

TOWN OF PRINCESS ANNE, MARYLAND

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

TOWN OF PRINCESS ANNE, MARYLAND

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 8
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements	
Statement of net position	9
Statement of activities	10
Fund financial statements	
Governmental fund	
Balance sheet	11
Reconciliation of the governmental fund balance sheet to the statement of net position	12
Statement of revenues, expenditures and changes in fund balance	13
Reconciliation of the statement of revenues, expenditures and changes in fund balance of governmental fund to the statement of activities	14
Notes to the basic financial statements	15 - 30
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule – general fund	31
Maryland State Retirement and Pension System	
Schedule of the Town's proportionate share of the net pension liability	32
Schedule of the Town's contributions	33
Notes to required supplementary information	34

TOWN OF PRINCESS ANNE, MARYLAND

TABLE OF CONTENTS (Continued)

	<u>Page(s)</u>
<i>GOVERNMENT AUDITING STANDARDS REPORT</i>	
Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	35 - 36
Schedule of findings and responses	37 - 41



ANDREW M. HAYNIE, CPA
SUSAN P. KEEN, CPA
MICHAEL C. KLEGER, CPA
JAMES D. MAYBURY, CPA
E. LEE McCABE, CPA
JEFFREY A. MICHALIK, CPA
ROBERT L. MOORE, CPA
DANIEL M. O'CONNELL II, CPA
ASHLEY M. STERN, CPA
JOHN M. STERN, JR., CPA

PKScpa.com

Salisbury

1801 SWEETBAY DRIVE
P.O. Box 72
SALISBURY, MD 21803
TEL: 410.546.5600
FAX: 410.548.9576

Ocean City

12216 OCEAN GATEWAY
SUITE 800
OCEAN CITY, MD 21842
TEL: 410.213.7185
FAX: 410.213.7638

Lewes

1143 SAVANNAH ROAD
SUITE 1
P.O. Box 192
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

INDEPENDENT AUDITORS' REPORT

To the President and Commissioners
Town of Princess Anne, Maryland

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, and each major fund of the Town of Princess Anne, Maryland, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Princess Anne, Maryland's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Town of Princess Anne, Maryland's 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We encountered significant difficulties in performing and completing the audit process. Principally, these difficulties related to the poor condition of the books and records, lack of consistent and standard accounting procedures, lack of available documentation, and the lack of qualified internal staffing as well as the constant turnover. The Town was without a Town Manager for a six-month period during the year ended June 30, 2021. In that time period, a consultant was brought on to help keep the Town operating. However, as the year progressed, all employees within the accounting department resigned from their positions, as well as the consultant and the Town was relying on one temporary employee with the help of an outside accounting firm. There were times where the doors of the Town could not be open because of the limited personnel. As a result of turnover, we have not been able to obtain sufficient appropriate audit evidence. Some of the issues we noted are the following:

- Minutes were not documented for the entire fiscal year
- Disposal fees are recorded as revenue when paid rather than on an accrual basis
- There is no reconciliation process for receivables
- In a sample size of 60 expenditure invoices, 26 were unable to be provided
- Two months of credit card statements were pulled, and no receipts were located
- Reimbursement billings for a project ceased after the accounting department resignations

As a result of these matters, we were unable to determine whether material adjustments might have been found necessary.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information on pages 4 through 8 and 31 through 34 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2022 on our consideration of the Town of Princess Anne, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Princess Anne, Maryland's internal control over financial reporting and compliance.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
November 15, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS



Town of Princess Anne
Management's Discussion and Analysis
June 30, 2021

This section of the Town of Princess Anne's (the Town) annual report presents our discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2021. Please read it in conjunction with the Town's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three financial parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Town's overall financial status.
- The remaining Statements are *fund financial statements* that focus on individual parts of the Town, reporting the Town's operations in more detail than the government-wide financial statements.
- The *governmental fund* statements tell how general government services like public safety, public works, parks and recreation, and administration were financed in the *short term* as well as 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 Financial Statements

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's *net position* and how it has changed. Net position – the difference between the Town's assets, deferred outflows of resources, liabilities and deferred inflows of resources – is one way to measure the Town's financial health, or position.

- Over time, increases or decreases in the Town's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Town you need to consider additional non-financial factors such as changes in the property tax base and the condition of the Town's physical assets including roads.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant *funds* – not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending for particular purposes.

- The governmental funds 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 Town programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information on a subsequent page that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's net position at June 30, 2021 was \$2,872,077. Of this total \$3,305,901 is invested in capital assets net of related debt resulting in an unrestricted deficit of \$796,454 in net position. The table below shows key financial information in a condensed format for the current and prior year.

Table 1
Town of Princess Anne
Governmental Activities

	2021	As Restated 2020
ASSETS		
Current and other assets	\$ 1,838,049	\$ 1,215,969
Capital assets	4,706,394	5,083,255
Total assets	<u>6,544,443</u>	<u>6,299,224</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>365,917</u>	<u>297,136</u>
LIABILITIES		
Long-term liabilities	2,727,145	2,802,527
Other liabilities	788,748	1,011,452
Total liabilities	<u>3,515,893</u>	<u>3,813,979</u>
DEFERRED INFLOWS OF RESOURCES	<u>522,390</u>	<u>162,948</u>
NET POSITION		
Net investment in capital assets	3,305,901	3,430,845
Restricted	362,630	17,382
Unrestricted	<u>(796,454)</u>	<u>(828,794)</u>
Total net position	<u>\$ 2,872,077</u>	<u>\$ 2,619,433</u>

The Town's total revenue was \$3,223,353. Of this amount, 59% comes from property taxes, 17% from Federal, State and County grants and contributions and 13% comes from fees charged for services.

The Town's expenses cover a range of services, with the largest expenditures related to Public Safety, 48%; and Public Works, 23%.

Table 2 and the narrative that follows show the operations of governmental activities.

