

**TOWN OF SOMERSET, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2023**

**TOWN OF SOMERSET
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JUNE 30, 2023**

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Independent Auditor's Report

Honorable Mayor and Members of the Town Council
Town of Somerset, Maryland

Opinion

We have audited the accompanying financial statements of the governmental activities and the major fund of the Town of Somerset (the "Town"), as of June 30, 2023, and the related notes to the financial statements, which comprise the statement Town's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Town as of June 30, 2023, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the budgetary comparison information on pages 4 through 10 and 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Somerset, Maryland's financial statements as a whole. The schedule of revenues – budget and actual and the schedule of expenditures – budget and actual on pages 35 and 36 through 37 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of revenues – budget and actual and the schedule of expenditures – budget and actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hindley & Associates, LLC

June 28, 2024

**TOWN OF SOMERSET, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Our discussion and analysis of the financial performance of the Town of Somerset provides an overview of the Town's financial activities for the year ended June 30, 2023. Please read it in conjunction with the transmittal letter and the Town's financial statements.

Financial Highlights

- The Town saw an overall increase in year-over-year revenue of nearly \$861,000. This was largely – but not entirely – accounted for by the income tax revenue being higher than projected.
- Expenditures stayed steady, with only a slight increase from the year before.
- Property taxes were slightly higher than projected, which offset a decrease in Highway User Funds.
- Property taxes remained steady at \$0.10/\$100 assessable value for the 8th year in a row.
- Several large capital projects are projected in the Town's future expenses, including street repairs, a major renovation of the Town Pool including complete replacement of the deck and pool, streetlight replacement by converting all Town streetlights to LED, and stormwater infrastructure construction.
- The Town continues to maintain a Rainy-Day Fund and will strive to maintain 12 months of operating expenses.

Using This Annual Report

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

**TOWN OF SOMERSET, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Reporting the Town as a Whole

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the Town’s finances is, “Is the Town as a whole better off or worse off as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and deferred outflows and liabilities and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

- Governmental activities – The Town’s basic services are reported here, including general administration, public works and parks. Taxes and State and County revenues finance almost all of these activities.
- Business-type activities – The Town currently has no business-type activities.

**TOWN OF SOMERSET, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Reporting the Town’s Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the Town as a whole. Currently, the Town has only governmental funds.

- Government funds – Most of the Town’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called “modified accrual accounting,” which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town’s programs and capital improvements. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

The Town as a Whole

Governmental Activities

To aid in the understanding of the Statement of Activities on page 12, note that the format is significantly different from a typical Statement of Revenues, Expenses and Changes in Fund Balance. Notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this format is to highlight the relative financial burden of each of the functions on the Town’s taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General Government	Building Permit Fees, Cable TV Franchise Fees, County Bank Share
Public Works	Highway User Revenues and County Revenue Sharing
Recreation/Culture	Town Hall User Fees, Batting Cage User Fees, Tennis Court User Fees, Swimming Pool Guest Pass Fees

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

**TOWN OF SOMERSET, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Governmental-Wide Financial Information

The following is selected information as of June 30, 2023, and for the previous year, which is provided for comparison purposes

	Governmental Activities	
	2022	2023
Current Assets	\$ 3,969,456	\$ 5,581,178
Capital Assets	6,463,513	6,244,102
Total Assets	10,432,969	11,825,280
Deferred outflows	-	-
Total deferred outflows and assets	10,432,969	11,825,280
Current Liabilities	247,999	201,006
Long-term liabilities	1,137,256	1,024,527
Total Liabilities	1,385,255	1,225,533
Deferred inflows	-	-
Net position		
Net investment in capital assets	5,483,513	5,359,102
Restricted	-	-
Unrestricted	3,564,201	5,240,645
Total net position	9,047,714	10,599,747
Total liabilities, deferred inflows and net position	10,432,969	11,825,280
Program revenues		
Charges for services	10,461	17,742
Operating grants and contributions	828,647	124,919
Capital grants and contributions	-	-
General revenues		
Income taxes	1,188,206	2,081,871
Property taxes	658,111	735,940
Other	48,361	672,074
Total general revenues	1,894,678	3,489,885
Transfers	-	-
Contingency Loss	-	-
Total revenues and transfers	2,733,786	3,632,546
Expenses		
General government	859,414	1,253,082
Streets and sidewalks	140,404	136,316
Trees, grounds and parks	83,631	80,625
Sanitation	210,611	230,791
Recreation	464,543	360,632
Total expenses and transfers	1,774,427	2,080,513
Change in net position	959,359	1,552,033
Net position, beginning of year	8,088,355	9,047,714
Net position, end of year	9,047,714	10,599,747

**TOWN OF SOMERSET, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Business-type Activities

The Town currently has no business-type activities.

