,827
Payroll taxes	9,397	9,397	8,193	1,204
Donations	5,000	5,000	5,000	-
Municipal building	40,000	40,000	27,123	12,877
Postage	3,000	3,000	3,091	(91)
Code revision	2,500	2,500	2,410	90
Office equipment	8,000	8,000	7,033	967
Building inspections	1,800	1,800	2,300	(500)
Payroll processing charge	1,600	1,600	1,551	49
Training and support	2,600	2,600	2,874	(274)
Transportation expenses	-	-	4,940	(4,940)
Website	4,720	4,720	6,028	(1,308)
Planning Commission legal	1,000	1,000	-	1,000
Board of Appeals expense	3,500	3,500	2,643	857
General engineering costs	-	-	6,016	(6,016)
Grant assistance	5,000	5,000	4,665	335
Miscellaneous	54,051	54,051	276	53,775
<b>Total General Government</b>	<b>390,069</b>	<b>390,069</b>	<b>326,453</b>	<b>63,616</b>
<b>Public Safety</b>				
Police salaries	148,883	148,883	160,208	(11,325)
Payroll taxes	11,542	11,542	13,014	(1,472)
Code Red	2,750	2,750	2,750	-
Auxiliary police	1,500	1,500	150	1,350
Police expenses	22,700	22,700	23,860	(1,160)
Police training	100	100	-	100
Employee benefits	38,464	38,464	33,119	5,345
Insurance	3,038	3,038	2,729	309
Telephone	4,500	4,500	3,436	1,064
<b>Rock Hall Volunteer</b>				
Fire Company	12,000	12,000	12,000	-
<b>Total Public Safety</b>	<b>\$ 245,477</b>	<b>\$ 245,477</b>	<b>\$ 251,266</b>	<b>\$ (5,789)</b>

**TOWN OF ROCK HALL, MARYLAND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - General Fund - continued**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Works				
Streets and roadways				
Vehicle expense	\$ 5,000	\$ 5,000	\$ 943	\$ 4,057
Salaries	72,252	72,252	72,182	70
Payroll taxes	5,619	5,619	5,997	(378)
Employee benefits	37,370	37,370	32,505	4,865
Insurance	2,430	2,430	2,184	246
Supplies	4,000	4,000	30,889	(26,889)
Beach sand replenishment	1,000	1,000	-	1,000
Street lighting	62,000	62,000	62,798	(798)
Snow/ice removal	250	250	832	(582)
Repairs and maintenance	12,000	12,000	30,395	(18,395)
Uniforms	500	500	394	106
Cell phone	180	180	180	-
Capital outlays	50,000	50,000	55,156	(5,156)
Gasoline	3,500	3,500	4,152	(652)
Total streets and roadways	<u>256,101</u>	<u>256,101</u>	<u>298,607</u>	<u>(42,506)</u>
Sanitation				
Waste collection - tipping fees	50,000	50,000	54,005	(4,005)
Private hauler	93,600	93,600	84,000	9,600
Salaries	7,750	7,750	7,639	111
Payroll taxes	603	603	636	(33)
Employee benefits	4,152	4,152	3,772	380
Insurance	1,823	1,823	1,638	185
Cell phone	180	180	180	-
Mosquito and weed control	1,200	1,200	1,703	(503)
Total sanitation	<u>159,308</u>	<u>159,308</u>	<u>153,573</u>	<u>5,735</u>

**TOWN OF ROCK HALL, MARYLAND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - General Fund - continued**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Recreation and parks				
Board expense	\$ 6,000	\$ 6,000	\$ 3,321	\$ 2,679
Building maintenance	5,000	5,000	-	5,000
4th of July	-	-	336	(336)
Insurance	2,430	2,430	2,183	247
Electricity	6,000	6,000	6,610	(610)
Portable toilet rental	1,300	1,300	1,012	288
Total recreation and parks	<u>20,730</u>	<u>20,730</u>	<u>13,462</u>	<u>7,268</u>
Debt Service				
Principal	30,124	30,124	30,156	(32)
Interest	7,264	7,264	7,232	32
Total Debt Service	<u>37,388</u>	<u>37,388</u>	<u>37,388</u>	<u>-</u>
Miscellaneous				
Museum expense	800	800	3,928	(3,128)
Visitor Center rent	2,400	2,400	2,400	-
Main Street program	-	-	15,280	(15,280)
Total Miscellaneous	<u>3,200</u>	<u>3,200</u>	<u>21,608</u>	<u>(18,408)</u>
Total Expenditures	<u>\$ 1,112,273</u>	<u>\$ 1,112,273</u>	<u>\$ 1,102,357</u>	<u>\$ 9,916</u>