Table 2
Changes in Town of Princess Anne's Net Position
Governmental Activities

	2021	2020
REVENUES		
Program services		
Charges for services	\$ 425,510	\$ 352,506
Operating grants and contributions	545,538	258,944
Capital grants and contributions		26,176
General revenues		
Property taxes	1,888,812	2,012,690
Other taxes	179,838	147,383
Gain on sale of assets	19,595	5,477
Investment earnings	172	1,380
Miscellaneous	163,888	31,129
Total revenues	3,223,353	2,835,685
EXPENSES		
General government	546,886	448,747
Public safety	1,428,202	1,649,841
Public works	691,815	720,688
Health, welfare and sanitation	49,377	163,382
Parks, recreation and culture	135,114	87,108
Economic development	81,035	55,101
Interest on long-term debt	38,280	37,749
Total expenses	2,970,709	3,162,616
Change in net position	\$ 252,644	\$ (326,931)

The cost of all governmental activities for the year was \$2,970,709. The portion of these costs that were paid for by property taxes was \$1,888,812 or 64%.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental funds

As of June 30, 2021, the Town's governmental funds reported a fund balance of \$1,039,869; this is an increase of \$370,609 from last year.

BUDGETARY HIGHLIGHTS

Significant budget variances included:

- Property taxes were more than the amount budgeted by \$128,805.
- Intergovernmental revenues were more than the amount budgeted by \$240,564.
- Debt services expenses were more than the amount budgeted by \$297,385.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets

At the end of the fiscal year, The Town had \$4,706,394 (net of depreciation) invested in a broad range of capital assets.

Table 3
Town of Princess Anne's Capital Assets
(net of depreciation)

Land	\$ 910,288
Construction in progress	100,510
Buildings and improvements	3,401,840
Industrial park	1,496,321
Infrastructure	6,902,831
Machinery and equipment	838,445
Transportation equipment	881,330
Less: accumulated depreciation	<u>(9,825,171)</u>
Capital assets, net of accumulated depreciation	<u>\$ 4,706,394</u>

This year's major capital asset additions included:

- Purchase of computer and renovations to the Public Works department.

Long-term Debt

At the end of the fiscal year, the Town had \$1,400,493 in bonds, notes, and capital leases payable.

Table 4
Town of Princess Anne Outstanding Debt

General obligation bonds	\$ 901,089
Notes payable	481,850
Capital leases payable	17,554
Total	<u>\$ 1,400,493</u>

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Town of Princess Anne's continuing goal is to maintain existing levels of services to the community through frugal appropriations and obtaining intergovernmental grants for infrastructure repair, economic development projects, enhance Public Safety, fund technology and provide recreational opportunities.

The acquisition of the Washington Inn by a unique public private partnership which consisted of a group of private local investors and the Town of Princess Anne was completed in 2014. The Inn is considered a major anchor business for the downtown and will be managed by Ian Fleming of Innspiration LLC, who owns the Robert Morris Inn in Oxford Maryland.

It is the Town's intention to lease or sell the Inn to the management group. As of June 30, 2021, the Town has advanced expenditures related to the Inn which are expected to be reimbursed to the Town within five years of the opening in September 2016.

While under resourced in staffing and funding, the Town continues to move forward in small increments.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Princess Anne, Maryland
30489 Broad Street
Princess Anne, Maryland 21853

BASIC FINANCIAL STATEMENTS

TOWN OF PRINCESS ANNE, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2021

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and investments	\$ 461,494
Receivables, net of allowance	412,804
Prepaid expenses	45,291
Due from other governments	124,175
Total current assets	<u>1,043,764</u>
Net capital assets	<u>4,706,394</u>
Other assets	
Restricted cash	362,630
Advances - Washington Inn	431,655
Total other assets	<u>794,285</u>
Total assets	<u>6,544,443</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred financing outflows - retirement	361,302
Deferred debt charge	4,615
Total deferred outflows of resources	<u>365,917</u>
LIABILITIES	
Accounts payable and accrued expenses	52,207
Current portion of long-term debt	710,303
Current portion of compensated absences	26,238
Non-current liabilities	
Bonds, notes, and capital leases payable	690,190
Compensated absences	46,940
Net pension liability	1,990,015
Total liabilities	<u>3,515,893</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred financing inflows - retirement	138,302
Deferred financing inflows - ODDI	384,088
Total deferred inflows of resources	<u>522,390</u>
NET POSITION	
Net investment in capital assets	3,305,901
Restricted	362,630
Unrestricted (deficit)	(796,454)
Total net position	<u>\$ 2,872,077</u>

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

TOWN OF PRINCESS ANNE, MARYLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

FUNCTION/PROGRAMS	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
General government	\$ 546,886	\$ 293,766	\$ 12,332	\$ (240,788)
Public safety	1,428,202	38,050	385,845	(1,004,307)
Public works	691,815	93,694	147,361	(450,760)
Health, welfare, and sanitation	49,377			(49,377)
Parks, recreation, and culture	135,114			(135,114)
Economic development	81,035			(81,035)
Interest on long-term debt	38,280			(38,280)
Total governmental activities	\$ 2,970,709	\$ 425,510	\$ 545,538	\$ (1,999,661)
GENERAL REVENUES				
Taxes				
Property taxes, levied for general purposes				1,888,812
State income taxes				179,838
Gain on sale of assets				19,595
Unrestricted investment earnings				172
Miscellaneous				163,888
Total general revenues				2,252,305
Change in net position				252,644
NET POSITION, BEGINNING OF YEAR, AS RESTATED				2,619,433
NET POSITION, END OF YEAR				\$ 2,872,077

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

TOWN OF PRINCESS ANNE, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUND**

JUNE 30, 2021

ASSETS

	<u>General Fund</u>
Cash and investments	\$ 461,494
Taxes receivable, net of allowance	243,372
Accounts receivable, net of allowance	169,402
Prepaid expenses	45,291
Due from other governments	124,205
Restricted cash	362,630
Advances - Washington Inn	431,655
Total assets	<u>\$ 1,838,049</u>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND FUND BALANCE**