The Town's Funds

The following schedule presents a summary of general revenue and expenses for the fiscal year ended June 30, 2023, and percentage of increases and decreases in relation to the prior year.

	FY 2023 Amount	Percent of Total	Increase (Decrease) From FY 2022
Revenues			
Taxes	\$ 2,633,804	76%	\$ 925,435
Intergovernmental	142,230	4%	(703,489)
Charges for services	17,742	1%	7,281
Permits	22,916	1%	5,749
Interest income	67,839	2%	63,399
Miscellaneous	564,008	16%	554,326
Total Revenues	\$ 3,448,539	100%	\$ 852,701
Expenditures			
General government	\$ 819,006	42%	\$ 23,937
Streets and sidewalks	63,205	3%	(4,088)
Trees, grounds and parks	80,464	4%	(3,006)
Sanitation	230,791	12%	20,180
Recreation	209,440	11%	(103,911)
Other	356,044	18%	318,904
Capital outlays	88,287	4%	(54,732)
Debt service	121,594	6%	3,243
	\$ 1,968,831	100%	\$ 200,527

The Town saw an increase in revenues, primarily driven by income tax, which was higher than FY22. Expenditures remained steady, with a slight increase from the previous year on the whole, though spending per category fluctuated. Expenditures in future years are likely to be higher as the Town takes on more capital projects.

**TOWN OF SOMERSET, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Budgetary Highlights

Major budgetary highlights in FY23 include the annual debt payment from the pool project, and Town Pool operations expenditures. The Town Pool and Pool House are collectively the Town's greatest asset, and funds will continue to be dedicated to the maintenance of them, to ensure they continue to be a first-class facility.

Capital Asset and Debt Administration

Capital Assets

The Town annually contributes to a tree planting program to preserve and improve the overall community tree canopy, particularly along the streets.

The Town purchased a Rivian truck in FY23.

Debt

In FY2011 (July 30, 2010), the Town of Somerset issued a \$1.8 million Public Facilities Bond. The semi-annual interest and principal payments commenced on January 15, 2011 and the bond matures on July 15, 2030. In FY2012, the Town modified the bond and made the required debt and interest payments. Since FY2016, the Town has made its payments based on the new bond payment schedule.

**TOWN OF SOMERSET, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Economic Factors and Next Year's Budget and Rates

The Town of Somerset set a real property tax rate for FY24 of \$0.10 for \$100 assessed property value for real, personal, and utility properties. Although property tax revenues declined slightly, it remains a more stable source of income than the Town's allotted portion of state income tax, which can be unpredictable, but traditionally accounts for the largest percentage of the Town's income.

Beginning May of 2021, the Town began to pay back its Wynne Case liability back to the state of Maryland, which totaled just over \$250,000. The Town made four payments in FY22, and has made six payments in total of 80 that will be paid through 2041. The Town makes quarterly payments of \$3,131.86, subtracted from its income tax distributions in February, May, June, and November.

County revenue sharing and Highway User Funds have both been increased, though both remain smaller portions of the Town's Revenue portfolio. Similarly, the Town adopted a new fee schedule, but permit fees typically only offset a portion of the cost of administering the permits, and thus make up a small portion of the Town's total revenues.

In FY22 (and again in FY23), the Town's revenues are bolstered by \$627,000+ distributions from the federal government from the American Rescue Plan Act (ARPA). These funds are earmarked for capital expenditures and offsetting lost revenue due to the COVID-19 pandemic. In anticipation of rising costs, the Town's long-term budgeting considers an increase in the property tax beginning in FY24.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Manager/Clerk-Treasurer at 4510 Cumberland Avenue, Chevy Chase, Maryland 20815.

