

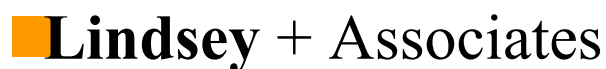
**VILLAGE OF
FRIENDSHIP HEIGHTS, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2021**

VILLAGE OF FRIENDSHIP HEIGHTS

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JUNE 30, 2021

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Independent Auditor's Report

Honorable Mayor and members of the Village Council
Village of Friendship Heights, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Friendship Heights, Maryland, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Village'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Friendship Heights, Maryland, as of June 30, 2021, and the respective changes in financial position 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, schedules of required OPEB-related supplementary information and the budgetary comparison information on pages 4 through 10 and 38 through 39 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 Village of Friendship Heights, Maryland's financial statements as a whole. The schedule of revenues – budget and actual and the schedule of expenditures – budget and actual on pages 40 through 43 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of revenues – budget and actual and the schedule of expenditures – budget and actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

October 10, 2021

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021

This section of the Village's annual financial report presents management's discussion and analysis of the Village's financial performance during the fiscal year that ended June 30, 2021. Please read it in conjunction with the Village's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Village finished the year with a \$400,632 surplus against a budgeted surplus of \$244,412. Lower expenditures were the primary reason for this difference. The largest of these were savings on snow removal and the bus contract.
- Due to the COVID-19 emergency, the Village Center was closed for nearly the entire fiscal year. This led to a reduction in expenses, particularly in General Government and Recreation programs. Income for FY2021 was reduced as well.
- The economic uncertainty resulting from COVID-19 continues to develop and it is unclear what the longer-term fiscal impact will be on the Village. Both revenues and expenses may be affected.
- The office space in the Village owned property at 4602 North Park Avenue remained vacant throughout the fiscal year. A new group of tenants has since moved into the space, so rental revenue is anticipated for FY 2022.
- On an accrual basis, and adjusted for depreciation, the Village finished the year with a change in net position of \$456,206 compared to \$354,330 in the previous year.
- Net position available for appropriation at the end of the year amounted to \$5,399,727. Fund balances committed for specific purposes by the Village Council amounted to \$12,633.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis, the basic financial statements and required supplementary information. The financial statements include two kinds of statements that present different views of the Village.

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the Village's government, reporting the Village's operations in more detail than the government-wide statements. The governmental funds statements describe how general government services were financed in the short term and what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide Statements

The scope of the government-wide statements covers the entire Village government. Required statements are the statement of net position and statement of activities, which are prepared on the accrual basis with an economic resource focus. The statement of net position includes all assets and deferred outflows and liabilities and deferred inflows, both financial and capital, short and long term.

The statement of activities reports all revenues and expenses of the current year regardless of when cash is received or paid.

The government-wide statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The statements report the Village's net position (the difference between assets and deferred outflows and liabilities and deferred inflows) and how they have changed, which is one way to measure the Village's financial health, or position. Over time, increases or decreases in the Village's net position are an indicator of whether its financial health is improving or deteriorating. Of course, other factors should also be considered.

The Village does not have any business-type activities or component units to report, so all the activity of the Village is included in its General Fund as governmental activities.

**VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's General Fund. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes.

The Village has one Governmental Fund, the General Fund. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance Village programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the right of the governmental funds statement that explains the difference between them.

The Village does not have any proprietary or fiduciary funds.

The Village as a Whole

Governmental Activities

To aid in the understanding of the Statement of Activities, note that the format is significantly different from a typical Statement of Revenues, Expenditures and Changes in Fund Balance. Note 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 format is to highlight the relative financial burden of each of the functions on the Village's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and 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.

VILLAGE OF FRIENDSHIP HEIGHTS, 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, which is provided for comparison purposes.

	Governmental Activities	
	2021	2020
Current assets	\$ 6,579,298	\$ 6,027,325
Capital assets	3,081,583	3,234,275
Total assets	9,660,881	9,261,600
Deferred outflows	49,346	8,000
Total deferred outflows and assets	9,710,227	9,269,600
Current liabilities	142,369	95,355
Long-term liabilities	510,320	459,391
Total liabilities	652,689	554,746
Deferred inflows	576,228	689,750
Net position		
Net investment in capital assets	3,081,583	3,234,275
Restricted	-	-
Unrestricted	5,399,727	4,790,829
Total net position	8,481,310	8,025,104
Total liabilities, deferred inflows and net position	9,710,227	9,269,600
Program revenues		
Charges for services	118,841	248,508
Operating grants and contributions	149,709	156,782
General revenues		
Income taxes	1,622,951	1,485,681
Property taxes	651,206	633,599
Other	65,552	125,371
Total general revenues	2,339,709	2,244,651
Transfers	-	-
Total revenues and transfers	2,608,259	2,649,941
Expenses		
General government	1,336,684	1,404,833
Public works	541,900	529,700
Public safety	63,876	104,036
Health and social services	111	6,370
Recreation and parks	209,482	250,672
Total expenses and transfers	2,152,053	2,295,611
Change in net position	456,206	354,330
Net position, beginning of year	8,025,104	7,670,774
Net position, end of year	8,481,310	8,025,104

**VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

Business-type Activities

The Village currently has no business-type activities.

