

**TOWN OF PRINCESS ANNE, MARYLAND**

**FINANCIAL REPORT**

**June 30, 2023**

# TOWN OF PRINCESS ANNE, MARYLAND

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## **INDEPENDENT AUDITORS' REPORT**

To the President and Commissioners  
Town of Princess Anne, Maryland  
Princess Anne, Maryland

### **Report on the Audit of the Financial Statements**

#### ***Disclaimer of Opinions***

We were engaged to audit the accompanying financial statements of the governmental activities, and each major fund of the Town of Princess Anne, Maryland (“the Town”) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements as listed in the table of contents.

We do not express an opinion on the accompanying financial statements of the Town. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

#### ***Basis for Disclaimer of Opinions***

The June 30, 2022 financial statement audit was conducted by PKS and Company, PA (“PKS”). In their auditors’ report dated October 6, 2023, they encountered significant difficulties in performing and completing the audit process. These difficulties related primarily to the inability to obtain appropriate audit documentation and the significant turnover in staff, resulted in the unavailability of Town staff to assist and answer questions. The prior audit firm, PKS also issued a disclaimer of opinion on the June 30, 2022 financial statement.

Therefore, we (UHY LLP) were unable to obtain sufficient appropriate audit evidence regarding opening fund balance and net position as of June 30, 2022.

#### ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, the Town implemented Government Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*.

In addition, as discussed in Note 15, the Town has a prior period adjustment. During the audit it was determined that there were note receivables and related note payables which were previously unrecorded. In addition, it was determined that there were finance lease obligations and corresponding finance lease assets/accumulated depreciation which were previously unrecorded. The governmental activities net position as of July 1, 2022, has been restated to correct for these previously unrecorded items.

Our opinion is not modified with respect to these matters.

### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our responsibility is to conduct an audit of the Town's financial statements in accordance with auditing standards generally accepted in United States of America. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements to our audit.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information (RSI), as listed in the table of contents, 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 RSI 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 July 1, 2024, on our consideration of the Town's internal control over financial reporting and 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 the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "UHY LLP". The letters are written in a cursive, slightly slanted style.

Salisbury, Maryland  
July 1, 2024

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Town of Princess Anne, Maryland's (the Town) annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year ended June 30, 2023. We encourage readers to consider the discussion and analysis along with the other information in this report, including the notes to the financial statements. In this section, we have provided an overview of the basic financial statements, selected condensed financial data and highlights, and analysis of the Town's financial position and changes in financial position.

### **FINANCIAL HIGHLIGHTS**

- The Town's total net position was \$3,175,578, consisting of \$2,661,967 net investment in capital assets, \$372,592 restricted, and \$141,019 unrestricted.
- The Town's net position decreased by \$849,097, ending the year with a total net position of \$3,175,578.
- The Town's General Fund balance decreased by \$577,893, ending the year with a total fund balance of \$632,937.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements provide two views of the Town's financial position. On the government-wide statements, the statements summarize all Town funds into one statement using the full accrual method of accounting.

- Statement of Net Position provides information on assets, deferred outflows, liabilities, deferred inflows and the difference, which is called net position. Over time increases and decreases in net position can serve as a barometer of financial health. The Statement of Net Position is similar to a balance sheet in private sector accounting.
- Statement of Activities is revenues and expenses that report the underlying cause of the change in net position. All changes in net position are reported as the change occurs. This means the statement includes depreciation on the assets. This statement does not report any capital projects. Capital projects are reported on the Statement of Net Position.

**Fund Focus** - A fund is defined as a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are used to ensure compliance with finance-related legal or regulatory compliance. Funds are classified as either governmental funds, proprietary funds or fiduciary funds (The Town has no proprietary or fiduciary funds).

- Governmental funds are essentially the same as the governmental activities. Governmental funds facilitate cost allocation of centralized services such as building maintenance, street repair, accounting, printing, office equipment, engineering services, etc.
- Governmental funds use a modified accrual basis of accounting. Governmental funds focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources. In the governmental statements, the accounting for items such as capital outlay, depreciation, debt payments, and accrued vacation is different than in the government-wide statements. In government funds, capital outlay and debt principal are reported on the Statement of Revenues, Expenditures and Changes in Fund Balance. Depreciation is not recorded. The rule for reporting accrued vacation is more restrictive. The Balance Sheet for governmental funds does not include any capital assets or long-term debt.

**Major Funds** - Major funds are the largest funds in terms of assets, liabilities, revenues or expenses. This allows the reader to see more detailed activities of the Major Funds. For the Town the following funds meet this requirement:

- General

Proprietary funds use a full accrual method of accounting for both government-wide statements and fund level statements. The Town has no proprietary funds.

Enterprise funds are used to report business like activities. The Town has no enterprise funds.

Notes to the Financial Statements follow immediately after the basic financial statements. These notes are an integral part of the financial statements. The notes contain many additional disclosures about the financial health of the Town.

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE**

**Net position**

	2023	2022	% Change
Current and other assets	\$ 3,681,460	\$ 4,017,385	-8%
Capital assets, net	5,085,153	6,238,206	-18%
<b>Total assets</b>	<b>8,766,613</b>	<b>10,255,591</b>	<b>-15%</b>
<b>Deferred outflows</b>	<b>538,472</b>	<b>560,873</b>	<b>-4%</b>
Other liabilities	1,400,509	157,547	789%
Long-term debt	2,523,850	3,323,555	-24%
Net pension liability	1,798,103	1,209,362	49%
<b>Total liabilities</b>	<b>5,722,462</b>	<b>4,690,464</b>	<b>22%</b>
<b>Deferred inflows</b>	<b>407,045</b>	<b>2,101,325</b>	<b>-81%</b>
Net investment in capital assets	2,661,967	4,146,480	-36%
Restricted	372,592	430,681	-13%
Unrestricted	141,019	(552,486)	-126%
<b>Total net position</b>	<b>\$ 3,175,578</b>	<b>\$ 4,024,675</b>	<b>-21%</b>

- The Town's total net position was \$3,175,578, consisting of \$2,661,967 net investment in capital assets, \$372,592 restricted, and \$141,019 unrestricted.
- The Town's total net position decreased by 21%.

**Changes in net position**

The Statement of Activities presented below is a condensed version of the more detailed one presented in the Financial Statements section of this report. Program revenues are listed first followed by general revenues and then expenses attributable to each function of the Town's government. The change in net position is equal to the revenues minus expenses and is added (subtracted) to net position beginning of year to reach net position end of year.

- Net position, before special items, of the Town's decreased by \$312,906.
- The Town's total revenues were \$4,123,822, an increase of 8% from the prior year. The majority of the increase related to capital grants increasing by \$337,868.
- The cost of all services increased by 16% to \$4,436,728. This is primarily due to an increase in general government, public safety, health, welfare, and sanitation.
- The Town had three special items during the year which decreased net position by a net \$536,191.