LIABILITIES

Accounts payable and accrued expenses	\$ 52,205
Accrued compensated absences	26,238
Total liabilities	<u>78,443</u>

DEFERRED INFLOWS OF RESOURCES

Deferred property taxes	335,649
Deferred - ODDI	384,088
Total deferred inflows of resources	<u>719,737</u>

FUND BALANCE

Nonspendable	476,946
Restricted	362,630
Assigned	15,000
Unassigned	185,293
Total fund balance	<u>1,039,869</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 1,838,049</u>

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

TOWN OF PRINCESS ANNE, MARYLAND

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO
THE STATEMENT OF NET POSITION**

JUNE 30, 2021

Total fund balance, governmental fund \$ 1,039,869

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position. 4,706,394

Certain expenditures that reduce current financial resources are reported as expenditures in the fund financial statements, but are reported as deferred outflows of resources in the governmental activities of the Statement of Net Position. 361,302

Deferred debt charges for debt refinancing are not received or earned in the current period and therefore are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position. 4,613

Certain revenues that do not provide current financial resources are reported as deferred inflows of resources in the fund financial statements, but are reported as revenue in the year of their occurrence in the governmental activities of the Statement of Net Position.

Deferred property taxes 335,649

Some liabilities, including bonds, notes, capital leases payable, and accrued compensated absences, are not due and payable in the current period and therefore are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.

Bonds, notes and capital leases payable (1,400,493)
Compensated absences (46,940)
Deferred inflows of resources - retirement (138,302)
Net pension liability (1,990,015)

Net position, governmental activities \$ 2,872,077

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

TOWN OF PRINCESS ANNE, MARYLAND

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND**

YEAR ENDED JUNE 30, 2021

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 1,972,364
Local taxes	179,838
Fines and forfeitures	3,230
Licenses and permits	196,683
Intergovernmental revenues	570,224
Charges for services	200,319
Investment earnings	172
Gain on sale of assets	119,595
Miscellaneous	58,705
Total revenues	<u>3,301,130</u>
EXPENDITURES	
Current	
General government	481,607
Public safety	1,266,065
Public works	498,047
Health, welfare, and sanitation	51,387
Parks, recreation, and culture	76,898
Economic development	26,408
Capital outlay	145,444
Debt service	490,438
Total expenditures	<u>3,036,294</u>
Net revenues over expenditures	264,836
OTHER FINANCING SOURCES	
Insurance recoveries	<u>105,773</u>
Net change in fund balance	370,609
FUND BALANCE, BEGINNING OF YEAR	<u>669,260</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 1,039,869</u></u>

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

TOWN OF PRINCESS ANNE, MARYLAND

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2021

Net change in fund balance, governmental fund	\$	370,609
Amounts reported for governmental activities in the Statement of Activities are different because:		
<p>Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. However, in the Statement of Activities, the cost of these assets is allocated over their estimated lives and reported as depreciation expense.</p>		
Capital outlay expense		105,310
Depreciation expense		(382,171)
Changes in deferred outflows of resources presented in the governmental activities of the Statement of Activities.		69,440
In the Statement of Activities, only the gain of the sale of assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the book value of the assets sold.		(100,000)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.		
Change in deferred taxes		(40,795)
Governmental funds report repayment of debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.		452,817
Governmental funds report debt charges as an expenditure. In contrast, the Statement of Activities treats such costs as a deferred outflow of resources.		(659)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:		
Change in long-term compensated absences		2,666
Change in net pension liability		(249,217)
Change in deferred financing inflows - retirement		24,644
Change in net position, governmental activities	\$	252,644

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

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Princess Anne, Maryland (the “Town”) conform to generally accepted accounting principles applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting standards.

The following is a summary of the Town's significant accounting policies.

Reporting entity

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. Based upon criteria set forth by the Governmental Accounting Standards Board, the Town of Princess Anne has no component units.

Basis of presentation

Government-wide statements: The statement of net position and the statement of activities display information about the Town. These statements include the financial activities of the overall government and distinguish between the governmental and business-type activities. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange transactions. The Town currently has no business-type activities.

The statement of activities presents a comparison between direct expenses and revenues for each function of the Town’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund financial statements: The fund financial statements provide information about the Town’s funds. The emphasis of fund financial statements is on major governmental funds. Any remaining governmental funds are aggregated and reported as non-major funds.

The Town reports one major governmental fund:

General fund - This is the primary operating fund of the Town. It is used to account for all financial resources.

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all the eligibility requirements have been satisfied.

The governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes, charges for services, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Budgets and budgetary accounting

The Commissioners adopt an annual budget for the general fund as set forth in the Town Charter. The annual budget for the general fund is prepared in accordance with the basis of accounting utilized by that fund. All budget transfers must be approved by the Commissioners before becoming effective. All appropriations lapse at the end of the budget year.

Cash and cash equivalents

The Town of Princess Anne considers all highly liquid assets with a maturity of three months or less when purchased to be cash equivalents.

The Town follows the State of Maryland laws related to types of deposits and investments, selection of depositories, and collateral requirements. The Annotated Code of Maryland requires that deposits with financial institutions be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution.

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for uncollectible accounts

Provision is made for estimated uncollectible personal property and ordinary business corporation property taxes including penalties and interest, and other miscellaneous accounts receivable. The allowance is based upon the Town's determination of individual accounts not likely to be collected. Allowances for uncollectible accounts as of June 30, 2021 are as follows:

Taxes	\$ 33,492
Miscellaneous	53,347
Total	<u>\$ 86,839</u>

Prepaid items

Payments made to vendors for services that will benefit periods beyond June 30, 2021, are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

Capital assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at acquisition value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20 – 40 years
Buildings and improvements	20 – 50 years
Machinery and equipment	5 – 20 years
Transportation equipment	5 – 10 years

Deferred outflows of resources – The Town reports decreases in net assets that relate to a future period as deferred outflows of resources in a separate section of its government-wide statement of net position. The Town has two items that qualify for reporting in this category: deferred debt charges and deferred financing outflows related to the net pension liability.