The Village's Funds

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

	FY 2021 Amount	Percent of Total	Increase (Decrease) From FY 2020
Revenues			
Taxes	\$ 2,173,003	86%	\$ 151,016
Intergovernmental	268,550	11%	(117,863)
Permits	13,455	1%	(1,206)
Interest income	12,322	0%	(93,648)
Miscellaneous	39,775	2%	(65,481)
Total Revenues	<u>\$ 2,507,105</u>	<u>100%</u>	<u>\$ (127,182)</u>
Expenditures			
General government	\$ 1,244,614	59%	\$ 60,956
Public works	541,900	26%	(98,333)
Public safety	63,876	3%	(43,831)
Health and social services	111	0%	(9,674)
Recreation and parks	209,482	10%	(25,317)
Total expenditures before capital outlays and OPEB expenditures	<u>2,059,983</u>	<u>98%</u>	<u>(116,199)</u>
Capital outlays	41,876	2%	8,863
OPEB expenditures	3,000	0%	(23,872)
Total Expenditures	<u>\$ 2,104,859</u>	<u>100%</u>	<u>\$ (131,208)</u>

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

At the end of the year the Village's fund reported a total fund balance of \$5,792,651. The net capital assets of the Village decreased by \$152,692. Taxes increased, when compared to FY 2020, primarily due to an increase in state income tax. Total taxes for FY 2021 were \$120,389 more than budget.

**VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were (\$158,754) less than budget, a negative variance. Actual expenditures, not including capital outlays and OPEB expenditures, were kept below budget for an overall positive variance of \$359,850.

CAPITAL ASSETS

At the end of fiscal year 2021 the Village had \$3,081,583 invested in capital assets (net of depreciation). The detail of these assets is presented in Note 5 of the financial statements.

Capital expenditures made during fiscal year 2021 were \$41,876.

The Village will continue to finance all of its capital projects from either existing net position or revenue earned during the fiscal year.

LONG-TERM DEBT

The Village currently has no long-term debt, other than compensated absences and due to State.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The budget passed by the Village Council for FY 2022 anticipates a surplus of \$158,993. The property tax rate remains 4¢ per \$100 of assessed valuation, the lowest rate allowed by the Village Charter. Income tax receipts were estimated based on projections received from the State. Property tax projections are based on property valuations provided by the State. Expenditures are based on historical experience modified by expected increases and decreases.

Early in 2016, the State of Maryland lost the Maryland Comptroller vs. Wynne case in the United States Supreme Court by a 5-4 vote. As a result, the State of Maryland must not only allow credits for out-of-state taxes paid by businesses or non-passive 1099 self-employed individuals, but must allow for the county and local tax credits as well which the State was not previously doing. The full impact of this ruling to the Village is a \$61,835 liability owed by the Village to the State of Maryland for the payment of protective claims dating back up to six years, payment for refiled claims dating back three years and an almost certain reduction in core income tax revenue going forward. The reimbursement due by the Village to the State for these protective claims is anticipated to be paid over a period of five years, in quarterly installments starting May 2022. In FY21 the period of quarterly installments was changed to twenty years.

The current liability as of June 2021 is \$60,221, this could increase as more amended returns are filed and processed; however, the prevailing opinion among officials at the State is that most substantial amended returns have already been filed and processed so this number will potentially increase by a non-substantial amount. The liability will be paid over eighty quarterly installments.

**VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village offices at 4433 South Park Avenue, Chevy Chase, Maryland 20815.

VILLAGE OF FRIENDSHIP HEIGHTS
STATEMENT OF NET POSITION
JUNE 30, 2021

	Governmental Activities	Total
ASSETS		
Current Assets		
Cash and cash equivalents - unrestricted	\$ 2,024,590	\$ 2,024,590
Cash and cash equivalents - restricted	9,503	9,503
Investments	3,861,220	3,861,220
Accounts receivable	36,696	36,696
Accounts receivable - income taxes	647,289	647,289
Total Current Assets	<u>6,579,298</u>	<u>6,579,298</u>
Noncurrent Assets		
Net capital assets	3,081,583	3,081,583
Total Noncurrent Assets	<u>3,081,583</u>	<u>3,081,583</u>
TOTAL ASSETS	<u>9,660,881</u>	<u>9,660,881</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>49,346</u>	<u>49,346</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 9,710,227</u>	<u>\$ 9,710,227</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 129,855	\$ 129,855
Amounts held in escrow and deposit	9,503	9,503
Due to State - current portion	3,011	3,011
Total Current Liabilities	<u>142,369</u>	<u>142,369</u>
Noncurrent Liabilities		
Compensated absences	74,804	74,804
Due to State - see Note 12	57,210	57,210
Net OPEB liability	378,306	378,306
Total Noncurrent Liabilities	<u>510,320</u>	<u>510,320</u>
TOTAL LIABILITIES	<u>652,689</u>	<u>652,689</u>
DEFERRED INFLOWS OF RESOURCES	<u>576,228</u>	<u>576,228</u>
NET POSITION		
Net investment in capital assets	3,081,583	3,081,583
Restricted	-	-
Unrestricted	5,399,727	5,399,727
TOTAL NET POSITION	<u>8,481,310</u>	<u>8,481,310</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 9,710,227</u>	<u>\$ 9,710,227</u>