TOWN OF PRINCESS ANNE, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2023

	2023	2022	%
			Change
<b>Revenues</b>			
Program Revenues:			
Charges for services	\$ 356,922	\$ 385,410	-7%
Operating grants	623,818	734,974	-15%
Capital grants	339,523	1,655	20415%
General Revenues:			
Property taxes	2,030,493	2,061,476	-2%
Other taxes	227,806	195,455	17%
Gain on sale of assets	57,012	42,095	35%
Investment and other	488,248	392,620	24%
<b>Total revenues</b>	<b>4,123,822</b>	<b>3,813,685</b>	<b>8%</b>
<b>Expenses</b>			
General government	1,094,929	738,111	48%
Public safety	1,858,246	1,528,776	22%
Public works	849,997	820,433	4%
Health, welfare, and sanitation	287,003	13,608	2009%
Parks, recreation, and culture	69,508	74,040	-6%
Economic development	209,308	524,109	-60%
Interest on long-term debt	67,737	133,168	-49%
<b>Total expenses</b>	<b>4,436,728</b>	<b>3,832,245</b>	<b>16%</b>
<b>Change in net position, before special items</b>	<b>(312,906)</b>	<b>(18,560)</b>	<b>1586%</b>
<b>Special items</b>			
Gain from disposal of asset	125,533	-	0%
Debt forgiveness - Washington Inn	481,850	-	0%
Impairment loss - Washington Inn	(1,143,574)	-	0%
<b>Total special items</b>	<b>(536,191)</b>	<b>-</b>	<b>-</b>
<b>Change in net position</b>	<b>(849,097)</b>	<b>(18,560)</b>	<b>1586%</b>
Net position, beginning of year, as restated	4,024,675	4,043,235	0%
<b>Net position end of year</b>	<b>\$ 3,175,578</b>	<b>\$ 4,024,675</b>	<b>-21%</b>

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS**

- As the Town completed the year, the general fund reported a fund balance of \$632,937, a decrease of \$577,893 from the prior year.

**General Fund Budgetary Highlights**

- Revenues were over budget by \$680,402, which is mostly attributable to intergovernmental revenues being over-budget by \$703,696 and miscellaneous revenues being over-budget by \$157,670. These were offset some by property taxes and charges for services being under-budget.
- Total expenditures were over budget by \$1,516,507. All departments were over budget except parks, recreation, and culture.

**CAPITAL AND INTANGIBLE ASSETS AND DEBT ADMINISTRATION**

**Capital and Intangible Assets**

At the end of 2023, the Town had a net investment of \$5,085,153 in a broad range of capital and intangible assets, including land, equipment, buildings, and vehicles.

More detailed information about the Town's capital assets is presented in notes to the financial statements.

	<b>2023</b>	2022
Land	<b>\$ 671,538</b>	\$ 671,538
Industrial park land	<b>281,252</b>	336,850
Construction in progress	-	-
Building and improvements	<b>2,220,580</b>	3,510,299
Industrial park	<b>3,675,283</b>	3,675,283
Infrastructure	<b>1,082,543</b>	6,902,831
Machinery and equipment	<b>783,394</b>	862,476
Transportation	<b>1,120,990</b>	1,209,081
Right-to-use (leased equipment)	<b>13,395</b>	13,395
Total	<b>9,848,975</b>	17,181,753
Accumulated depreciation and amortization	<b>(4,763,822)</b>	(10,943,547)
Capital assets, net	<b>\$ 5,085,153</b>	\$ 6,238,206

**Long Term Debt**

At the end of 2023, the Town had \$2,523,850 in long term debt, which includes compensated absences, general obligation bonds, note payable, finance lease, and operating lease.

More detailed information about the Town's long-term debt is presented in notes to the financial statements.

	<b>2023</b>	<b>2022</b>
Compensated absences	<b>\$ 100,664</b>	\$ 90,700
General obligation bonds	<b>590,105</b>	685,659
Note payable	<b>1,570,078</b>	2,319,948
Finance lease	<b>256,203</b>	217,821
Operating lease	<b>6,800</b>	9,427
<b>Total long-term debt</b>	<b>\$ 2,523,850</b>	<b>\$ 3,323,555</b>

**CURRENTLY KNOWN FACTS, NEXT YEAR'S BUDGET, AND RATES**

- The Town'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 Washington Inn sold on March 27, 2024, for a contract price of \$200,000, resulting in an impairment loss being recorded on these financial statements in the amount of \$1,143,574.
- The real property assessment remains the same as the prior year at 1.0287 per \$100 assessed value under the 2024 budget.

**CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to present our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability. If you have any questions about the report or need additional financial information, please put your request in writing to the attention of the Princess Anne, Maryland 30489 Broad Street, Princess Anne, Maryland 21853.

# TOWN OF PRINCESS ANNE, MARYLAND

## STATEMENT OF NET POSITION

June 30, 2023

	Governmental Activities
<b>ASSETS</b>	
Cash and investments	\$ 1,185,343
Taxes receivable	427,266
Accounts receivable, net	134,484
Lease receivable	272,889
Prepaid expenses	32,212
Due from other governments	121,931
Restricted cash	372,592
Notes receivable	1,134,743
Capital Assets:	
Nondepreciable assets	952,790
Depreciable assets, net	4,132,363
<b>Total assets</b>	<b>8,766,613</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension benefits	538,472
<b>Total deferred outflows of resources</b>	<b>538,472</b>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	188,833
Unearned revenue - grants	1,211,676
Current portion of compensated absences	29,880
Current portion of bonds, notes, and leases	569,394
Non-current liabilities	
Compensated absences	70,784
Bonds, notes, and leases payable	1,853,792
Net pension liability	1,798,103
<b>Total liabilities</b>	<b>5,722,462</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension benefits	151,937
Lease receivable	255,108
<b>Total deferred inflows of resources</b>	<b>407,045</b>
<b>NET POSITION</b>	
Net investment in capital assets	2,661,967
Restricted - industrial park	372,592
Unrestricted (deficit)	141,019
<b>Total net position</b>	<b>\$ 3,175,578</b>

# TOWN OF PRINCESS ANNE, MARYLAND

## STATEMENT OF ACTIVITIES Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>					
General government	\$ 1,094,929	\$ 173,505	\$ 23,715	\$ 339,523	\$ (558,186)
Public safety	1,858,246	69,766	273,907	-	(1,514,573)
Public works	849,997	113,651	324,196	-	(412,150)
Health, welfare, and sanitation	287,003	-	-	-	(287,003)
Parks, recreation, and culture	69,508	-	-	-	(69,508)
Economic development	209,308	-	2,000	-	(207,308)
Interest on long-term debt	67,737	-	-	-	(67,737)
<b>Total governmental activities</b>	<b>\$ 4,436,728</b>	<b>\$ 356,922</b>	<b>\$ 623,818</b>	<b>\$ 339,523</b>	<b>\$ (3,116,465)</b>
<b>GENERAL REVENUES</b>					
Property taxes					\$ 2,030,493
Local taxes					227,806
Investment income					49
Miscellaneous					488,199
Gain from sale of asset					57,012
<b>Total general revenues</b>					<b>2,803,559</b>
					Change in net position, before special items
					(312,906)
<b>SPECIAL ITEMS</b>					
Gain from disposal of asset					125,533
Debt forgiveness - Washington Inn					481,850
Impairment loss - Washington Inn					(1,143,574)
<b>Total special items</b>					<b>(536,191)</b>
					Change in net position
					(849,097)
					<b>Net position, beginning of year, as restated</b>
					<b>4,024,675</b>
					<b>Net position, end of year</b>
					<b>\$ 3,175,578</b>