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred inflows of resources – The Town reports a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period. The Town has two types of items that may qualify for reporting in this category: deferred property taxes which are not recognized until available (collected no later than 60 days after the end of the Town's fiscal year) and deferred financing inflows related to the net pension liability.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Maryland State Retirement and Pension System (MSRPS), and additions to/deductions from MSRPS's fiduciary net position have been determined on the same basis as they are reported by MSRPS.

Accounting for compensated absences

The Town has recorded its liability for amounts due to employees in the future for unused vacation pay in the government-wide and governmental fund statement based on their separate basis of accounting. Sick pay and personal days are not included because the right to collect these unused paydays does not vest with the employees of the Town.

Property taxes

All real estate taxes are levied July 1. Corporate and individual personal property taxes are levied upon receipt of assessment from the State of Maryland.

Taxes are due upon receipt of tax bill. Taxes unpaid at October 1 of the levy year bear simple interest at 1½% per month. At January 1 of the levy year, in addition to the 1½% interest per month, a penalty of 2% per month is charged. Interest and penalty for corporate and individual personal property tax follows the policy for real estate taxes.

Real estate taxes unpaid after two years from the levy date (July 1) are collected through tax sale.

Estimates

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

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide net position

Government-wide net position is divided into three major categories:

- *Net investment in capital assets* – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- *Restricted* – consists of assets that are restricted by the Town’s creditors, state enabling legislation, grantors, or other contributors.
- *Unrestricted* – all other not reported in the above categories.

When an expense is incurred that can be paid using either restricted or unrestricted net position, the Town’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Governmental fund balances

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

- *Nonspendable fund balance* - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts that can be spent only for specific purposes because of the Town Charter, state or federal laws or externally imposed conditions by grantors or creditors.
- *Committed fund balance* - amounts that can be spent only for specific purposes determined by a formal action of the Town Council ordinance or resolution.
- *Assigned fund balance* – amounts that are designated by the Mayor and Commissioners for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approved by the Town Commissioners.
- *Unassigned fund balance* – all amounts not included in other spendable classifications.

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund balances (continued)

In governmental funds, the Town's policy is to first apply the expenditure toward the restricted fund balance and then to other, less restrictive classifications (committed and then assigned fund balances) before using unassigned fund balances.

CASH

Custodial credit risk is the risk that in the event of bank failure, the Town's deposits may not be returned to it. As of June 30, 2021, a portion of the Town's deposits were exposed to a custodial credit risk as follows:

Uninsured with collateral held in the pledging bank's trust department in the Town's name:

\$ 486,254

ADVANCES – WASHINGTON INN

The Town has completed renovations to the Washington Inn and has a note receivable of \$ 431,655 related to the purchase and accumulating annual expenses. The Inn was purchased by a separate LLC, of which the Town is the sole member. The note is receivable through operations and/or sale of the Inn.

It is the Town's intention for the separate LLC to lease or sell the Inn as an operating unit including dining services under an already agreed contract with another LLC. This contract includes an option to purchase subject to certain conditions.

Advances - Washington Inn includes expenditures incurred, not covered by grants, which are to be reimbursed to the Town, at the end of the five year agreement, which ended in October 2021.

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

CAPITAL ASSETS

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

	Balance June 30, 2020	Additions & Transfers	Deletions & Transfers	Balance June 30, 2021
Governmental activities				
Capital assets not being depreciated				
Land	\$ 671,538	\$	\$	\$ 671,538
Industrial park land	338,750		(100,000)	238,750
Construction in progress	66,000	34,510		100,510
Total capital assets not being depreciated	<u>1,076,288</u>	<u>34,510</u>	<u>(100,000)</u>	<u>1,010,798</u>
Capital assets being depreciated				
Building and improvements	3,348,185	53,655		3,401,840
Industrial park	1,496,321			1,496,321
Infrastructure	6,902,831			6,902,831
Machinery and equipment	821,300	17,145		838,445
Transportation	881,330			881,330
Total capital assets being depreciated	<u>13,449,967</u>	<u>70,800</u>		<u>13,520,767</u>
Less accumulated depreciation for				
Building and improvements	890,874	93,494		984,368
Industrial park	1,496,076	85		1,496,161
Infrastructure	5,999,226	173,570		6,172,796
Machinery and equipment	466,414	48,255		514,669
Transportation	590,410	66,767		657,177
Total accumulated depreciation	<u>9,443,000</u>	<u>382,171</u>		<u>9,825,171</u>
Total capital assets being depreciated, net	<u>4,006,967</u>	<u>(311,371)</u>		<u>3,695,596</u>
Capital assets, net	<u>\$ 5,083,255</u>	<u>\$ (276,861)</u>	<u>\$ (100,000)</u>	<u>\$ 4,706,394</u>

Included in construction in progress is \$100,510 for renovation of the Town's Election House.

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions as follows:

General government	\$ 12,807
Public safety	60,787
Public works	182,426
Parks, recreation, and culture	58,215
Health, welfare and sanitation	13,308
Economic development	54,628
	\$ 382,171

LINE OF CREDIT

The Town has an open line of credit with Hebron Savings Bank. The total available line of credit is \$300,000. Interest is payable monthly at a rate equivalent to the prime rate of interest with a floor of 4.25%. There was no outstanding balance as of June 30, 2021.