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

**VILLAGE OF FRIENDSHIP HEIGHTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	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	Total
Primary Government						
Governmental Activities:						
General government	\$ 1,336,684	\$ -	\$ 95,245	\$ -	\$ (1,241,439)	\$ (1,241,439)
Public safety	63,876	118,841	-	-	54,965	54,965
Public works	541,900	-	54,464	-	(487,436)	(487,436)
Health and social services	111	-	-	-	(111)	(111)
Recreation and parks	209,482	-	-	-	(209,482)	(209,482)
Total Governmental Activities	<u>2,152,053</u>	<u>118,841</u>	<u>149,709</u>	<u>-</u>	<u>(1,883,503)</u>	<u>(1,883,503)</u>
Total Primary Government	<u>\$ 2,152,053</u>	<u>\$ 118,841</u>	<u>\$ 149,709</u>	<u>\$ -</u>	<u>\$ (1,883,503)</u>	<u>\$ (1,883,503)</u>
General revenues:						
Taxes						
Income taxes					1,622,951	1,622,951
Property taxes					651,206	651,206
Licenses and permits					13,455	13,455
Interest and investment earnings					12,322	12,322
Miscellaneous					39,775	39,775
Total General Revenues					<u>2,339,709</u>	<u>2,339,709</u>
Transfers in (out)					-	-
Change in Net Position					456,206	456,206
Net Position, beginning of year					<u>8,025,104</u>	<u>8,025,104</u>
Net Position, end of year					<u>\$ 8,481,310</u>	<u>\$ 8,481,310</u>

**VILLAGE OF FRIENDSHIP HEIGHTS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021**

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents - unrestricted	\$ 2,024,590	\$ 2,024,590
Cash and cash equivalents - restricted	9,503	9,503
Investments	3,861,220	3,861,220
Accounts receivable	36,696	36,696
Accounts receivable - income taxes	647,289	647,289
TOTAL ASSETS	<u>6,579,298</u>	<u>6,579,298</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 6,579,298</u></u>	<u><u>\$ 6,579,298</u></u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 129,855	\$ 129,855
Amounts held in escrow and deposit	9,503	9,503
TOTAL LIABILITIES	<u>139,358</u>	<u>139,358</u>
DEFERRED INFLOWS OF RESOURCES	<u>647,289</u>	<u>647,289</u>
FUND BALANCES		
Committed - OPEB	1,335	1,335
Committed - CIP	11,298	11,298
Unassigned	5,780,018	5,780,018
TOTAL FUND BALANCES	<u>5,792,651</u>	<u>5,792,651</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 6,579,298</u></u>	<u><u>\$ 6,579,298</u></u>

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

<i>Total Governmental Fund Balances</i>	\$ 5,792,651
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,081,583
Receivables pertaining to revenue that is not available in accordance with modified accrual accounting are reported as deferred inflows of resources in the funds.	647,289
Long-term liabilities, including compensated absences and amounts Due to State, are not due and payable in the current period and therefore are not reported in the funds.	(513,331)
Deferred outflows of resources relating to net OPEB liability are not reported in the funds.	49,346
Deferred inflows of resources pertaining to net OPEB liability are not reported in the funds.	<u>(576,228)</u>
<i>Net Position of Governmental Activities</i>	<u><u>\$ 8,481,310</u></u>

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

**VILLAGE OF FRIENDSHIP HEIGHTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021**

	General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 2,173,003	\$ 2,173,003
Licenses and permits	13,455	13,455
Intergovernmental	268,550	268,550
Investment income		
Interest Income	12,322	12,322
Miscellaneous	39,775	39,775
Total Revenues	<u>2,507,105</u>	<u>2,507,105</u>
EXPENDITURES		
Current Operations		
General government	1,244,614	1,244,614
Public safety	63,876	63,876
Public works	541,900	541,900
Health and social services	111	111
Recreation and parks	209,482	209,482
Debt Service		
Principal	1,614	1,614
Interest	-	-
Total Expenditures	<u>2,061,597</u>	<u>2,061,597</u>
Excess of revenues over (under) expenditures and other financing uses before capital outlays and OPEB expenditures	<u>445,508</u>	<u>445,508</u>
Capital outlays	41,876	41,876
OPEB expenditures	3,000	3,000
Total capital outlays and OPEB expenditures	<u>44,876</u>	<u>44,876</u>
Excess of revenue and other financing sources over (under) expenditures including capital outlays and OPEB expenditures	400,632	400,632
Fund balance, beginning of year	<u>5,392,019</u>	<u>5,392,019</u>
Fund balance, end of year	<u>\$ 5,792,651</u>	<u>\$ 5,792,651</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>	\$ 400,632
OPEB expense pertaining to net OPEB liability is not reported in the funds.	110,668
Differences between accrual and modified accrual in accounting for compensated absences.	(8,170)
Decreases in deferred inflows of resources relating to income taxes do not use current financial resources and are not reported as revenue in the governmental funds.	104,154
Repayment of debt principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net position.	1,614
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.	<u>(152,692)</u>
<i>Change in Net Position of Governmental Activities</i>	<u>\$ 456,206</u>

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

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Village of Friendship Heights, Maryland was designated as a special tax district in 1914 by the State of Maryland, and operates under a Council-Manager form of government. The Council, elected by the residents of the Village, consists of seven members serving two-year terms each. The Village provides the following public services: public safety, public works, health and social services, recreation and parks, public improvements, planning, and general and administrative services.

The accounting policies of the Village of Friendship Heights 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 Village of Friendship Heights, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set by the Governmental Accounting Standards Board. Component units are legally separate organizations for which the elected officials of the Village 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 Village are such that exclusion would cause the Village'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 Village.

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 Village's funds are grouped into one broad fund category.

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

The Village does not have any proprietary funds.

VILLAGE OF FRIENDSHIP HEIGHTS, 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 Village, 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 or within funds). This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include 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 Village 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 Village's policy to use restricted resources first, then unrestricted resources as needed. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Village. 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.