# TOWN OF PRINCESS ANNE, MARYLAND

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2023

	General Fund
<b>ASSETS</b>	
Cash and investments	\$ 1,185,343
Taxes receivable, net of allowance	427,266
Accounts receivable, net of allowance	134,484
Lease receivable	272,889
Prepaid expenses	32,212
Due from other governments	121,931
Restricted cash	372,592
<b>Total assets</b>	<b>\$ 2,546,717</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 188,833
Unearned revenue - grants	1,211,676
Accrued compensated absences	29,880
<b>Total liabilities</b>	<b>1,430,389</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable taxes	228,283
Lease receivable	255,108
<b>Total deferred inflows of resources</b>	<b>483,391</b>
<b>FUND BALANCES</b>	
Nonspendable	32,212
Restricted	372,592
Unassigned	228,133
<b>Total fund balance</b>	<b>632,937</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 2,546,717</b>

**TOWN OF PRINCESS ANNE, MARYLAND**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2023**

Total fund balances, governmental funds	\$ 632,937
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Notes receivable are not due and receivable in the current period and therefore are not reported in the fund financial statements, but are reported on the Statement of Net Position.	1,134,743
Capital assets used in governmental activities are not current financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	5,085,153
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	228,283
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 leases payable	(2,423,186)
Compensated absences	(70,784)
Deferred outflows of resources - pension	538,472
Deferred inflows of resources - pension	(151,937)
Net pension liability	(1,798,103)
<hr/>	
<b>Net position of governmental activities in the Statement of Net Position</b>	<b>\$ 3,175,578</b>

# TOWN OF PRINCESS ANNE, MARYLAND

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND

Year Ended June 30, 2023

	General Fund
<b>REVENUES:</b>	
Property taxes	\$ 2,093,392
Local taxes	227,806
Fines and forfeitures	13,191
Licenses and permits	119,107
Intergovernmental revenues	963,341
Charges for services	224,624
Investment income	49
Miscellaneous	488,199
<hr/>	
Total revenues	4,129,709
<hr/>	
<b>EXPENDITURES:</b>	
Current:	
General government	1,210,612
Public safety	1,731,537
Public works	735,413
Health, welfare, and sanitation	165,095
Parks, recreation, and culture	16,025
Economic development	193,161
Capital outlay	498,354
Debt service	486,462
<hr/>	
Total expenditures	5,036,659
<hr/>	
Excess of expenditures over revenues	(906,950)
<hr/>	
<b>OTHER FINANCING SOURCES:</b>	
Proceeds from insurance recoveries	57,012
Proceeds from sale of assets	181,139
Leases	90,906
<hr/>	
Total other financing sources	329,057
<hr/>	
Net change in fund balance	(577,893)
<hr/>	
<b>Fund balance, beginning of year</b>	<b>1,210,830</b>
<hr/>	
<b>Fund balance, end of year</b>	<b>\$ 632,937</b>

The Notes to Financial Statements are an integral part of this statement.



**TOWN OF PRINCESS ANNE, MARYLAND**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2023**

Net change in fund balances, governmental fund \$ (577,893)

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

Governmental funds report the receipts of notes receivable as a revenue. In contrast, the Statement of Activities treats such repayment as a reduction in notes receivable. (16,064)

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 those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital outlay 498,354  
 Impairment loss (1,143,574)  
 Depreciation and amortization expense (452,227)

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 balance in fund balances by the book value of the assets sold.

Proceeds from insurance recoveries (57,012)  
 Proceeds from sale of assets (181,139)  
 Gain from disposal of asset 57,012  
 Gain on sale of assets 125,533

Governmental funds report repayment of long term debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Principal payments 418,725  
 Debt forgiveness 481,850

Proceeds from the issuance of long-term liabilities are reported in the governmental fund as a source of financing. On the other hand, these types of proceeds are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position. (90,906)

Governmental funds report debt charges as an expenditure. In contrast, the Statement of Activities treats such costs as a deferred outflow as resources. (3,956)

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 (62,899)

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) decrease in long-term compensated absences (12,035)  
 Increase (decrease) in deferred outflows of resources - pension 99,286  
 (Increase) decrease in deferred inflows of resources - pension 656,589  
 (Increase) decrease in net pension liability (588,741)

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Change in net position of governmental activities \$ (849,097)

TOWN OF PRINCESS ANNE, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

**Note 1. Description of The Town of Oxford**

The Town of Princess Anne, Maryland (“the Town”) was incorporated under the provisions of the State of Maryland. The Town operates under a Commissioner form of government and provides the following services as authorized by its charter: general administrative services, public safety, public works, recreation and economic development.

**Note 2. Summary of Significant Accounting Policies**

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the Town’s accounting policies are described below.

**A. Basis of Presentation**

The Town’s basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net position and the statement of activities display information about the Town as a whole. These statements include the financial activities of the Town. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the Town at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town. Direct expenses are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from general revenues of the Town.

**FUND FINANCIAL STATEMENTS**

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Town only has a general fund and has no non-major funds.

**Note 2. Summary of Significant Accounting Policies (continued)**

**B. Fund Accounting**

The Town uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Town has no proprietary and fiduciary funds.

**GOVERNMENTAL FUNDS**

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Town's only governmental fund:

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

**PROPRIETARY FUNDS**

Proprietary funds focus on the determination of changes in net position, financial position and cash flows and are classified as enterprise.

Enterprise fund – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Town has no enterprise funds.

**C. Measurement Focus**

Government-wide financial statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the statement of net position.

Fund financial statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Note 2. Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus (continued)**

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities. The Town has no proprietary funds.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures. The Town has no proprietary or fiduciary funds.

Revenues - Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Town is defined as collected within 60 days subsequent to year end.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursable basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, interest and licenses and permits.

Deferred Outflows / Inflows of Resources – In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows 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.

**Note 2. Summary of Significant Accounting Policies (continued)**

**D. Basis of Accounting (continued)**

See pension plan footnote for further details relating to the deferred outflows / inflows of resources, as recorded on the statement of net position, relating to the Town's pension plan.

Grant Receivables/Unearned Revenue – The Town records receivables when the applicable eligibility requirements including time requirements are met. Related revenues are recognized to the extent that cash is expected to be received within one year of year-end. Resources received before the eligibility requirements are met are reported as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated assets during the year is reported in the operating statement as an expense with a like amount reported as donated revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgetary Data**

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 the fund. All budget transfers must be approved by the Commissioners before becoming effective. All appropriations lapse at the end of the budget year.

**F. Cash Equivalents**

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

**G. Property Tax**

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 1.5% per month. At January 1 of the levy year, in addition to the 1.5% 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.

**Note 2. Summary of Significant Accounting Policies (continued)**

**H. Receivables, 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. Allowance for uncollectible accounts as of June 30, 2023 are as follows:

Accrued interest receivable	\$	40,955
Fees		49,261
Reimbursed expenses		134,484
Allowance		<u>(90,216)</u>
<b>Total accounts receivable, net</b>	<b>\$</b>	<b><u>134,484</u></b>

**I. Capital Assets**

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset’s life are not.

All reported capital assets except, land and construction in progress, are depreciated using the straight-line method over the estimated useful lives. Right-to-use assets are amortized over the life of the lease.