LONG-TERM DEBT

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

	Beginning Balance	Additions and Transfers	Principal Repayments and Transfers	Ending Balance	Due Within One Year
General obligation bonds	\$ 1,126,378	\$	\$ (225,290)	\$ 901,088	\$ 210,898
Notes payable	481,850			481,850	481,850
Capital Leases	45,082		(27,527)	17,555	17,555
	\$ 1,653,310	\$	\$ (252,817)	\$ 1,400,493	\$ 710,303

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

LONG-TERM DEBT (Continued)

Governmental activities

Notes payable consist of the following:

Note payable to Washington Inn Investors, LLC; secured by hotel mortgage through a separate LLC wholly owned by the Town. Interest only payments for 3 months after commencement date (third party LLC or assigns commences food and/or room rental) and continues quarterly with principal and interest, originally due two years after commencement date (September 2016). The agreement was extended for an additional three years through September 2021. Interest is payable at 3.3% and is being paid by the investor. \$ 481,850

General obligation bonds consist of the following:

\$802,000 - General obligation refunding bond Series 2014B.
15 annual installments beginning June 1, 2015 and ending June 1, 2029.
Annual payments of principal and quarterly payments of interest of 3.39% are paid over the term of 15 years. \$ 427,733

\$380,000 - General obligation refunding bond Series 2015B.
7 annual installments beginning June 10, 2015 and ending June 10, 2022.
Annual payments of principal and interest of 1.9% are paid over the term of 7 years. 116,310

\$620,000 - General obligation refunding bond Series 2014A.
15 annual installments beginning March 2015 and ending March 1, 2029.
Annual payments of principal and quarterly payments of interest of 2.35% are paid over the term of 15 years. 357,045

Less current portion of bonds payable 901,088
(210,898)

Long-term portion of bonds payable \$ 690,190

Obligations under capital leases

The Town is the lessee of one police car and one trash truck under capital leases. The assets and liabilities under the capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets of \$169,457. The assets are depreciated over the lower of their related leases terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

LONG-TERM DEBT (Continued)

Debt service requirements:

Debt service requirements on long-term debt at June 30, 2021 are as follows:

<u>Year Ending June 30,</u>	Notes Payable		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2022	\$ 481,850	\$ 11,639	\$ 210,898	\$ 23,475
2023			95,554	20,049
2024			96,544	17,247
2025			98,592	14,361
2026			98,592	11,482
2027 - 2029			300,908	16,925
	\$ 481,850	\$ 11,639	\$ 901,088	\$ 103,539

Year ending June 30,	Capital Leases	
	Principal	Interest
2022	\$ 17,555	\$ 746

FUND BALANCES

Nonspendable fund balances consist of \$431,655 due from the Washington Inn tenant and prepaid expenses of \$45,291. These amounts are not in a spendable form and are therefore, not available to pay current expenditures.

Assigned fund balances consist of \$15,000 for building improvements to the police department.

PRIOR PERIOD ADJUSTMENT

Net position at June 30, 2020 has been restated as follows:

	Governmental Activities
Net position at June 30, 2020 as previously reported	\$ 2,510,500
Depreciation adjustment for property sold	108,933
Net position at June 30, 2021 as restated	\$ 2,619,433

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

OPERATING LEASES

The Town is committed under non-cancelable operating leases for a copy machine. The lease is set to expire in fiscal year 2026.

Future minimum operating lease payments as of June 30, 2021 are as follows:

<u>June 30,</u>		
2022	\$	2,957
2023		2,957
2024		2,957
2025		2,957
2026		1,232
	<u>\$</u>	<u>13,060</u>

RETIREMENT AND PENSION PLANS

General information about the pension plan

Plan description. Certain employees of the Town are covered by the Pension System for Employees of the State of Maryland, the Employees' Retirement System of the State of Maryland or the State of Maryland Law Enforcement Officers Pension Systems ("LEOPS"). These systems are part of the Maryland State Retirement and Pension System (MSRPS), and are cost-sharing multiple-employer public employee retirement systems. The plans are administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the MSRPS is vested in a 15-member Board of Trustees. The MSRPS was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issued a publicly available financial report that includes basic financial statements and required supplementary information for the MSRPS. This report can be found at <http://sra.maryland.gov/annual-financial-reports>.

Basis of accounting. The MSRPS financial statements are prepared on the accrual basis of accounting. For purposes of measuring net pension liability, deferred outflows of resources, and deferred inflows of resources, related to pensions and pension expense, information about the fiduciary net position of the MSRPS and additions to/deductions from MSRPS's fiduciary net position have been determined on the same basis as they are reported by MSRPS. Benefit payments and refunds of employee contributions are recognized when due and payable in accordance with statutes governing MSRPS. Expenses are recognized when the liability is incurred, regardless of when payment is made. Investments are reported at fair value.

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

RETIREMENT AND PENSION PLANS (Continued)

General information about the pension plan (continued)

Covered members. On October 1, 1941, the Employees' Retirement System 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. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979, became members of the Employees' Pension System as a condition of employment. On or after January 1, 2005, an individual who is a member of the Employees' Retirement System may not transfer membership to the Employees' Pension System.

Benefits provided. All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. The MSRPS provides retirement, disability and death benefits.

A member of the Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of credible service of age. The annual retirement allowance equals $1/55$ (1.81%) of member's AFC multiplied by the number of years accumulated creditable service. A member of the Employees' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for an Employees' Retirement System member is 30%.

Generally, a member covered under the retirement plan provisions who is permanently disabled after five years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. Death benefits equal to a member's annual salary as of the date of death plus all member contributions and interest.

Cost-of-Living Adjustments. Benefits attributable to service on or after July 1, 2011 in many of the pension systems now will be subject to different cost-of-living adjustments (COLA) that is based on the increase in the Consumer Price Index (CPI) and capped at 2.5% or 1.0% based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in valuation.

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

RETIREMENT AND PENSION PLANS (Continued)

General information about the pension plan (continued)

Contributions. The State Personnel and Pensions Article requires active members to contribute to the MSRPS at the rate of 4%, 5% or 7% of their covered salary depending upon the retirement option selected. For the Law Enforcement Officers' Pension System, members are required to contribute 7% of annual earnable compensation during employment. The Town is required to contribute at an actuarially determined rate.

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2021, the Town reported a liability of \$1,990,015 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 for the Employee plan was .001919% and for the police plan was .006886%.