TOWN OF SOMERSET, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2023

	Governmental Activities	Total
ASSETS		
Current Assets		
Cash and cash equivalents - unrestricted	\$ 2,958,669	\$ 2,958,669
Cash and cash equivalents - restricted	51,600	51,600
Investments	1,772,693	1,772,693
Accounts receivable - income taxes	790,463	790,463
Other accounts receivable, net of allowances	1,047	1,047
Uncategorized asset	6,706	6,706
Total Current Assets	5,581,178	5,581,178
Noncurrent Assets		
Net capital assets	6,244,102	6,244,102
Total Noncurrent Assets	6,244,102	6,244,102
TOTAL ASSETS	11,825,280	11,825,280
DEFERRED OUTFLOWS OF RESOURCES		
	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 11,825,280	\$ 11,825,280
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 21,694	\$ 21,694
Bond interest payable	20,185	20,185
Amounts held in escrow and deposit	51,600	51,600
Current portion of long-term debt	107,527	107,527
Total Current Liabilities	201,006	201,006
Noncurrent Liabilities		
Compensated absences	27,823	27,823
Due to State (Note 9)	219,231	219,231
Loan payable - long-term	777,473	777,473
Total Noncurrent Liabilities	1,024,527	1,024,527
TOTAL LIABILITIES	1,225,533	1,225,533
DEFERRED INFLOWS OF RESOURCES		
	-	-
NET POSITION		
Net investment in capital assets	5,359,102	5,359,102
Unrestricted	5,240,645	5,240,645
Total Net Position	10,599,747	10,599,747
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 11,825,280	\$ 11,825,280

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

**TOWN OF SOMERSET, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

Functions/Programs	Expenses	Indirect Expense Allocation	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
				Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Primary Government							
Governmental Activities:							
General government	\$ 1,253,082	\$ -	\$ -	\$ 109,600	\$ -	\$ (1,143,482)	\$ (1,143,482)
Streets and sidewalks	136,316	-	-	15,319	-	(120,997)	(120,997)
Trees, grounds and parks	80,625	-	-	-	-	(80,625)	(80,625)
Sanitation	230,791	-	-	-	-	(230,791)	(230,791)
Recreation	360,632	19,067	17,742	-	-	(361,957)	(361,957)
Interest expense	19,067	(19,067)	-	-	-	-	-
Total Governmental Activities	<u>2,080,513</u>	<u>-</u>	<u>17,742</u>	<u>124,919</u>	<u>-</u>	<u>(1,937,852)</u>	<u>(1,937,852)</u>
Total Primary Government	<u>\$ 2,080,513</u>	<u>\$ -</u>	<u>\$ 17,742</u>	<u>\$ 124,919</u>	<u>\$ -</u>	<u>\$ (1,937,852)</u>	<u>\$ (1,937,852)</u>
				General revenues:			
				Taxes			
				Income taxes		2,081,871	2,081,871
				Property taxes		735,940	735,940
				Licenses and permits		22,916	22,916
				Interest and investment earnings		67,839	67,839
				Miscellaneous		581,319	581,319
				Total General Revenues		<u>3,489,885</u>	<u>3,489,885</u>
				Change in Net Position		1,552,033	1,552,033
				Net Position, beginning of year		<u>9,047,714</u>	<u>9,047,714</u>
				Net Position, end of year		<u>\$ 10,599,747</u>	<u>\$ 10,599,747</u>

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

**TOWN OF SOMERSET, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2023**

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2023**

	General Fund	Total Governmental Funds		
ASSETS				
Cash and cash equivalents - unrestricted	\$ 2,958,669	\$ 2,958,669	<i>Total Governmental Fund Balances</i>	\$ 4,717,421
Cash and cash equivalents - restricted	51,600	51,600		
Investments	1,772,693	1,772,693	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,244,102
Accounts receivable - income tax	790,463	790,463		
Other accounts receivable, net of allowances	1,047	1,047		
Uncategorized asset	6,706	20,616		
TOTAL ASSETS	5,581,178	5,581,178	Accrued interest pertaining to long-term debt is not reported in the funds.	(20,185)
DEFERRED OUTFLOWS OF RESOURCES	-	-		
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 5,581,178	\$ 5,581,178	Receivables pertaining to revenue that is not available in accordance with modified accrual accounting are reported as deferred inflows of resources in the funds.	790,463
LIABILITIES				
Accounts payable and accrued expenses	\$ 21,694	\$ 21,694	Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(1,132,054)
Amounts held in escrow and deposit	51,600	51,600		
TOTAL LIABILITIES	73,294	73,294	<i>Net Position of Governmental Activities</i>	\$ 10,599,747
DEFERRED INFLOWS OF RESOURCES	790,463	790,463		
FUND BALANCES				
Committed	1,356,720	1,356,720		
Other purposes	-	-		
Unassigned	3,360,701	3,360,701		
TOTAL FUND BALANCES	4,717,421	4,717,421		
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,581,178	\$ 5,581,178		