<u>Asset Class</u>	<u>Estimated Useful Lives in Years</u>
Building and improvements	5 - 40
Industrial park	20 - 40
Infrastructure	7 - 40
Machinery and equipment	5 - 20
Transportation	5 - 10
Right-to-use (leased equipment)	Life of lease

**Note 2. Summary of Significant Accounting Policies (continued)**

**J. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide statements.

In general, general fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

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

**K. Net Position**

Net position represents the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Restricted components of net position are reported when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by grantors, contributors, creditors, or laws and regulations of other governments.

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

**Note 2. Summary of Significant Accounting Policies (continued)**

**L. Governmental Fund Balances**

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

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can only be spent for specific purposes because of the Town charter or code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by formal action by the Town Commissioners ordinance or resolutions.

Assigned – Amounts that are designated by the Commissioners or management with intent to be used for specific purposes, but are neither restricted or committed by ordinance or resolution.

Unassigned – Amounts not included in other spendable classifications.

The Town uses restricted fund balance first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**M. Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**N. New Accounting Policies**

The Town adopted Government Accounting Standards Board's Statement No. 96, *Subscription-Based Information Technology Arrangements*, at July 1, 2022. This statement's objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for subscription-based information technology arrangements. The Statement increases the usefulness of the financial statements by requiring the recognition of certain subscription-based assets and liabilities. It additionally requires disclosure of essential information about those arrangements. The Town did not have any arrangements that met the definition of a right-to-use subscription-based information technology arrangement at June 30, 2023.



TOWN OF PRINCESS ANNE, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For the year ended June 30, 2023

**Note 3. Cash**

The Town is authorized to invest unexpended revenues from taxation, lawful distributions of funds from other governmental agencies, or any other funds properly received by it, until it determines the funds are needed for proper public purpose. The Town can invest such funds in federally insured banking institutions that pledge United States Treasury bills, notes, or other obligations to secure such deposits and the Maryland Local Government Investment Pool.

At June 30, 2023, the Town had bank deposits with various financial institutions totaling \$1,687,214 (carrying value \$1,557,935). As required by law, a depository is required to pledge securities, in addition to FDIC insurance, at least equal to the amount on deposit at all times. The depository bank pledges collateral for specific accounts, which are held in the Town's name by their trust department or agents. As of June 30, 2023 all deposits were fully insured or collateralized.

Restricted cash consists of a reserve and replacement fund required by the Department of Commerce for the benefit of the facility in the industrial park.

**NOTE 4 – Lease Receivable**

The Town implemented guidance of GASB 87, Leases, at July 1, 2021 for accounting and reporting of leases.

The Town has entered into a lease agreement with Peraton for property located in the industrial park. The Town receives monthly payments ranging from \$26,991 to \$27,792 during the year. The Town used its incremental borrowing rate at lease inception to determine the lease receivable and corresponding deferred inflows. As of June 30, 2024, the Town has recorded a \$272,889 lease receivable and deferred inflow in the amount of \$255,108.

**NOTE 5 – Notes Receivable**

Notes receivable are as follows:

Note Receivable from Somerset Reserve LLLP dated November 24, 2009 for \$250,000 at 4% interest. The entire unpaid balance of principal plus unpaid interest accrued is due on October 1, 2056. Payments, if any, are due annually on April 1 and are the lessor of scheduled payments or surplus cash from the project ("Somerset Reserve LLLP").	\$ 222,243
Note Receivable from Somerset Reserve LLP dated July 1, 2015 for \$500,000 at 0% interest. The entire unpaid balance of principal is due on October 1, 2056. Payments, if any, are due annually and made from 75% of available surplus cash from the project ("Somerset Reserve LLLP").	500,000
Note Receivable from Somerset Reserve LLP dated July 1, 2015 for \$500,000 at 0% interest. The entire unpaid balance of principal is due on October 1, 2056. Payments, if any, are due annually and made from 75% of available surplus cash from the project ("Somerset Reserve LLLP").	412,500
Notes receivable	\$ 1,134,743

TOWN OF PRINCESS ANNE, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

**Note 6. Capital and Intangible Assets**

The following is a summary of changes in capital and intangible assets:

	June 30, 2022 as restated	Additions	Deletions & Adjustments	June 30, 2023
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets, not being depreciated:				
Land	\$ 671,538	\$ -	\$ -	\$ 671,538
Industrial park land	336,850	-	(55,598)	281,252
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	1,008,388	-	(55,598)	952,790
Capital assets, being depreciated:				
Building and improvements	3,510,299	163,994	(1,453,713)	2,220,580
Industrial park	3,675,283	-	-	3,675,283
Infrastructure	6,902,831	-	(5,820,288)	1,082,543
Machinery and equipment	862,476	118,728	(197,810)	783,394
Transportation	1,209,081	215,632	(303,723)	1,120,990
Right-to-use (leased equipment)	13,395	-	-	13,395
Total capital assets, being depreciated	16,173,365	498,354	(7,775,534)	8,896,185
Less accumulated depreciation:				
Building and improvements	(1,080,545)	(99,408)	310,116	(869,837)
Industrial park	(2,216,903)	(56,048)	-	(2,272,951)
Infrastructure	(6,301,302)	(37,318)	5,820,286	(518,334)
Machinery and equipment	(563,641)	(81,728)	197,824	(447,545)
Transportation	(777,033)	(174,936)	303,726	(648,243)
Right-to-use (leased equipment)	(4,123)	(2,789)	-	(6,912)
Total accumulated depreciation	(10,943,547)	(452,227)	6,631,952	(4,763,822)
Total capital assets, being depreciated, net	5,229,818	46,127	(1,143,582)	4,132,363
Capital assets, net	\$ 6,238,206	\$ 46,127	\$ (1,199,180)	\$ 5,085,153

Depreciation expense was charged functions as follows:

General government	\$ 19,396
Public safety	126,709
Public works	114,584
Health, welfare, and sanitation	121,908
Parks, recreation, and culture	53,483
Economic development	16,147
<b>Total depreciation expense</b>	<b>\$ 452,227</b>

TOWN OF PRINCESS ANNE, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For the year ended June 30, 2023

**Note 7. Line of Credit**

The Town has an open line of credit with Hebron Savings Bank. The total available line of credit is \$100,000. Interest is payable monthly at a rate equivalent to the prime rate plus 1% of interest. There was no outstanding balance as of June 30, 2023.