For the year ended June 30, 2021, the Town recognized pension expense of \$221,855. At June 30, 2021, the Town reported deferred outflows of resources or deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 8,971	\$ 37,254
Net difference between projected and actual earnings on pension plan investments		25,184
Net difference in investment earnings	174,701	75,864
Contributions subsequent to measurement date	177,630	
	<u>\$ 361,302</u>	<u>\$ 138,302</u>

The Town's contribution subsequent to the measurement date of \$177,630, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

RETIREMENT AND PENSION PLANS (Continued)

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions (continued)

Deferred financial inflows and outflows are made up of changes in actuarial assumptions, differences in actual and expected experience, and net difference in the projected and actual investment earnings. The deferred outflows and inflows related to non-investment activity are being amortized over the remaining service life ranging from 5.50 to 5.87 years. The net difference in investment earnings is being amortized over a closed five-year period. The following table shows the amortization of these balances:

<u>Year ending June 30</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2022	\$ 44,116	\$ 65,059
2023	43,732	41,424
2024	41,770	21,324
2025	37,769	10,141
2026	16,285	354
Total	<u>\$ 183,672</u>	<u>\$ 138,302</u>

Actuarial assumptions. The actuarial assumption for the Pension Plan as a whole and based on the June 30, 2020 annual actuarial valuation report for Maryland Municipal Corporation are as follows:

Inflation	2.60% general, 3.10% wage
Salary increases	3.10% to 11.60%, including inflation
Investment rate of return	7.40%

Mortality rates were based on the Public Sector 2010 Mortality tables calibrated to MSRPS experience with generational projections using MP-2018 mortality improvement scale.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statements No. 25 and 67 of the Governmental Accounting Standards Board (GASB).

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

RETIREMENT AND PENSION PLANS (Continued)

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions (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 weighing 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 Board of Trustees after considering input from MSRPS’s investment consultants and actuaries. For each major class that is included in the MSRPS’s target asset allocation as of June 30, 2020, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37%	5.2%
Private Equity	13%	6.5%
Rate Sensitive	19%	-0.3%
Credit Opportunity	9%	2.8%
Real Assets	14%	4.3%
Absolute Return	8%	1.8%
Total	100%	

For the years ended June 30, 2020 and 2019, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 3.50% and 6.44%, respectively. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate. The discount rate used to measure the total pension liability was 7.40%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contribution from the municipalities will be made at contractually required rates, actuarially determined.

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.40%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.40%) or 1-percentage point higher (8.40%) than the current rate:

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

RETIREMENT AND PENSION PLANS (Continued)

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions (continued)

1% Decrease (6.40%)	\$ 2,833,126
Current discount rate (7.40%)	\$ 1,990,015
1% Increase (8.40%)	\$ 1,287,805

Pension plan fiduciary net position. Detailed information about the plan's fiduciary net position is available in the System's separately issued financial report.

RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this coverage in any of the past three fiscal years.

FRAUD LOSS

The Town suffered a loss, which resulted from fraud perpetrated by the previous Town Manager. The total amount of the loss has been estimated at \$100,000 between fiscal years 2019 and 2020.

During the year ended June 30, 2021, the previous Town Manager was convicted. An insurance claim has been filed, and the proceeds have been received. During the year ending June 30, 2021, the Town received insurance proceeds of \$105,773 as a recovery of funds lost.

NEW PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, will be effective for the Town beginning with the year ending June 30, 2022. The new guidance requires recognition of certain lease assets and liabilities that were previously classified as operating leases. It also recognizes inflows of resources or outflows of resources based on the payment provisions of the contract. This statement will also change the way leases are disclosed in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PRINCESS ANNE, MARYLAND

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

YEAR ENDED JUNE 30, 2021

	Budget		Actual	Variance with
	Original	Final		Final budget
				Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 1,843,559	\$ 1,843,559	\$ 1,972,364	\$ 128,805
Local taxes	157,238	157,238	179,838	22,600
Fines and forfeitures	3,344	3,344	3,230	(114)
Licenses and permits	93,173	93,173	196,683	103,510
Intergovernmental revenues	222,366	329,660	570,224	240,564
Charges for services	137,764	137,764	200,319	62,555
Investment earnings			172	172
Proceeds from sale of assets	2,000	2,000	119,595	117,595
Miscellaneous	8,580	8,580	58,705	50,125
Total revenues	<u>2,468,024</u>	<u>2,575,318</u>	<u>3,301,130</u>	<u>725,812</u>
EXPENDITURES				
Current				
General government	374,277	374,277	481,607	(107,330)
Public safety	1,226,731	1,334,025	1,266,065	67,960
Public works	482,556	482,556	498,047	(15,491)
Health, welfare, and sanitation	160,222	160,222	51,387	108,835
Parks, recreation, and culture	30,585	30,585	76,898	(46,313)
Economic development	600	600	26,408	(25,808)
Capital outlay			145,444	(145,444)
Debt Service	193,053	193,053	490,438	(297,385)
Total expenditures	<u>2,468,024</u>	<u>2,575,318</u>	<u>3,036,294</u>	<u>(460,976)</u>
Net revenues over expenditures			264,836	264,836
OTHER FINANCING SOURCES				
Insurance recoveries			105,773	105,773
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ 370,609</u>	<u>\$ 370,609</u>

TOWN OF PRINCESS ANNE, MARYLAND

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE TOWN'S PROPORTIONATE**

SHARE OF THE NET PENSION LIABILITY

**MARYLAND STATE RETIREMENT AND PENSION SYSTEM
(UNAUDITED)**

<u>Fiscal year/ measurement date</u>	<u>Town's proportion of the net pension liability</u>	<u>Town's share of the net pension liability (asset)</u>	<u>Town's covered payroll</u>	<u>Town's proportionate percentage of covered payroll</u>	<u>Plan's fiduciary as a percentage of total pension liability</u>
General Employees' Plan					
2015/2014	0.006543%	\$ 1,161,164	\$ 1,052,507	110.32%	71.87%
2016/2015	0.007667%	1,593,376	849,803	187.50%	68.78%
2017/2016	0.006867%	1,620,225	967,521	167.46%	65.79%
2018/2017	0.007753%	1,676,434	992,893	168.84%	69.38%
2019/2018	0.001643%	344,738	418,949	82.29%	71.18%
2020/2019	0.001845%	380,441	521,622	72.93%	72.34%
2021/2020	0.001919%	433,686	423,321	102.45%	70.72%
Law Enforcement Officers' Plan (LEOPS)					
2019/2018	0.006342%	\$ 1,330,600	\$ 627,382	212.09%	71.18%
2020/2019	0.006596%	1,360,357	687,752	197.80%	72.34%
2021/2020	0.006886%	1,556,329	586,310	265.44%	70.72%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information is available to present a ten-year trend.