Fund Financial Statements

Fund financial statements report detailed information about the Village. 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.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Governmental Funds

Village activities pertaining to general government, public safety, public works, health and social services, and recreation and parks 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, 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 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.

Cash and Cash Equivalents

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, money market funds, 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.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments

Investments 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 income tax, property tax, fines and other receivables. Accounts receivable are deemed collectible in full.

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 Village as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as bridges, roads, curbs and gutters, streets, sidewalks, drainage systems and lighting systems are capitalized. The valuation basis for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated. Intangible assets are recognized if they are identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

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

Restricted Reserves

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

VILLAGE OF FRIENDSHIP HEIGHTS, 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, the balance of deferred inflows of resources consisted of income taxes of \$647,289.

Local Tax Reserve Fund

At June 30, 2021, the Village was advised by the State of Maryland that \$647,289 of the Local Tax Reserve Fund was allocable to the Village. The Village recorded receivable and deferred inflows of resources in the amount of \$647,289 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

The Village accrues unused annual leave as the employees earn it. Full-time and some part-time employees are granted annual leave and sick leave based on the number of continuous service years. A maximum of one hundred and twenty (160) hours of annual leave may be carried over to subsequent years. Separating employees giving the normal minimum 10 working days' notice will receive pay for the unused accrued annual leave as of the separation date. Accrued vacation payable as of June 30, 2021, is \$74,804. Employees separating from employment are not paid for unused sick leave.

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.

VILLAGE OF FRIENDSHIP HEIGHTS, 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 its use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation, and are reduced by liabilities and deferred inflows of resources related to those constraints.

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

When both restricted and unrestricted resources are available for use, it is the Village’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 Village Charter, Village Code or enabling legislation.
3. Committed Fund Balance – amounts that can be used only for specific purposes determined by a formal action by Village Council, the Village’s highest level of decision-making authority, ordinance or resolution.
4. Assigned Fund Balance – amounts that are constrained by the Village’s intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the Village Charter, The Village Manager and the Village council are authorized to assign amounts for specific purposes.
5. Unassigned Fund Balance – all amounts not included in other spendable classifications.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The Village considers restricted fund balances to be spent for governmental expenditures first when both restricted and unrestricted resources are available. The Village also considers committed fund balances to spend first when an expenditure is incurred for purposes for which amounts in any unrestricted fund balance classification (committed, assigned or unassigned) may be used.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Requirements for all funds:

Annual budgets are adopted as a guideline for all Village funds. The Village Council may subsequently amend the budget; however, the budget was not amended during fiscal year 2021. For day-to-day management control, expenditures may vary from budget. The Village prepares an annual operating budget on a basis consistent with generally accepted accounting principles.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

The Village is authorized to deposit funds in Maryland banks, repurchase agreements and other deposits allowable by state statute provided the deposits are insured by FDIC or secured by a surety bond or collateralized with securities held by the Village, its agent, or by the pledging financial institution's trust department or agent in the name of the Village. The Village is also authorized to deposit funds in the State of Maryland Local Government Investment Pool and other institutions and obligations authorized by state statute. Refer to pages 22 through 23 for the Village's authorized investing activities.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Village's deposits may not be returned or the Village will not be able to recover collateral securities in the possession of an outside party. The Village's policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by a surety bond or collateral valued at 105 percent of principal and accrued interest. Collateral is to be held by the Village, its agent, or by the pledging institution's trust department or agent in the name of the Village.

At year-end, the carrying amounts of the Village's deposits were \$2,033,893 and the bank balances totaled \$2,055,633. Of the bank balances, the entire amount was insured by Federal Depository Insurance Corporation (FDIC) or secured by a surety bond or collateralized with securities held by the Village, its agent, or by the pledging financial institution's trust department or agent in the name of the Village. At year end, the Village's bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized.

As of June 30, 2021, restricted cash consisted of the following:

Rental deposits	\$ 9,503
Total	<u>\$ 9,503</u>

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Village policy regarding credit risk is consistent with State and County regulations.

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 Village's policy provides that, to the extent practicable, investments are matched with anticipated cash flows.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Village's investment in a single issuer. The Village's policy regarding the concentration of credit risk is consistent with State and County regulations.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

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

Generally, the Village's investing activities are managed by the Village Manager and the Finance Director with Council approval. Investing is performed in accordance with investment policies adopted by the Village Council complying with State Statutes and the Village Charter. The Village funds may be invested in: 1) bankers acceptances; 2) secured certificates of deposit issued by Maryland banks; 3) commercial paper of the highest investment grade; 4) money market funds whose portfolio is operated consistent with the SEC rule 2a-7 and that invest only in obligations that a federal agency or instrumentality issues; 5) the Maryland Local Government Investment Pool (MLGIP); 6) any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest; 7) any obligation that a United States agency issues in accordance with an act of Congress; 8) securities lending collateral; and 9) repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities. In addition, the Village can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Investments

The Village has invested at June 30, 2021, \$3,111,220 in the State of Maryland Local Government Investment Pool (MLGIP). The pool is under the administrative control of the State's Treasurer's Office. The Village's investments are shown by type, carrying amount, fair value, cost and level of risk assumed in holding the various accounts. Investments are carried at cost which approximates market. The fair value of MLGIP investments is determined daily. PNC is currently contracted to operate the Pool and may invest in any instrument permitted by Section 6-222 of the State Finance and Procurement Article. The Village's fair value position in the Pool is the same as the value of pool share.