**Note 8. Long-Term Debt**

The following is a summary of the changes in long-term liabilities:

	Balances June 30, 2022 as restated	Additions and Transfers	Principal Repayments and Transfers	Balances June 30, 2023	Amount Due in One Year
Compensated absences	\$ 90,700	\$ 34,483	\$ (24,519)	\$ 100,664	\$ 29,880
General obligation bonds	685,659	-	(95,554)	590,105	96,544
Note payable	2,319,948	-	(749,870)	1,570,078	410,370
Finance lease	217,821	90,906	(52,524)	256,203	59,746
Operating lease	9,427	-	(2,627)	6,800	2,734
<b>Long-Term Debt</b>	<b>\$ 3,323,555</b>	<b>\$ 125,389</b>	<b>\$ (925,094)</b>	<b>\$ 2,523,850</b>	<b>\$ 599,274</b>

General obligation bonds consist of the following:

\$802,000 - General obligation refunding bond Series 2014B. 15 annual installments beginning June 1, 2015 and ending July 1, 2029. Annual payments of principal and quarterly payments of interest of 3.39% are paid over the term of 15 years. \$ 316,269

\$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. 273,836

Total bonds payable 590,105

Less current portion of bonds payable 96,544

**Long-term portion of bonds payable \$ 493,561**

TOWN OF PRINCESS ANNE, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For the year ended June 30, 2023

**Note 8. Long-Term Debt (continued)**

Notes payable consisted 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 of 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. \$ -

Mortgage payable to Department of Commerce dated December 7, 2009 for \$2,206,090 for the purchase of land and building in the Industrial Park. An additional \$400,000 was advanced on July 12, 2020. The mortgage is secured by a deed of trust and an assignment of lease and rents. Monthly principal and interest at 3% of \$18,317 are due Matures in June 2025. 397,704

Advance from Department of Commerce of \$100,000 January 2014 to be used for a climate control system at the industrial park property. Principal payments of \$1,000 are due monthly, without interest. Matures in October 2023. -

Note Payable to MD Dept of Planning dated November 24, 2009 for \$250,000 at 4% interest. The entire unpaid balance of principal plus unpaid interest accrued is due on October 1, 2056. Payments are due annually on April 1 and are the lessor of scheduled payments or surplus cash from the project ("Somerset Reserve LLLP"). 225,807  
 Accrued interest payable 9,067

Note Payable to MD Dept of Planning (CDBG) dated July 1, 2015 for \$500,000 at 0% interest. The entire unpaid balance of principal is due on October 1, 2056. Payments, if any, are due annually and made from 75% of available surplus cash from the project ("Somerset Reserve LLLP"). 500,000

Note Payable to MD Dept of Planning (SGIF) dated July 1, 2015 for \$500,000 at 0% interest. The entire unpaid balance of principal is due on October 1, 2056. Payments, if any, are due annually and made from 75% of available surplus cash from the project ("Somerset Reserve LLLP"). 437,500

Total note payable	1,570,078
Less current portion of notes payable	410,370

Long-term portion of note payable	\$ 1,159,708
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TOWN OF PRINCESS ANNE, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For the year ended June 30, 2023

**Note 8. Long-Term Debt (continued)**

The annual requirements to amortize debt outstanding are as follows:

Year Ending June 30,	General Obligation Bonds		Note Payable	
	Principal	Interest	Principal	Interest
2024	\$ 96,544	\$ 17,157	\$ 410,370	\$ 14,840
2025	97,556	14,332	3,743	8,888
2026	98,592	11,483	3,892	8,739
2027	99,652	8,610	4,048	8,583
2028	100,738	5,712	4,210	8,421
Thereafter	97,023	2,789	1,143,815	134,890
<b>Total</b>	<b>\$ 590,105</b>	<b>\$ 60,083</b>	<b>\$ 1,570,078</b>	<b>\$ 184,361</b>

The Town implemented guidance of GASB 87, Leases, at July 1, 2021 for accounting and reporting of leases.

Finance Lease

The Town is committed under non-cancelable finance lease for several vehicles. The assets and liabilities under the finance leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over the lower of their related leases terms or their estimated productive lives. Depreciation of assets under finance leases is include in depreciation expense. Finance leases are as follows:

Police car lease; 2021 Ford, principal and interest payable in monthly installments of \$865, interest at 5.00%, maturing 2027.	\$ 32,508
Police car lease; 2021 Dodge, principal and interest payable in monthly installments of \$702, interest at 4.90%, maturing 2027.	26,489
Police car lease; 2022 Ford, principal and interest payable in monthly installments of \$700, interest at 5.70%, maturing 2028.	28,827
Police car lease; 2022 Ford, principal and interest payable in monthly installments of \$903, interest at 8.50%, maturing 2028.	38,543
Police car lease; 2021 Chevrolet, principal and interest payable in monthly installments of \$9621, interest at 8.50%, maturing 2028.	41,058
Trash truck lease, 2021 Peterbilt, principal and interest payable in annual installments of \$25,538, interest at 5.86%, maturing 2028.	88,778
<b>Finance lease liability</b>	<b>\$ 256,203</b>

The total amount of finance lease assets is \$440,883, with related accumulated depreciation of \$130,131, for a net carrying value of \$310,752.

TOWN OF PRINCESS ANNE, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For the year ended June 30, 2023

**Note 8. Long-Term Debt (continued)**

Operating Lease

The Town is committed under non-cancelable operating leases for a copy machine. The lease is set to expire in fiscal year 2026. The asset and liability are recorded at the present value of the future lease payments. The asset is amortized over the life of the lease using the straight-line method. Amortization is included in depreciation expense. Operating leases are as follows:

Non-cancelable copier lease; principal and interest payable in monthly installments of \$246, interest at 4.00%, maturing 2026.	\$	6,800
ROU lease liability	\$	6,800

The total amount of the ROU lease asset and related depreciation is reported separately in Note 6.

The future minimum lease payments are approximately as follows:

Year Ending June 30,	Finance Leases		Operating Leases	
	Principal	Interest	Principal	Interest
2024	\$ 59,746	\$ 15,367	\$ 2,734	\$ 222
2025	63,601	11,512	2,845	111
2026	67,720	7,394	1,221	12
2027	59,598	3,135	-	-
2028	5,538	79	-	-
Thereafter	-	-	-	-
<b>Total</b>	<b>\$ 256,203</b>	<b>\$ 37,487</b>	<b>\$ 6,800</b>	<b>\$ 345</b>

TOWN OF PRINCESS ANNE, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

**Note 9. Pension Plan**

**Organization**

The State Retirement Agency (the Agency) is the administrator of the Maryland State Retirement and Pension System (the System). The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. Responsibility for the System's administration and operation is vested in a 15 member Board of Trustees. The System is made up of two cost-sharing employer pools: the "State Pool" and the "Municipal Pool". The State Pool consists of State agencies, boards of education, community colleges, and libraries. The Municipal Pool consists of participating governmental units that elected to join the System. Neither pool shares in each other's actuarial liabilities, thus participating governmental units that elect to join the System (the "Municipal Pool") share in the liabilities of the Municipal Pool only. The State Retirement Agency issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Suite 1660, Baltimore, Maryland 21202-1600 or on-line at [www.sra.maryland.gov](http://www.sra.maryland.gov).

The System is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System.

Generally, employees of the Town participate in the Employees' Retirement and Pension Systems (Employee's Systems). The Employees' Systems are cost sharing multiple-employer defined benefit pension plans.

**Basis of Accounting**

The System's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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 System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**Note 9. Pension Plan (continued)**

**Covered Members**

*Employees' Retirement and Pension Systems* - 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, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the Employees' Retirement System. 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.

**Summary of Significant Plan Provisions**

All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. For all individuals who are members of the Employees', Teachers', Correctional Officers' or State Police Retirement System on or before June 30, 2011, retirement allowances are computed using both the highest three years' Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For all individuals who are members of the pension systems of the State Retirement and Pension System on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' AFC and the actual number of years of accumulated creditable service. For any individual who becomes a member of one of the pension systems on or after July 1, 2011, pension allowances are computed using both the highest five consecutive year's AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

The member contribution rate for members of the Employees' Pension Systems is 6%.