TOWN OF PRINCESS ANNE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S CONTRIBUTIONS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
(UNAUDITED)

Fiscal Year	Contractually required contribution	Actual contribution	Contribution deficiency (excess)	Town's covered payroll	Actual contribution as a percentage of covered payroll
General Employees' Plan					
2015	\$ 161,605	\$ 161,605	\$	\$ 1,052,507	15.35%
2016	133,777	133,777		849,803	15.74%
2017	157,795	157,795		967,521	16.31%
2018	32,763	32,763		992,893	3.30%
2019	37,878	37,878		418,949	9.04%
2020	41,142	41,142		521,622	7.89%
2021	34,567	34,567		423,321	8.17%
Law Enforcement Officers' Plan (LEOPS)					
2019	\$ 135,438	\$ 135,438	\$	\$ 627,382	21.59%
2020	147,640	147,640		687,752	21.47%
2021	143,063	143,063		586,310	24.40%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information is available to present a ten-year trend.

TOWN OF PRINCESS ANNE, MARYLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

(UNAUDITED)

JUNE 30, 2021

Changes in benefit terms:

There were no benefit changes during the year.

Changes in assumptions:

Discount rates remained 7.40%.

Method and assumptions used in calculations of actuarially determined contributions for the plan years ended June 30, 2020 and 2019:

Actuarial	Entry age normal.	
Remaining amortization period	25 year closed amortization period ending June 30, 2039; 18 years remaining.	
Asset valuation model	Five year smoothed market (maximum 120% and minimum 80% of market value.	
Inflation	2020	2.60% general; 3.10% wage
	2019	2.65% general; 3.15% wage
Salary increases	2020	3.10% to 11.60%, including inflation
	2019	3.10% to 11.60%, including inflation
Investment rate of return	2020	7.40%
	2019	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-dimentional) mortality improvement scale.	

GOVERNMENT AUDITING STANDARDS REPORT

ANDREW M. HAYNIE, CPA
SUSAN P. KEEN, CPA
MICHAEL C. KLEGER, CPA
JAMES D. MAYBURY, CPA
E. LEE McCABE, CPA
JEFFREY A. MICHALIK, CPA
ROBERT L. MOORE, CPA
DANIEL M. O'CONNELL II, CPA
ASHLEY M. STERN, CPA
JOHN M. STERN, JR., CPA

PKScpa.com

Salisbury

1801 SWEETBAY DRIVE
P.O. Box 72
SALISBURY, MD 21803
TEL: 410.546.5600
FAX: 410.548.9576

Ocean City

12216 OCEAN GATEWAY
SUITE 800
OCEAN CITY, MD 21842
TEL: 410.213.7185
FAX: 410.213.7638

Lewes

1143 SAVANNAH ROAD
SUITE 1
P.O. Box 192
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

**INDEPENDENT AUDITORS' 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***

To the President and Commissioners
Town of Princess Anne, Maryland

We were engaged to 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, the financial statements of the governmental activities and major fund of the Town of Princess Anne, 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 15, 2022. Our report disclaims an opinion on such financial statements as mentioned in the Independent Auditors' Report, Basis for Disclaimer of Opinion.

Internal Control over Financial Reporting

In connection with our engagement to audit 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 over financial reporting 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 have not been 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 and significant deficiencies.

Internal Control over Financial Reporting (continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2021-001, 2021-002, 2021-003 and 2021-004 described in the accompanying schedule of findings and responses to be material weaknesses.

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. We consider the deficiency, 2021-005 and 2021-006 described in the accompanying schedule of findings and responses to be significant deficiencies.

Report on Compliance and Other Matters

In connection with our audit of the financial statements, 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 financial statements. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and responses as item 2021-007.

Town of Princess Anne, Maryland's Response to Findings

The Town's response to the findings identified in our engagement is described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the engagement to 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
November 15, 2022

TOWN OF PRINCESS ANNE, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2021

MATERIAL WEAKNESSES

Repeat finding: 2021-001 – Segregation of Duties

Criteria – A good system of internal control provides for a proper segregation of the accounting functions.

Condition – The Town does not have the proper segregation of duties over its daily accounting functions. At present, the clerk is responsible for all accounting functions. She is responsible for billing and collections, and cash disbursements.

Cause – The Town has a limited number of personnel in their accounting department.

Effect – There is a danger that intentional fraud or unintentional errors could occur. Inadequate segregation of duties could adversely affect the Town’s ability to detect and correct misstatements in a timely manner by employees in the normal course of performing their assigned functions.

Recommendation – While we recognize that the Town’s office staff may not be large enough to assure optimal internal control, it is important that the Town is aware of this condition. Under this condition, the most effective control is management and the Commissioner’s oversight and knowledge of matters relating to the operations of the Town.

View's of responsible officials and planned corrective actions – Management acknowledges the condition and notes that the small size of their organization makes the segregation of duties difficult. The Town has contracted with an outside accountant who reviews the internal financial statements and provides guidance on appropriate accounting procedures and additional oversight. The Town has also hired additional personnel subsequent to year end for their accounting department. Management continues to strive to achieve the maximum segregation of duties possible with the current number of employees. Management believes it has mitigating controls in place.