**TOWN OF ROCK HALL, MARYLAND**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**BUDGET AND ACTUAL - UTILITY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues				
Water and sewer charges	\$ 772,000	\$ 772,000	\$ 749,148	\$ (22,852)
Connection charges	10,000	10,000	20,000	10,000
GL/SC Sanitary District	24,919	24,919	31,508	6,589
Edesville/ Sanitary District	45,937	45,937	50,410	4,473
Kent County sanitary charges	66,522	66,522	81,393	14,871
Plumbing permits	250	250	350	100
Rental income	16,056	16,056	-	(16,056)
Penalties	7,600	7,600	4,557	(3,043)
Slip user revenue	50,000	50,000	51,430	1,430
Other income	2,340	2,340	2,400	60
<b>Total Operating Revenues</b>	<b>995,624</b>	<b>995,624</b>	<b>991,196</b>	<b>(4,428)</b>
Operating Expenses				
Chemicals	31,000	31,000	33,607	(2,607)
Employee benefits	70,516	70,516	71,985	(1,469)
Fuel/gas/diesel	7,400	7,400	4,845	2,555
Insurance	9,720	9,720	8,734	986
Lab tests	25,000	25,000	22,113	2,887
Shared costs				
Council	2,522	2,522	2,644	(122)
Clerk	42,847	42,847	32,112	10,735
Mayor	30	30	23	7
Town Manager	43,058	43,058	43,124	(66)
Clerk-Treasurer	52,356	52,356	50,297	2,059
Accounting	8,000	8,000	9,814	(1,814)
Audit	7,750	7,750	7,643	107
Legal	5,000	5,000	11,843	(6,843)
COVID-19 expenses	-	-	661	(661)
Payroll taxes	11,769	11,769	11,829	(60)
Repairs and maintenance	150,000	150,000	139,089	10,911
Salaries	151,850	151,850	99,807	52,043
Sludge disposal fees	9,000	9,000	17,585	(8,585)
Supplies	29,000	29,000	19,199	9,801
Utilities	125,880	125,880	133,441	(7,561)
Vehicle repairs	750	750	382	368
Miscellaneous	28,340	28,340	50,261	(21,921)
<b>Total Operating Expenses, excluding depreciation</b>	<b>811,788</b>	<b>811,788</b>	<b>771,038</b>	<b>40,750</b>
<b>OPERATING INCOME</b>				
<b>BEFORE DEPRECIATION</b>	<b>\$ 183,836</b>	<b>\$ 183,836</b>	<b>\$ 220,158</b>	<b>\$ 36,322</b>



**TOWN OF ROCK HALL, MARYLAND**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**BUDGET AND ACTUAL - UTILITY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Depreciation	\$ -	\$ -	\$ 371,680	\$ (371,680)
OPERATING INCOME (LOSS)	183,836	183,836	(151,522)	(335,358)
NONOPERATING REVENUE (EXPENSES)				
Interest income	140	140	-	(140)
Capital Outlays	(30,299)	(30,299)	-	30,299
Interest expense	(175,937)	(175,937)	(62,821)	113,116
TOTAL NONOPERATING REVENUE (EXPENSES)	(206,096)	(206,096)	(62,821)	143,275
Transfers	-	-	-	-
CHANGE IN NET POSITION	(22,260)	(22,260)	(214,343)	(192,083)
NET POSITION, BEGINNING OF YEAR	<u>3,672,496</u>	<u>3,672,496</u>	<u>3,799,567</u>	<u>-</u>
NET POSITION, END OF YEAR	<u>\$ 3,650,236</u>	<u>\$ 3,650,236</u>	<u>\$ 3,585,224</u>	<u>\$ (65,012)</u>

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Members of the Town Council  
Town of Rock Hall, 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, the business type activities, and each major fund of the Town of Rock Hall, Maryland, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated November 9, 2022.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Town's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 2010-01, 2018-02, 2018-03, 2018-04 and 2021-05.

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.

### **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*.

### **The Town's Response to the Findings**

The Town's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses*. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

### **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 result 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.



November 9, 2022

**SCHEDULE OF FINDINGS AND RESPONSES  
TOWN OF ROCK HALL, MARYLAND  
JUNE 30, 2021**

**FINDING 2010-01 – LACK OF EXPERTISE TO PREPARE FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

No Town employee or officer has the technical background to prepare the financial statements, including the related notes to the financial statements, in accordance with generally accepted accounting principles.