The Village also had \$750,000 invested in U.S. Treasury securities.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

As of June 30, 2021, the Village had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings</u>
MLGIP	\$ 3,111,220	\$ 3,111,220	AAAm
U.S. Treasury Securities	<u>750,000</u>	<u>750,000</u>	AA+
Total Investments	<u><u>\$ 3,861,220</u></u>	<u><u>\$ 3,861,220</u></u>	

Note: Ratings are provided where applicable to indicate associated Credit Risk.

NOTE 4 – 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 Village. Real property taxes are levied on the first day of July, on the assessed value. A lien is placed against the property when property taxes are delinquent. Taxes are due and payable per the schedule set forth by Montgomery County. Penalties and interest are charged on any unpaid taxes. The property tax rate for fiscal year 2021 is \$.04 per \$100 of assessed value for real property, and \$.04 per \$100 of assessed value for personal and corporate property.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 1,902,116	\$ -	\$ -	\$ 1,902,116
Construction in progress	29,331	-	-	29,331
Subtotal	1,931,447	-	-	1,931,447
Depreciable capital assets:				
Buildings	2,899,028	-	-	2,899,028
Landscaping	44,563	-	-	44,563
Furniture	257,878	-	-	257,878
Infrastructure	1,199,681	41,876	-	1,241,557
Parks	1,022,882	-	-	1,022,882
Subtotal	5,424,032	41,876	-	5,465,908
Total capital assets	7,355,479	41,876	-	7,397,355
Accumulated depreciation:				
Buildings	2,135,911	129,621	-	2,265,532
Landscaping	44,483	-	-	44,483
Furniture	251,859	2,407	-	254,266
Infrastructure	662,736	62,540	-	725,276
Parks	1,026,215	-	-	1,026,215
Subtotal, accumulated depreciation	4,121,204	194,568	-	4,315,772
Net capital assets	\$ 3,234,275	\$ (152,692)	\$ -	\$ 3,081,583

Depreciation was charged to functions as follows:

General government	\$ 194,568
Parks and recreation	-
Total government activities depreciation expense	<u>\$ 194,568</u>

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

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 6 – DEFERRED COMPENSATION PLAN

The Village Council established a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all employees after six months of employment, permits them to defer any portion of their salary, up to IRS limits, until future years. The Village contributes up to 8% of eligible employees' salaries to this plan. During fiscal year 2021, the Village contributed \$54,697.

In compliance with the Internal Revenue Code Section 457(g), all assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the investments designated for compensation benefits are not reflected in the Village's financial statements.

The plan administrator, ICMA Retirement Corporation, is the trustee.

NOTE 7 – LONG-TERM LIABILITIES

Governmental Activities

As of June 30, 2021, the Village had no long-term liabilities except the net OPEB liability, Due to State, and compensated absences.

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Village derives most of its revenues, except grants, from its citizens. The Village provides various services to its residents. The Village is located in Montgomery County, Maryland.

NOTE 9 – RISK MANAGEMENT

The Village 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 Village obtains all of its insurance through a self-insurance fund administered by the Montgomery County government. Participants share the costs of workers' compensation, comprehensive general, automobile and professional liability (errors and omissions), and property coverage including fire and theft, and other selected areas which require coverage. The liability for claims with respect to all participants transfers to the self-insurance fund.

This is a total risk and cost sharing pool for all participants. Payments to the fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 9 – RISK MANAGEMENT – continued

There have been no assessments during the year ended June 30, 2021, and the amount of settlements has not exceeded coverage for each of the past three years.

Additional information regarding the Liability and Property Coverage Self-Insurance Fund can be obtained by writing to Department of Finance, Division of the Controller, 101 Monroe Street, Rockville, Maryland 20850.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Grants

The Village receives grants from time-to-time. Expenditures from certain grants are subject to audit by the grantor, and the Village is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the Village's management, no material refunds will be required as a result of disallowed expenditures.

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

The Village participates in Montgomery County's Retiree Health Benefits Trust (the "Trust") which is a cost-sharing multiple-employer defined benefit health care plan sponsored by the County. The Village's participation in the Trust is voluntary and the Village can terminate its participation for any reason at any time and withdraw the Village's contributions from the Trust. Refer to <http://www.montgomerycountymd.gov> for details regarding the Trust contained in Montgomery County's Comprehensive Annual Financial Report.

The Village pays up to 70% for life for each eligible retiree's health insurance including costs for spouse and dependents as defined by the plan. Thirty percent (30%) of the costs associated with such coverage are the responsibility of the employee and must be paid in accordance with procedures established by the Council.

In order to qualify for the above retiree benefits, the employee must be a participant in the health plans offered by the Council at the time of retirement. The employee must also enroll in Medicare Part A, Medicare Part B (and any other Medicare section required by the Village's health insurance carrier) at the time he/she is eligible for such coverage.