In Addition, the benefit 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 the valuation.

A brief summary of the retirement eligibility requirements of and the benefits available under the various systems in effect during fiscal year 2022 are as follows:

**Service Retirement Allowances**

A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service.



TOWN OF PRINCESS ANNE, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

**Note 9. Pension Plan (continued)**

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from either the Teachers' or Employees' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' or Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' or Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' or Employee's Pension System.

Exceptions to these benefit formulas apply to members of the Employees' Pension System, who are employed by a participating governmental unit that does not provide the 1998 or 2006 enhanced pension benefits or the 2011 reformed pension benefits. The pension allowance for those members equals 0.8% of the member's AFC up to the social security integration level (SSIL), plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service.

**Vested Allowances**

Any individual who is a member of the State Retirement and Pension System on or before June 30, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating five years of eligibility service is eligible for a vested retirement allowance. Any individual who joins the State Retirement and Pension System on or after July 1, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance. A member, who terminates employment prior to attaining retirement age and before vesting, receives a refund of all member contributions and interest.

**Early Service Retirement**

A member of either the Teachers' or 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 a Teachers' or Employees' Retirement System member is 30%.

TOWN OF PRINCESS ANNE, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

**Note 9. Pension Plan (continued)**

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011 may retire with reduced benefits upon attaining age 55 with a least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Teachers' or Employees' Pension System is 42%. An individual who become a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Teachers' or Employees' Pensions System is 30%.

Members of the State Police, Judges', Law Enforcement Officers' and Local Fire and Police Systems are not eligible for early service benefits.

Disability and Death Benefits

Generally, a member covered under 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. A member (other than a member of the Maryland General Assembly or a judge, both of which are ineligible for accidental disability benefits) who is permanently and totally disabled as the result of an accident occurring in the line of duty receives 2/3 (66.7%) of the member's AFC plus an annuity based on all member contributions and interest. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

Adjusted Retirement Allowances

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the CPI. For the Teachers' and Employees' Retirement Systems (TRS/ERS) the method by which the annual COLA's are computed depends upon elections made by members who were active on July 1, 1984 (or within 90 days of returning to service, for members who were inactive on July 1, 1984) enabling the member to receive either an unlimited COLA, a COLA limited to 5% or a two part combination COLA depending upon the COLA election made by the member.

However, beginning July 1, 2011, for benefits attributable to service earned on or after July 1, 2011, in all of the systems except the judges' and legislators' systems, the adjustment is capped in the lesser of 2.5% or the increase in CPI if the most recent calendar year fair value rate of return was greater than or equal to the assumed rate. The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of return. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

TOWN OF PRINCESS ANNE, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For the year ended June 30, 2023

**Note 9. Pension Plan (continued)**

**Actuarial Assumptions**

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	In the 2022 actuarial valuation, 2.25% general, 2.75% wage. In the 2021 actuarial valuation, 2.25% general, 2.75% wage.
Salary Increases	In the 2022 actuarial valuation, 2.75% to 11.25%. In the 2021 actuarial valuation, 2.75% to 9.25%.
Investment Rate of Return	In the 2022 actuarial valuation, 6.80%. In the 2021 actuarial valuation, 6.80%.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2019 valuation pursuant to the 2018 experience study for the period July 1, 2014 to July 30, 2018.
Mortality	Various versions of the Pub- 2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality improvements scale for males and females.

**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 the System’s investment consultant(s) and actuary(s). For each major asset class that is included in the System’s target asset allocation as of June 30, 2022, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	34%	6.0%
Private Equity	16%	8.4%
Rate Sensitive	21%	1.2%
Credit Opportunity	8%	4.9%
Real Assets	14%	5.2%
Absolute Return	7%	3.5%
<b>Total</b>	<b>100%</b>	

The above was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2022.

TOWN OF PRINCESS ANNE, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For the year ended June 30, 2023

**Note 9. Pension Plan (continued)**

For the year ended June 30, 2022, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was negative 2.97%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Discount rate**

A single discount rate of 6.80% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 6.80%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Net Pension Liability**

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan’s net pension liability, calculated using a single discount rate of 6.80%, as well as what the plan’s net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher:

System	1% Decrease 5.80%	Discount Rate 6.80%	1% Increase 7.80%
Town	\$ 2,758,861	\$ 1,798,103	\$ 1,000,895

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

The net pension liability was measured as of June 30, 2022, 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 calculated as follows by the System(s):

1. Calculate the net pension liability for the entire System. For purposes of funding the System, all calculations are determined on an actuarial basis and are completed through the development of rates based on two separate asset pools, one for employees of the State of Maryland (the State) and one for the Participating Governmental Units ("PGUs"). These pools are kept on an actuarial basis and allow for the State to fund only State employees and PGUs to fund only PGU employees. For the accounting of the System, however, the assets of the System are accounted in a single pool which is audited annually.
2. Determined the total contributions to the System by the State and PGUs, inclusive of any underfunding of contributions.
3. Calculated for each participating government, their percentage of the adjusted System contribution by dividing the total adjusted System contribution into each PGU's contribution.
4. Provide each PGU its adjusted percentage of contribution and the System's net pension liability and other related amounts as of June 30, 2022, under the GASB No. 67 requirements.

TOWN OF PRINCESS ANNE, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For the year ended June 30, 2023

**Note 9. Pension Plan (continued)**

The Town reported the following related to pensions:

Employer's proportionate (percentage) of the collective net pension liability	0.0089867%
Employer's proportionate share of the collective net pension liability	\$ 1,798,103
Pension expense recognized by the employer for the year ended June 30, 2023	\$ 57,297

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in assumptions	\$ 200,474	\$ (18,122)
Net difference between projected and actual investment earnings	-	(5,445)
Differences between expected and actual experience	-	(128,370)
Change in proportion	113,569	-
Contributions subsequent to measurement date	224,429	-
<b>Total</b>	<b>\$ 538,472</b>	<b>\$ (151,937)</b>

The \$224,429 of deferred outflows of resources resulting from the Town's contributions to the Employees' Systems subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred inflows/outflows of resources will be amortized over a five year period, as follows:

	<b>Net Deferred (Inflows) Outflows</b>	
June 30,		
2024	\$	8,249
2025		9,275
2026		(17,700)
2027		147,044
2028		15,238
<b>Total</b>	<b>\$</b>	<b>162,106</b>

For the year ended June 30, 2023 the Town's total payroll for all employees was \$1,379,104. Total covered payroll was \$1,197,800. Covered payroll refers to all compensation paid by the Town to active employees covered by Employees' Systems.

**Note 10. 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.

TOWN OF PRINCESS ANNE, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For the year ended June 30, 2023

**Note 11. Commitments, Contingencies and Subsequent Events**

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Town does not anticipate losses as a result of these transactions.

In the normal course of operations, the Town receives grant funds from various Federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits, is not believed to be material.

**Note 12. American Rescue Plan Act Grant**

The Town was awarded \$1,878,156 from the Coronavirus State and Local Recovery Fiscal Recovery Program authorized by the American Rescue Plan Act of 2021 (ARPA). As of June 30, 2023, the Town has received the entire \$1,878,156 but only \$666,480 has been expended. The Town has recorded \$1,211,676 as unearned revenues. Eligible uses of these funds include lost revenue replacement, COVID-19 expenditures or negative economic impact programs, premium pay for essential workers, and investments in certain infrastructure.