As part of the audit, the Town’s management has requested us to prepare a draft of the Town’s financial statements, including related notes to the financial statements. The Clerk/Treasurer performed a review of the financial statements. However, in order to provide improved oversight of the financial statement preparation services at an appropriate level and implement controls over the financial reporting process, we recommend the Town obtain and use one or both of the following publications in subsequent years when reviewing the financial statements: *Governmental Accounting, Auditing, and Financial Reporting Using the GASB 34 Model* available from the Government Finance Officers Association at [www.gfoa.org](http://www.gfoa.org) or *Preparing Governmental Financial Statements Under GASBS No. 34* available from Thomson Tax & Accounting at [www.ppc.thomson.com](http://www.ppc.thomson.com).

**RESPONSE AND RELATED CORRECTIVE ACTION TO FINDING 2010-01**

The administration acknowledges this finding. Budget constraints limit the Town’s ability to hire a full-time financial professional qualified to prepare financial statements according to GASB No 34. The Clerk/Treasurer has been closely involved in the financial statement preparation process with the auditors for the past eleven years and the current Council includes two members with significant financial management and reporting backgrounds. Reasonable mitigating circumstances are in place at this time.

The Clerk-Treasurer has discussed with auditors and the Town Manager the need to hire an outside accountant to review the financials on a monthly basis. Doing so will help with the audit process. The Clerk-Treasurer would also suggest working with the accountant to update the Chart of Accounts and Balance Sheets, which is imperative with the upcoming major infrastructure projects. Additionally, this allows for another level of checks and balances.

**CURRENT YEAR STATUS:**

The finding was first reported in 2010 and is still applicable for 2021.

**FINDING 2018-02 – AMEND THE CONFLICT-OF-INTEREST POLICY**

We noted that the Town does not have a very structured conflict-of-interest policy. We believe that a formal, written policy and procedures covering unethical conduct or transactions and relationships that may involve potential conflicts of interests would support integrity. Among other matters, the policy should provide the following:

**SCHEDULE OF FINDINGS AND RESPONSES  
TOWN OF ROCK HALL, MARYLAND  
JUNE 30, 2021**

- Employees should avoid situations where their personal interest could conflict with, or appear to conflict with, the interests of the Town.
- The use of town assets for any unlawful or improper purpose is strictly prohibited.
- No undisclosed or unrecorded asset is to be established for any purpose.
- No false entries are to be made to the books for any reason, and no employee shall engage in any arrangement that results in such prohibited act.
- No payments are to be approved or made with the intention that any part is to be used for any purpose other than that described in the supporting documents.
- Any employee who knows of any unrecorded assets or any prohibited act must promptly report it to specify supervisory or management personnel.
- Each manager is responsible for enforcing this policy.

The policy should provide an annual statement from council members, key management, and employees in sensitive positions (for example, purchasing) certifying their compliance with the policy. For instances where a potential transaction of the town falls into the necessary requirements but is with a council member, we recommend a policy be developed omitting any vote from said council member on the matter of whether the transaction is approved. This should be documented in the minutes.

**RESPONSE AND RELATED CORRECTIVE ACTION TO FINDING 2018-02**

The administration is working toward implementing this policy and reviewing the current Town Charter and Code for any changes needed to support it.

Management continues to communicate to employees the importance of compliance and avoiding potential conflicts of interest.

**CURRENT YEAR STATUS:**

The finding was first reported in 2018 and is still applicable for 2021.

**FINDING 2018 – 03 – DEVELOP AN AUDIT COMMITTEE**

During the audit, it came to our attention that certain members of the council and key employees of the Town gave the appearance of working together for self-interest. We believe the development of an audit committee could provide an additional control over the concerns being raised. The audit committee should review the final draft of the audit, suggest changes, and give approval prior to the management representation letter being signed by the Town. The audit committee should not be involved in designing internal controls, and should not be part of the control process. Specifically, the role of an audit committee is to oversee quality and reliability relating to internal control over financial reporting and financial statement preparation. An audit committee can also perform internal audit procedures throughout the fiscal year. An illustrative audit committee charter is available on the Professional Guidance section of the Institute of Internal Auditor's website at [www.theiia.org](http://www.theiia.org).

**SCHEDULE OF FINDINGS AND RESPONSES  
TOWN OF ROCK HALL, MARYLAND  
JUNE 30, 2021**

**RESPONSE AND RELATED CORRECTIVE ACTION TO FINDING 2018-03**

The administration acknowledges this finding and will give it further consideration in the upcoming fiscal year. Several new internal control procedures were implemented in May of 2019 to address the circumstances that allowed the above situations to occur. Among other things, oversight is now being provided by the Council at its monthly Regular Business Meetings where it is provided with the detail transaction activity in all Town checking accounts.