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

**TOWN OF SOMERSET, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2023**

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

	General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 2,633,804	\$ 2,633,804
Intergovernmental	142,230	142,230
Charges for services	17,742	17,742
Licenses, permits	22,916	22,916
Interest income	67,839	67,839
Miscellaneous	564,008	564,008
Total Revenues	<u>3,448,539</u>	<u>3,448,539</u>
EXPENDITURES		
Current Operations		
General government	819,006	819,006
Streets and sidewalks	63,205	63,205
Trees, grounds and parks	80,464	80,464
Sanitation	230,791	230,791
Recreation	209,440	209,440
Other	356,044	356,044
Capital outlays	88,287	88,287
Principal	102,527	102,527
Interest	19,067	19,067
Total Expenditures	<u>1,968,831</u>	<u>1,968,831</u>
Excess of revenues over (under) expenditures and other financing uses	<u>1,479,708</u>	<u>1,479,708</u>
Other financing sources (uses)		
Transfers in (out)	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>
Excess of revenue and other financing sources over (under) expenditures and other financing uses	1,479,708	1,479,708
Fund balance, beginning of year	<u>3,237,713</u>	<u>3,237,713</u>
Fund balance, end of year	<u>\$ 4,717,421</u>	<u>\$ 4,717,421</u>

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ 1,479,708
Long-term debt repayments are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of principal payments on long term debt.	102,527
Increases in deferred inflows of resources relating to income taxes do not use current financial resources and are not reported as expenditure in the governmental funds.	184,007
Difference in accounting for compensated absences between modified accrual and accrual accounting.	5,202
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	<u>(219,411)</u>
<i>Change in Net Position of Governmental Activities</i>	<u>\$ 1,552,033</u>

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

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Town of Somerset, Maryland is a municipal corporation governed by an elected mayor and an elected town council and provides the following services as authorized by its charter: recreation, sanitation, public improvements and general administrative services.

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

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

Basis of Presentation – Fund Accounting

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

The Town's funds are grouped into two broad fund categories.

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

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Accounting

Government-Wide Financial Statements

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

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

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

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

Fund Financial Statements

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

Governmental Funds

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

The major governmental fund is:

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

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition

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

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

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

Expenditure Recognition

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

Allocations of costs, such as depreciation and amortization, are recognized in the governmental funds.

Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition, excluding investments in the State of Maryland Local Government Investment Pool and the Montgomery County Pooled Investment Program.

Investments

Investments held at June 30, 2023, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Receivables

Receivables at June 30, 2023 consist of highway user revenue. Account receivables are deemed collectible in full.

Deferred Outflows and Inflows of Resources

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

As of June 30, 2023 the balance of deferred inflows of resources consisted of income taxes of \$790,463.

Local Tax Reserve Fund

At June 30, 2023, the Town was advised by the State of Maryland that \$790,463 of the Local Tax Reserve Fund was allocable to the Town. The Town recorded receivable and deferred inflows of resources in the amount of \$790,463 in the fund financial statements. The change in this amount has been reflected as income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

Capital Assets and Depreciation

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

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

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Restricted Reserves

The Town uses restricted resources, if any, first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Interest Expense

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

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is accrued when incurred and reported as a liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Of the Town employees' accumulated vacation leave at June 30, 2023, \$0 is expected to be liquidated with expendable available financial resources. The total amount of accumulated vacation leave at June 30, 2023, is \$27,823.

Estimates

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

Equity Classifications

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

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

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

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first and then unrestricted resources as needed.

Governmental Fund Balances

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

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

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

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Requirements for all funds:

Annual budgets are adopted for all Town funds. The Town Council may subsequently amend the budget and the budget was not amended during fiscal year 2023. The budget is prepared by fund, function and department. The Town prepares an annual operating budget on a basis consistent with generally accepted accounting principles.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

The deposits of the Town are governed by the Annotated Code of Maryland. State statutes authorize the Town to establish official depositories with any financial institution whose principal office is located in Maryland. The Town may also establish time deposits in the form of NOW accounts, money market accounts, certificates of deposit, the State of Maryland Local Government Investment Pool, and the Montgomery County Pooled Investment Program.