**Note 13. Washington Inn**

As of June 30, 2022, the Town completed renovations to the Washington Inn and had a note receivable of \$429,369 related to the purchase, renovations, and accumulating annual expenses. The Inn was purchased by a separate LLC, of which the Town is the sole member. It was 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 a third-party entity. This contract included an option to purchase subject to certain conditions. During 2023, the facts and circumstances indicated that this note receivable would not be collected, therefore management recorded a \$429,369 bad debt expense, included in general government expenses.

In addition, as of June 30, 2022, the Town had on outstanding note payable of \$481,850 to Washington Inn Investors, LLC. It was the Town's intention to repay this loan through payments received from the note receivable mentioned above. As of August 30, 2023 the Town obtain a release from this debt and recorded a \$481,850 Debt Forgiveness – Washington Inn on the Statement of Activities.

Capital assets related to the Washington Inn totaled \$1,715,760 in capitalized cost, less accumulated depreciation of \$384,283, for a net carrying value of \$1,331,477. The Town sold the Washington Inn property on March 27, 2024 for a contract price of \$200,000, less cost to sell of \$12,907, for a net sales price of \$187,903. As a result of the market value \$187,903, being significantly less than the net carrying value of \$1,331,477, the Town recorded a \$1,143,574 Impairment Loss – Washington Inn on the Statement of Activities.

TOWN OF PRINCESS ANNE, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For the year ended June 30, 2023

**Note 14. Required Fund Disclosures**

The following funds had expenditures exceeding budgeted amounts:

Funds	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General	\$ 3,520,155	\$ 5,036,659	\$ 1,516,504

**Note 15. Prior Period Adjustment**

During the audit it was determined that there were (3) note receivables from Somerset Reserve LLP and related note payables to the MD department of Planning which were previously unrecorded.

In addition it was determined that there were (2) finance lease obligations and corresponding finance lease assets/accumulated depreciation which were previously unrecorded.

The governmental activities net position as of July 1, 2022 has been restated to correct for the following previously unrecorded items.

	Net Position
June 30, 2022, as previously reported	\$ 4,014,997
Note receivable	1,150,807
Note payable	(1,172,374)
Finance lease asset	143,868
Finance lease accumulated depreciation	(28,773)
Finance lease liability	(83,850)
June 30, 2022, as restated	\$ 4,024,675



## **REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF PRINCESS ANNE, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**Year Ended June 30, 2023**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With Final <u>Budget</u>
<b>REVENUES:</b>				
Property taxes	\$ 2,217,046	\$ 2,217,046	\$ 2,093,392	\$ (123,654)
Local taxes	140,506	140,506	227,806	87,300
Fines and forfeitures	3,125	3,125	13,191	10,066
Licenses and permits	120,365	120,365	119,107	(1,258)
Intergovernmental revenues	259,645	259,645	963,341	703,696
Charges for services	377,916	377,916	224,624	(153,292)
Investment income	175	175	49	(126)
Miscellaneous	330,529	330,529	488,199	157,670
<b>Total revenues</b>	<b>3,449,307</b>	<b>3,449,307</b>	<b>4,129,709</b>	<b>680,402</b>
<b>EXPENDITURES</b>				
Current				
General government	638,898	638,898	1,210,612	(571,714)
Public safety	1,600,766	1,600,766	2,022,300	(421,534)
Public works	689,536	689,536	802,397	(112,861)
Health, welfare, and sanitation	750	750	165,095	(164,345)
Parks, recreation, and culture	39,586	39,586	16,025	23,561
Economic development	93,411	93,411	333,768	(240,357)
Debt Service	457,208	457,208	486,462	(29,254)
<b>Total expenditures</b>	<b>3,520,155</b>	<b>3,520,155</b>	<b>5,036,659</b>	<b>(1,516,504)</b>
Excess (deficiency) of revenue over expenditures	(70,848)	(70,848)	(906,950)	2,196,906
<b>OTHER FINANCING SOURCES (USES):</b>				
Prior year surplus	68,848	68,848	-	68,848
Leases	-	-	90,906	(90,906)
Insurance recoveries	-	-	57,012	(57,012)
Proceeds from sale of assets	2,000	2,000	181,139	(179,139)
<b>Total other financing sources (uses)</b>	<b>70,848</b>	<b>70,848</b>	<b>329,057</b>	<b>(258,209)</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (577,893)</b>	<b>\$ 1,938,697</b>

## TOWN OF PRINCESS ANNE, MARYLAND

**REQUIRED SUPPLEMENTARY INFORMATION  
MARYLAND STATE RETIREMENT AND PENSION PLAN  
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
(as of measurement date)  
JUNE 30, 2023**

<b>Measurement Date</b>	<b>Employer's Proportion (Percentage) of the Collective NPL A</b>	<b>Employer's Proportion Share of the Collective NPL B</b>	<b>Employer's Covered Employee Payroll C</b>	<b>Proportionate Share as a Percentage of Covered Payroll (B / C)</b>	<b>Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (D / E)</b>
June 30, 2014	0.006543%	\$ 1,161,164	\$ 1,052,507	110%	72%
June 30, 2015	0.007667%	1,593,376	849,803	187%	69%
June 30, 2016	0.006867%	1,620,225	967,521	167%	66%
June 30, 2017	0.007753%	1,676,434	992,893	169%	69%
June 30, 2018	0.001643%	344,738	418,949	82%	71%
June 30, 2019	0.001845%	380,441	521,622	73%	72%
June 30, 2020	0.001919%	433,686	423,321	102%	71%
June 30, 2021	0.001569%	235,343	655,551	36%	82%
June 30, 2022	0.002219%	\$ 444,077	\$ 583,405	76%	76%
<b>Law Enforcement Officers' Plan (LEOPS)</b>					
June 30, 2018	0.006342%	\$ 1,330,600	\$ 627,382	212%	71%
June 30, 2019	0.006596%	1,360,357	687,752	198%	72%
June 30, 2020	0.006886%	1,556,329	586,310	265%	71%
June 30, 2021	0.006493%	974,019	695,652	140%	82%
June 30, 2022	0.006767%	1,354,026	614,395	220%	76%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.

# TOWN OF PRINCESS ANNE, MARYLAND

**REQUIRED SUPPLEMENTARY INFORMATION  
MARYLAND STATE RETIREMENT AND PENSION PLAN  
SCHEDULE OF CONTRIBUTIONS  
(as of fiscal year)  
JUNE 30, 2023**

<b>Fiscal Year</b>	<b>Contractually Required Contribution A</b>	<b>Actual Contribution B</b>	<b>Contribution Deficiency (Excess) (A - B)</b>	<b>Employer's Covered Employee Payroll C</b>	<b>Actual Contribution as a Percentage of Covered Payroll (B / C)</b>
2015	\$ 161,605	\$ 161,605	\$ -	\$ 1,052,507	15%
2016	133,777	133,777	-	849,803	16%
2017	157,795	157,795	-	967,521	16%
2018	32,763	32,763	-	992,893	3%
2019	37,878	37,878	-	418,949	9%
2020	41,142	41,142	-	521,622	8%
2021	34,567	34,567	-	423,321	8%
2022	50,654	50,654	-	655,551	8%
2023	63,766	63,766	-	583,405	11%

Law Enforcement Officers' Plan (LEOPS)

2019	\$ 135,438	\$ 135,438	\$ -	\$ 627,382	22%
2020	147,640	147,640	-	687,752	21%
2021	143,063	143,063	-	586,310	24%
2022	154,449	154,449	-	695,652	22%
2023	160,663	160,663	-	614,395	26%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.