TOWN OF PRINCESS ANNE, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
(CONTINUED)

YEAR ENDED JUNE 30, 2021

MATERIAL WEAKNESSES (Continued)

Repeat finding: 2021-002 – No Subsidiary Ledger for Miscellaneous Accounts Receivable

Criteria – Strong and effective controls over accounts receivable are critical to the cash flow of the Town. Accounting policies and procedures should be properly designed to ensure periodic reconciliations of material general ledger accounts.

Condition – The Town does not maintain a subsidiary ledger for miscellaneous accounts receivable.

Cause – Miscellaneous amounts due to the Town are posted in the general ledger but not tracked separately.

Effect – The lack of a subsidiary ledger results in the Town not being able to determine accurate accounts receivable balances, assess account aging, and follow-up on collections.

Recommendation – A subsidiary ledger system should be implemented to track invoices billed and collected. Procedures should also be established to reconcile the subsidiary ledger to the general ledger on a monthly basis.

Views of responsible officials and planned corrective actions – Management will review its procedures for miscellaneous accounts receivable.

Repeat Finding: 2021-003 – Timely and Accurate Financial Reporting

Criteria – Proper controls over financial reporting include the ability to prepare financial statements that are timely and accurate.

Condition – The accounting policies and procedures currently in place lead to a reconciliation process resulting in overall inaccuracies and delays in the financial reporting process.

Cause – The Town has limited staff whose focus is the day to day operations and not on financial reporting. As a result, the Town does not have adequate procedures in place to ensure timely and accurate financial reporting.

Effect – Balance sheet and major income accounts were not reconciled at year end leading to dependency on the contracted accounting firm as well as material audit adjustments to properly state year end balances, revenues and expenses.

Recommendation – Management should identify and review the duties of the accounting department to determine who should carry what responsibility.

Views of responsible officials and planned corrective actions – Management acknowledges the condition and is seeking to hire a bookkeeper or accounting staff. The Town has contracted with an outside accountant to help administer tasks timelier.

TOWN OF PRINCESS ANNE, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
(CONTINUED)

YEAR ENDED JUNE 30, 2021

MATERIAL WEAKNESSES (Continued)

2021-004 – Supporting Documentation for expenses could not be located

Criteria – A good system of internal control includes maintaining adequate documentation of expenditures and payments made.

Condition – During our audit, we noted that documentation for cash disbursements frequently could not be located when requested. Of the 60 invoices that we selected for testing, supporting documentation could not be located for 26 of them.

Cause – The Town has had significant personnel turnover in their accounting department. The Town also does not have an adequate filing system for paid invoices.

Effect – Missing accounting records may be a result of general disorganization or could be a red flag of a more severe issue such as potential fraud or abuse. At a minimum, missing documents results in nonproductive time spent searching for needed documents.

Recommendation – A formal Record Retention Policy indicating number of years documentation is to be kept on file should be developed. A significant effort should be made to ensure that all paid invoices are properly filed and retained. The Town should develop a systematic method of filing these documents such as alphabetically by vendor. Documents should be filed immediately after processing.

Views of responsible officials and planned corrective actions – Management will review its procedures for maintaining complete files and documentation of expenditures and payments made.

TOWN OF PRINCESS ANNE, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
(CONTINUED)

YEAR ENDED JUNE 30, 2021

SIGNIFICANT DEFICIENCIES

Repeat finding: 2021-005 – Preparation of Financial Statements

Criteria – Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct and include all required disclosures.

Condition – Management has outsourced the preparation of the financial statements in accordance with generally accepted accounting principles (GAAP) to the independent auditor. In addition, we proposed audit adjustments and reclassifications that would not have been identified as a result of the Town's existing internal controls. This is not uncommon for small governments.

Cause – The Town has limited staff to prepare full disclosure financial statements.

Effect – There is reasonable possibility that the Town would not be able to draft the financial statements and accompanying notes to the financial statements that are correct without the assistance of the auditors.

Recommendation – While this condition is not unusual for a Town with limited staffing, it is important that the Town is aware of this condition for financial statement purposes. Management and the Town Commissioners should be aware of the financial accounting and reporting of the Town and changes in accounting and reporting requirements.

Views of responsible officials and planned corrective actions – Management acknowledges the condition and has evaluated the cost vs. benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP and has determined that it is in the best interest of the Town to outsource this task to its independent auditors.

TOWN OF PRINCESS ANNE, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
(CONTINUED)

YEAR ENDED JUNE 30, 2021

SIGNIFICANT DEFICIENCIES (Continued)

2021-006 - Controls over cash disbursements

Criteria – A good system of internal controls provides for proper oversight by management and those charged with governance.

Condition – Bills are not being paid timely and as a result some are being paid twice. Duplicate payments are a result of payment of the original invoice and the late invoice. In one instance, a duplicate debt payment was made in the amount of \$40,000. Credit card receipts were also not available for review.

Cause – The Town has a limited number of personnel in their accounting department and as a result does not have the proper oversight of approval over disbursements.

Effect – There is a danger that intentional fraud or unintentional errors could occur and not be detected. There could be an overstatement of expenses and an overstatement of cash.

Recommendation – Management should implement procedures to improve existing internal control.

Views of responsible officials and planned corrective actions – Management will review its procedures for obtaining approval and payment of expenses.

COMPLIANCE

2021-007 – Noncompliance – State of Maryland Annual Financial Reporting

Criteria – Local governments in the State of Maryland must submit their audited financial report no later than April 30th following the fiscal year end.

Condition – The Town did not submit its audited financial report by the required date.

Cause – The Town’s controls in place to close the year-end books, reconcile the balances, analyze the period transactions, and assimilate and accumulate such data into a timely, GAAP compliant financial report simply did not function to meet the required deadline.

Effect – Non-compliance with State’s requirements may result in sanctions.

Recommendation – Management should identify and review the duties of the accounting department to determine who should carry what responsibility.

Views of responsible officials and planned corrective actions – Management acknowledges the condition and is working with those charged with governance to mitigate this risk.