In the event of the death of an employee (retired or active) who meets the eligibility requirements for retired employees, a surviving spouse may continue coverage, under benefit plans available to retirees, under the same condition as if he/she was the retiree. Coverage for other dependents (including an unborn child), however, is only available to dependents who were eligible for coverage at the time of the employee's death.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

The Trust 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 Trust's fiduciary net position has been determined on the same basis used by the OPEB plans. The Trust's 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 OPEB Amounts by Employer. The contributions were not adjusted to account for differences between actuarially determined contributions and actual contributions by Montgomery County. This report can be obtained from the agency's office as follows:

Montgomery County Employee Retirement Plans
101 Monroe Street, 15th Floor
Rockville, MD 20850

Plan membership

At June 30, 2020, total membership in the plan consisted of:

Inactive plan members or beneficiaries currently receiving benefit payments	7,179
Active plan members	<u>10,439</u>
Total	17,618

Funding Policy

The actuarial valuation of the Plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarially determined amounts regarding the funded status of the Plan and the annual required contribution (ARC) of the County and other participating agencies are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The Village funded 100% of its required contribution during 2021. In future years, the Village intends to fund 100% of its required contribution, which is anticipated to be less than the ARC through fiscal year 2021, unless the Village terminates its participation in the Trust.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

Required contributions under the plans are not funded by employee contributions but are funded entirely by the Village. Contributions by the Village to all three State plans take place during the fiscal year and are based upon salaries for the preceding fiscal year. The Village contributions for the year ending June 30, 2021, are based on salaries for the year ending June 30, 2019. 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. The required and actual contributions for the fiscal years ending June 30th were as follows and are determined on an actuarially determined basis:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Retirement plan contributions	\$ 3,000	\$ 8,000	\$ 26,872

The Village contributed \$3,000 to the System for fiscal year 2021 which was actuarially determined based on statutory provisions. The Village has also recognized in OPEB Expense its proportionate share of the System's deferred inflows of resources (an increase in OPEB Expense) attributable to the net difference between projected and actual investment earnings on OPEB plan assets and its proportionate share of the System's deferred outflows of resources (a decrease in OPEB Expense) attributable to changes in assumptions.

Net OPEB Liability

The total net OPEB liability of the plan was \$1,011,513,610 as of the measurement date of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The net OPEB liability is allocated among all employers and participating agencies. Each employer's portion of the net OPEB liability was based on the proportion of each agency's actuarially determined contribution as of June 30, 2020.

As of June 30, 2021, the Village reported a liability of \$378,306 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Village's proportion of the net OPEB liability was based on a projection of the Villages long-term share of contributions to the OPEB plan relative to the projected contributions of all participating agencies, actuarially determined. At June 30, 2020, the Village's proportion was 0.0374 percent.

For the year ended June 30, 2021, the Village recognized negative OPEB expense of \$110,668.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

Actuarial Assumptions

Actuarial assumptions used in the actuarial valuation were:

Measurement Date	June 30, 2020
Actuarial cost method	Entry age normal
Discount rate	5.68%
20 year municipal bond rate	2.45%
Municipal bond rate basis	20-year tax exempt general obligation municipal bond with average rating of AA/Aa
Expected return on assets	7.50%
Salary increases	4.25% - 8.25%
General inflation	3.00%
Mortality:	
Healthy Retirees	Group A, H, J, GRIP - Pub-2010 Healthy Mortality, Headcount weighted, General Employees, Sex Distinct, Fully Generational projected from 2010 using scale MP-2018.
Disabled retirees	Group E, F, G - Pub-2010 Healthy Mortality, Headcount weighted, General Employees, Sex Distinct, Fully Generational projected from 2010 using scale MP-2018.
Healthcare cost trend rates	The medical trend assumption was developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model, version 2019_b. The model was adjusted to include the effects of the Cadillac tax set to take effect in 2022. The initial rate is 5.40% and the ultimate rate is 3.68%.

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period July 1, 2014, to July 1, 2018, in September 2019.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

Investments

The long-term expected rate of return on the Plan's 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 for each major asset class included in the Plan's target asset allocation as of June 30, 2020, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Domestic equities	2.70%
International equities	3.70%
Emerging market equities	6.70%
Global equities	3.91%
Private equity	6.23%
Credit opportunities	4.42%
High yield bonds	1.85%
Directional hedge funds	2.58%
Long duration fixed income	3.35%
Cash	(0.49%)
Diversifying hedge funds	2.78%
Global ILs	4.14%
Private real assets	5.47%
Public real assets	3.09%

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

Discount Rate

A single discount rate of 5.68% was used to measure the total OPEB liability as of June 30, 2019. The single discount rate was blended based on the expected rate of return on OPEB plan investments of 7.50% and the municipal long-term high-quality bond index yield (at the measurement date) of 2.45% as described under the terms of the GASB standard. The projection of cash flows used to determine this single discount rate assumes that employer contributions will be made based on the current funding policy (contributions equal to the employer normal cost plus a 30-year open level percent of pay amortization of the unfunded employer liability). Based on these assumptions, the OPEB plan's fiduciary net position was projected to not be sufficient to make all projected future benefit payments on behalf of current plan members. Therefore, the long-term expected rate of return on plan investments was applied only to those payments prior to the depletion of the fiduciary net position and the bond yield index rate was applied to those benefit payments subsequent to the projected depletion of the fiduciary net position. For this valuation, the bond rates used as of June 30, 2020, was 2.45%. Therefore, the blended discount rate used at June 30, 2020, was 5.68%.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability calculated using the discount rate of 5.68%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.68%) or 1-percentage-point higher (6.68%) than the current rate:

	1% Decrease (4.68%)	Discount Rate (5.68%)	1% Increase (6.68%)
The Plan's Net OPEB Liability	\$ 1,247,253,720	\$ 1,011,513,610	\$ 819,426,227
The Village's Proportionate Share of the Net OPEB Liability	\$ 466,473	\$ 378,306	\$ 306,465

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (2.68%)	Trend Rate (3.68%)	1% Increase (4.68%)
The Plan's Net OPEB Liability	\$ 798,256,976	\$ 1,011,513,610	\$ 1,279,813,098
The Village's Proportionate Share of the Net OPEB Liability	\$ 298,548	\$ 378,306	\$ 478,650