**CURRENT YEAR STATUS:**

The finding was first reported in 2018 and is still applicable for 2021.

**FINDING 2018 – 04 – ESTABLISH A WRITTEN POLICY REGARDING THE USE OF TOWN ASSETS FOR PERSONAL USE**

We noted that there is some ambiguity about the rules related to an employee’s personal use of a Town-provided vehicle. We recommend a written policy be established to provide controls over this concern. In some instances, the employee’s personal use of an employer-provided vehicle would be treated as compensation paid on a pay-period, quarter, semi-annual, annual, or other basis, provided the compensation is treated as paid no later than December 31. These written procedures will help ensure that the personal use of vehicles by employees is properly accounted for, that information provided on employees’ W-2s is accurate, and that the personal use of Town-provided vehicles is approved and documented.

**RESPONSE AND RELATED CORRECTIVE ACTION TO FINDING 2018-04**

The administration will implement this finding. There are currently no Town vehicles being used by employees for personal purposes.

**CURRENT YEAR STATUS:**

The finding was first reported in 2018 and is still applicable for 2021.

**FINDING 2021 – 05 – PROVIDE TRAINING ON THE CODE OF CONDUCT**

The Town adopted a code of conduct some years ago and includes it in the employee manual. However, to be effective in supporting integrity and ethical behavior on the part of employees, a code of conduct must be well communicated to, and understood by, those expected to adhere to it. Thus, we recommend that the Town conduct training for new employees during which they can ask questions about provisions of the code. Periodically thereafter, there should be refresher training for existing employees. The training should be specific and relevant to the employees’ level and duties so that they will understand how the code applies to them. For example, the

**SCHEDULE OF FINDINGS AND RESPONSES**  
**TOWN OF ROCK HALL, MARYLAND**  
**JUNE 30, 2021**

frequency and details of training might differ for supervisory versus nonsupervisory personnel, for purchasing agents versus sales representatives, and for accounting versus non accounting personnel. Employees could be presented with scenarios they might encounter on the job and could be counseled to ask themselves the following questions in deciding what to do in the face of the ethical dilemma:

- Is the action legal?
- Does it comply with the Town's values?
- Will doing the action make the employee /residents of the Town feel uncomfortable?
- How would the action look if it were reported in the newspaper?

New employees should be required to sign an acknowledgement of their responsibility to adhere to the code of conduct at the time of their employment. Existing employees (particularly those in sensitive positions such as senior management, financial reporting, purchasing, or sales) should periodically (preferably annually) reconfirm their understanding of, and responsibility to adhere to, the code; that they have complied with it; and that they are not aware of any unreported violations.

**RESPONSE AND RELATED CORRECTIVE ACTION TO FINDING 2021-5**

Management acknowledges this finding and will bring it to the attention of the Council for discussion.

November 9, 2022

To the Mayor and Town Council  
Town of Rock Hall, Maryland

We audited the financial statements of the governmental activities and each major fund of the Town of Rock Hall, Maryland (the “Town”) for the year ended June 30, 2021, and have issued our report thereon dated November 9, 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 and *Government Auditing Standards*

As stated in our engagement letter, 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.

In planning and performing our audit, we considered the Town’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Town’s financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Town’s compliance with those requirements.

Planned Scope and Timing of the Audit

The scope of the audit was not expanded from the original plan. The audit was delayed due to challenges with due to/due from other funds, compensated absences, accrued payroll, fixed assets, long-term debt, change in revenue recognition between funds, and due from other governments.



## 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, 2021, 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*

The audit was delayed waiting to resolve certain accounting issues, as well as issues with COVID and the Town Hall building.

### *Corrected and Uncorrected Misstatements*

The Town maintains its books on a cash basis. We assisted the Town in converting from the cash basis to generally accepted accounting principles (GAAP). 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. Many of the following adjustments pertain to converting from the cash basis to GAAP. Management has made all such adjustments.

- Fixed assets, depreciation expense and related accumulated depreciation
- Due to / Due From accounts
- Equity
- Accounts receivable and related revenues and deferred revenues
- Accrued liabilities and related expenditures
- Long-term debt and related expenses

### *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 any such disagreements that arose during the course of our audit were resolved.

*Management Representations*

We have requested certain representation from management that is included in the management representation letter dated November 9, 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 have also provided the Town’s management with a letter dated November 9, 2022 pertaining to our audit findings and recommendations.

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

Very truly yours,

*Kindley & Associates, LLC*