# TOWN OF PRINCESS ANNE, MARYLAND

## REQUIRED SUPPLEMENTARY INFORMATION MARYLAND STATE RETIREMENT AND PENSION PLAN ACTUARIAL ASSUMPTIONS JUNE 30, 2023

### Changes in Benefit Terms

There were no benefit changes during the year.

### Changes in Assumptions

Discount rate remains unchanged from 6.80%.

### Method and Assumptions used in Calculations of Actuarially Determined Contributions:

Actuarial	Entry Age Normal.
Amortization Method	Level Percentage of Payroll, Closed.
Remaining Amortization Period	25-year closed amortization period ending June 30, 2039; 16 years
Asset Valuation Model	Five-year smoothed market (max. 120% and min 80% of the market value).
Inflation	In the 2022 actuarial valuation, 2.25% general, 2.75% wage. In the 2021 actuarial valuation, 2.25% general, 2.75% wage.
Salary Increases	In the 2022 actuarial valuation, 2.75% to 11.25%. In the 2021 actuarial valuation, 2.75% to 9.25%.
Investment Rate of Return	In the 2022 actuarial valuation, 6.80%. In the 2021 actuarial valuation, 6.80%.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2019 valuation pursuant to the 2018 experience study for the period July 1, 2014 to July 30, 2018.
Mortality	Various versions of the Pub- 2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality improvements scale for males and females.

**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  
Princess Anne, Maryland

We have audited, in accordance with the 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 each major fund of the Town of Princess Anne, Maryland ("the Town") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated July 1, 2024.

**Report on Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *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.

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 identified the following deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Finding Number 2023-001 – Timely and Accurate Financial Reporting  
Material Weakness

*Criteria:* Internal controls should be properly designed to ensure timely and accurate financial reporting.

*Condition:* The internal controls currently in place led to a reconciliation process resulting in overall inaccuracies and delays in the financial reporting process.

*Cause:* Per management, much of this internal control deficiency is due to the departure and turnover of key staff during 2022 and 2023.

*Effect:* During our audit, significant adjusting journal entries were prepared prior to preparation of the financial statements. Timely and accurate financial reporting creates confidence, credibility, reliability and awareness for the commissioners, management and other users of those financial reports. In addition, the Town is neither in compliance nor meeting its current demands for external reporting.

*Recommendation:* We recommend hiring experienced staff to help in designing and implementing internal controls that would enable the Town to have timely and accurate financial reporting.

*Identification of Repeat Finding:* This is a repeat finding.

*Views of Responsible Officials:* The Town will review its internal controls to ensure timely and accurate financial reporting. In addition, the Town has hired a new finance administrator, and has engaged outside consultants to help.

Finding Number 2023-002 – Account Reconciliations  
Material Weakness

*Criteria:* Internal controls should be properly designed to ensure periodic reconciliations of material general ledger accounts.

*Condition:* The Town does not prepare periodic reconciliations for some of its assets, liability, revenue and expense accounts throughout the year.

*Cause:* Per management, much of this internal control deficiency is due to the departure and turnover of key staff during 2022 and 2023.

*Effect:* During our audit, significant adjusting journal entries were prepared. In addition, significant assets and liabilities were identified during our audit procedures which were previously unreported.

*Recommendation:* We recommend designing and implementing internal controls that include when possible, the following:

- Account reconciliations that are complete – no account left behind.
- Account reconciliations should be accurate.
- Account reconciliations should be completed and reviewed by management in a timely manner.
- Account reconciliations should support the appropriate accounting principles.

- Account reconciliations should be constantly reviewed and improved.

We have provided more detailed account reconciliation recommendations in Section III – *Comments and Recommendations*.

*Identification of Repeat Finding:* This is a first year finding.

*Views of Responsible Officials:* The Town will review its internal controls to ensure material general ledger accounts are being reconciled. In addition, the Town has hired a new finance administrator, and has engaged outside consultants to help.

#### Finding Number 2023-003 – Supporting Documentation Could Not Be Located Material Weakness

*Criteria:* A good system of internal control includes maintaining documentation of transactions.

*Condition:* During our audit, we noted that the prior auditor experienced difficulties in obtaining appropriate documentation for disbursements, accounts payables, and capital assets. In addition, we were unable to obtain appropriate documentation for 27 out of 120 (23%) items selected during our testing of credit card transactions.

*Cause:* Per management, much of this internal control deficiency is due to the departure and turnover of key staff during 2022 and 2023. The Town also did 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 documentation be 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.

*Identification of Repeat Finding:* This is a repeat finding.

*Views of Responsible Officials:* The Town will review its procedures for maintaining documentation. In addition, the Town has hired a new finance administrator, and has engaged outside consultants to help.

#### Finding Number 2023-004 – Segregation of Duties Material Weakness

*Criteria:* Proper segregation of duties should be in place to strengthen internal controls to provide reasonable assurance that a material misstatement to the financial statements is prevented.

*Condition:* We noted that the internal controls currently in place with regard to the review of bank reconciliations, cash receipts, and cash disbursements creates conflicts within duties assigned to a single individual and produces a increased level of internal control risk. During our audit, we noted a lack of segregation of duties.



*Cause:* The lack of appropriately designed internal control systems has produced conflicts regarding assigned duties.

*Effect:* Segregation of duties issues does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, the misappropriation of assets and/or errors on a timely basis.

*Recommendation:* We recommend that, when possible, responsibilities for authorization, recording, and maintaining custody of assets be assigned to different employees. In situations where this is not possible, we recommend the implementation of certain transaction review controls. It is important to note that review controls do not eliminate all risk when segregation of duties conflicts exist, and management and those charged with governance need to be aware of such risks.

*Identification of Repeat Finding:* This is a first year finding.

*Views of Responsible Officials:* It has been determined that it would not be cost effective for the Town to add additional personnel to ensure complete segregation of duties in the finance department.

## **COMPLIANCE**

### Finding Number 2023-005 – Noncompliance with State Annual Financial Reporting Material Weakness

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 internal controls failed to provide appropriate account reconciliations and timely and accurate financial reporting.

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

Recommendation – We recommend preparing an audit close timeline, identifying key employees who will take ownership.

*Identification of Repeat Finding:* This is a repeat finding.

*Views of Responsible Officials:* The Town will review its internal controls to ensure material general ledger accounts are being reconciled which will aid in timely and accurate financial reporting. In addition, the Town has hired a new finance administrator, and has engaged outside consultants to help.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 2023-005.

We noted certain matters that we reported to management of the Town, in a separate letter dated July 1, 2024.

## **Town of Princess Anne, Maryland's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Town's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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.

The image shows a handwritten signature in dark ink that reads "UHY LLP". The letters are written in a cursive, slightly slanted style.

Salisbury, Maryland  
July 1, 2024