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the Village reported deferred inflows and deferred outflows of resources related to OPEB from the following sources:

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between employer contributions and proportionate share of contributions	\$ 24,263	\$ 325,801
Differences between expected and actual experience	-	96,018
Changes of assumption	22,083	154,400
Net difference between projected and actual investment earnings on OPEB Plan investments	-	9
Village contributions subsequent to the measurement date	<u>3,000</u>	<u>-</u>
	\$ 49,346	\$ 576,228

VILLAGE OF FRIENDSHIP HEIGHTS, 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 \$61,835 in total. During FY2021, the Comptroller’s Office stated repayment will be made in 80 withholdings over 20 years, beginning in May 2021. Tax revenues will be reduced \$3,011 each year going forward. The remaining balance is reflected as a liability on the Statement of Net Position, as the Town was required to start reimbursing the State in the fourth quarter of fiscal year 2021. The State will collect these funds by withholding \$753 of the Town’s income tax distributions four times per year over a period of 20 years.

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	\$ 61,835	\$ 1,614	\$ 60,221	\$ 3,011

The annual deductions will be as follows:

FY	Amount
2022	\$ 3,011
2023	3,011
2024	3,011
2025	3,011
2026	3,011
Thereafter	45,166
	<u>\$ 60,221</u>

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 13 – FUND BALANCE REPORTING

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

Committed Fund Balances

Committed fund balances totals \$12,633 and is comprised of \$1,335 for OPEB expenditures, and \$11,298 for future capital improvement projects.

Unassigned Fund Balance

Unassigned fund balance totals \$5,780,018.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

Statement No. 87, *Leases*, issued June 2017, 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, 2021.

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

Statement No. 97, issued June 2020, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, effective for reporting periods beginning after June 15, 2021.

The Village will implement these statements as necessary as of their effective dates. While the Village 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 Village.

Village of Friendship Heights, MD
SCHEDULES OF REQUIRED OPEB-RELATED
SUPPLEMENTARY INFORMATION

SCHEDULE OF THE VILLAGE'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY

	FY2019 (6/30/18)	FY2020 (6/30/19)	FY2021 (6/30/20)
Village's proportion (%) of collective net OPEB liability	0.02979%	0.03950%	0.03740%
Village's proportionate share (\$) of collective net OPEB liability	\$ 396,575	\$ 337,106	\$ 378,306
Village's covered payroll (\$)	\$ 650,127	\$ 701,376	\$ 754,436
Village's proportionate share of collective net OPEB liability as a percentage of its covered-employee payroll	61.00%	48.06%	50.14%
Penion plan's fiduciary net position as a percentage of the total net OPEB liability	26.99%	39.35%	38.02%

SCHEDULE OF THE VILLAGE'S OPEB CONTRIBUTIONS
Last 10 Fiscal Years

	FY2019	FY2020	FY2021
Contractually required contribution	\$ 26,872	\$ 8,000	\$ 3,000
Contributions in relation to the contractually required contribution	\$ 26,872	\$ 8,000	\$ 3,000
Contribution deficiency (excess)	-	-	-
Covered-employee payroll	\$ 650,127	\$ 701,376	\$ 754,436
Contributions as a percentage of covered-employee payroll	4.13%	1.14%	0.40%

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.

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes	\$ 2,051,000	\$ 2,051,000	\$ 2,173,003	\$ 122,003
Licenses and permits	15,000	15,000	13,455	(1,545)
Intergovernmental	413,245	413,245	268,550	(144,695)
Interest Income	80,000	80,000	12,322	(67,678)
Miscellaneous	105,000	105,000	39,775	(65,225)
Total Revenues	<u>\$ 2,664,245</u>	<u>\$ 2,664,245</u>	<u>\$ 2,507,105</u>	<u>\$ (157,140)</u>
Expenditures				
General government	\$ 1,370,333	\$ 1,370,333	\$ 1,244,614	\$ 125,719
Public safety	136,000	136,000	63,876	72,124
Public works	642,500	642,500	541,900	100,600
Health and social services	12,000	12,000	111	11,889
Recreation and parks	259,000	259,000	209,482	49,518
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Subtotal	<u>2,419,833</u>	<u>2,419,833</u>	<u>2,059,983</u>	<u>359,850</u>
Capital outlays	-	-	41,876	(41,876)
OPEB expenditures	-	-	3,000	(3,000)
Total Expenditures	<u>\$ 2,419,833</u>	<u>\$ 2,419,833</u>	<u>\$ 2,104,859</u>	<u>\$ 314,974</u>

SUPPLEMENTAL SCHEDULES

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2021

	Final Budget	Actual	Budget Favorable (Unfavorable)
REVENUES			
Taxes			
Property taxes	\$ 630,000	\$ 651,206	\$ 21,206
State income taxes	1,421,000	1,521,797	100,797
Total Taxes	<u>2,051,000</u>	<u>2,173,003</u>	<u>122,003</u>
Licenses and Permits			
Building, permits and fees	15,000	13,455	(1,545)
Total Licenses and Permits	<u>15,000</u>	<u>13,455</u>	<u>(1,545)</u>
From Other Governments			
State of Maryland			
Highway user revenue	68,000	54,464	(13,536)
County			
Revenue sharing	95,245	95,245	-
Parking violations	250,000	118,841	(131,159)
Total Other Governments	<u>413,245</u>	<u>268,550</u>	<u>(144,695)</u>
Miscellaneous			
Interest	80,000	12,322	(67,678)
Rentals	75,000	616	(74,384)
Miscellaneous receipts	-	(2,215)	(2,215)
Newsletter	30,000	32,053	2,053
Produce sales	-	9,321	9,321
Total Miscellaneous	<u>185,000</u>	<u>52,097</u>	<u>(132,903)</u>
Total Revenues	<u><u>\$ 2,664,245</u></u>	<u><u>\$ 2,507,105</u></u>	<u><u>\$ (157,140)</u></u>

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

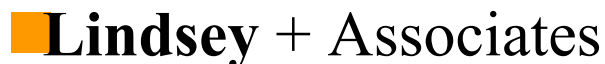
	Final Budget	Actual	Budget Favorable (Unfavorable)
GENERAL GOVERNMENT EXPENDITURES			
Financial administration	\$ 12,000	\$ 14,346	\$ (2,346)
Administrative cost	12,000	8,115	3,885
Memberships & conferences	25,000	17,690	7,310
Legal counsel & consultants	25,000	25,021	(21)
Village council reports	3,000	2,365	635
Salaries	747,000	754,436	(7,436)
Health & life insurance	141,750	166,581	(24,831)
FICA	58,500	58,547	(47)
Retirement contribution	58,000	54,697	3,303
Xerox copiers	1,000	751	249
Heating & cooling maintenance	12,000	11,773	227
Building security maintenance	4,500	6,539	(2,039)
Building & general liability insurance	12,583	12,583	-
Telephone & utilities	45,000	33,339	11,661
Hospitality & special events	20,000	2,463	17,537
Equipment & supplies	15,000	11,213	3,787
4602 North Park maintenance	10,000	16,774	(6,774)
Computer equipment & supplies	3,000	2,524	476
Center maintenance & repair	25,000	7,415	17,585
Maintenance service	135,000	28,580	106,420
Total General Government Expenditures	\$ 1,370,333	\$ 1,244,614	\$ 125,719

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	Final Budget	Actual	Budget Favorable (Unfavorable)
PUBLIC SAFETY EXPENDITURES			
Security patrol contract	\$ 120,000	\$ 55,206	\$ 64,794
Police field office	4,000	1,966	2,034
Security vehicle maintenance	12,000	6,704	5,296
Total Public Safety Expenditures	136,000	63,876	72,124
PUBLIC WORKS EXPENDITURES			
Bus contract	480,000	402,870	77,130
Street maintenance	10,000	-	10,000
Sidewalk maintenance	20,000	11,130	8,870
Snow removal	50,000	62,481	(12,481)
Waste collection	24,000	12,132	11,868
Recycling	3,500	3,030	470
Street lighting	25,000	25,648	(648)
Street signs	1,000	895	105
Trees	15,000	11,060	3,940
Villagescape	14,000	12,654	1,346
Total Public Works Expenditures	642,500	541,900	100,600
HEALTH AND SOCIAL SERVICE EXPENDITURES			
Health & social services	12,000	111	11,889
Total Health And Social Service Expenditures	\$ 12,000	\$ 111	\$ 11,889

VILLAGE OF FRIENDSHIP HEIGHTS, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	Final Budget	Actual	Budget Favorable (Unfavorable)
RECREATION AND PARKS EXPENDITURES			
Lecture fees	\$ 10,000	\$ 2,530	\$ 7,470
Musicians fees	20,000	8,019	11,981
Instructors fees	-	(3,390)	3,390
Trip fees	-	861	(861)
Art & theme shows	3,000	240	2,760
Consumable supplies	6,000	1,264	4,736
Lunches, brunches, etc.	-	1,366	(1,366)
Center special events	40,000	7,743	32,257
Reading room materials	4,000	2,125	1,875
Village newsletter	29,000	24,189	4,811
Electricity	2,000	906	1,094
Water	7,000	7,865	(865)
Fountain maintenance	15,000	14,435	565
Light maintenance	3,000	2,007	993
Furniture	2,000	27,652	(25,652)
Art fund	3,000	-	3,000
Landscaping	100,000	101,925	(1,925)
Arborist	15,000	9,745	5,255
Total Recreation and Park Expenditures	<u>259,000</u>	<u>209,482</u>	<u>49,518</u>
Total expenditures before capital outlays and OPEB expenditures	<u>2,419,833</u>	<u>2,059,983</u>	<u>359,850</u>
Capital outlays	-	41,876	(41,876)
OPEB expenditures	<u>-</u>	<u>3,000</u>	<u>(3,000)</u>
TOTAL EXPENDITURES	<u><u>\$ 2,419,833</u></u>	<u><u>\$ 2,104,859</u></u>	<u><u>\$ 314,974</u></u>



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October 10, 2021

To the Mayor, Village Council and Village Manager
Village of Friendship Heights, Maryland

We audited the financial statements of the governmental activities, and each major fund, of the Village of Friendship Heights, Maryland (the "Village") for the year ended June 30, 2021, and have issued our report thereon dated October 10, 2021. The presentation of the auditors' letter changed this year as well as the presentation of deferred outflows and inflows of resources on the balance sheet. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U. S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 30, 2021 our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U. S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Planned Scope and Timing of the Audit

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village 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

There were no difficulties encountered in performing the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has reviewed and approved all journal entries. Management maintains its books on a cash basis, and as a result we proposed journal entries in the following areas to convert to the accrual basis:

- Fixed assets, depreciation expense and related accumulated depreciation
- Accrued salaries
- Accounts receivable
- Accounts payable

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 10, 2021.

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.

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

Very truly yours,