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

Pooling of Cash

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

Deposits

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

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

At year-end, the carrying amounts of the Town's deposits were \$3,010,219 and the bank balances totaled \$3,060,333. Of the bank balances, \$2,632,659 was not insured by Federal Depository Insurance Corporation (FDIC).

Investment Policies

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

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Town's policy provides that to the extent practicable, investments are matched with anticipated cash flows.

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

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Town policy provides that investment collateral is held by a third party custodian with whom the Town has a current custodial agreement in the Town's name.

Generally, the Town's investing activities are managed by the Town Treasurer and the Town Council. Investing is performed in accordance with investment policies adopted by the Town Council complying with State Statutes and the Town Charter. Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, bankers acceptances, the County's and State's local government investment pool, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. In addition, the Town can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Investments

The Town has invested at June 30, 2023, \$240,253 in the State of Maryland Local Government Investment Pool (MLGIP). The pool is under the administrative control of the State’s Treasurer’s Office. The Town’s investments are shown by type, carrying amount, fair value, cost and level of risk assumed in holding the various accounts. Investments are carried at cost which approximates market. The fair value of MLGIP investments is determined daily. PNC Bank is currently contracted to operate the Pool and may invest in any instrument permitted by Section 6-222 of the State Finance and Procurement Article. In addition, at June 30, 2023, the town has \$925,278 invested in the Montgomery County Pooled Investment Program (MCPIP), which is administered by Montgomery County.

As of June 30, 2023, the Town had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings</u>
MLGIP	\$ 240,253	\$ 240,253	AAAm
MCPIP	925,278	925,278	AAAm
Money Market - SunTrust	607,162	607,162	N/A
 Total Investments	 <u>\$ 1,772,693</u>	 <u>\$ 1,772,693</u>	

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

Restricted cash consisted of the following at June 30, 2023:

Building deposits	\$ 53,000
Other deposits	<u>(1,000)</u>
	<u>\$ 51,600</u>

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4 – RECEIVABLES

Other accounts receivable are comprised of highway user revenue as of June 30, 2023.

NOTE 5 – PROPERTY TAXES

The Town Council holds an annual public hearing no later than May 31, for the residents to voice their opinion on the proposed tax rate and annual budget. After the hearing, the council sets the tax rate by ordinance by June 10. Montgomery County (the County) tax offices are informed of the approved rate and County tax bills have these amounts included on them. Property taxes are levied as of July 1, on property values as of the same date. When taxes are overdue, a lien is placed against the property. Town residents pay all property taxes directly to the County. The County then forwards all payments made to the Town office. Tax payments are made on a semi-annual basis and are considered past due after September 30th and December 31st. The property tax rate for fiscal year 2023 is \$0.10 per \$100 of assessed value for real property, and \$1.00 per \$100 of assessed value for personal property.

The Town accounts for delinquent taxes as receivables at June 30. All applicable tax liens are handled by the County.

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 2,405,169	\$ -	\$ -	\$ 2,405,169
Construction in progress	-	-	-	-
Subtotal	<u>2,405,169</u>	<u>-</u>	<u>-</u>	<u>2,405,169</u>
Depreciable capital assets:				
Buildings	1,166,497	-	-	1,166,497
Other improvements	8,465,255	-	-	8,465,255
Equipment	558,767	88,287	-	647,054
Subtotal	<u>10,190,519</u>	<u>88,287</u>	<u>-</u>	<u>10,278,806</u>
Total capital assets	<u>12,595,688</u>	<u>88,287</u>	<u>-</u>	<u>12,683,975</u>
Accumulated depreciation:				
Buildings	879,467	28,412	-	907,879
Other improvements	4,849,957	216,922	-	5,066,879
Equipment	402,751	62,364	-	465,115
Subtotal, accumulated depreciation	<u>6,132,175</u>	<u>307,698</u>	<u>-</u>	<u>6,439,873</u>
Net capital assets	<u>\$ 6,463,513</u>	<u>\$ (219,411)</u>	<u>\$ -</u>	<u>\$ 6,244,102</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 83,234
Streets and sidewalks	161
Trees, grounds and parks	151,192
Recreation	73,111
Total governmental activities depreciation expense	<u>\$ 307,698</u>

The Town has no construction commitments as of June 30, 2023.

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 7 – RETIREMENT PLAN

In 1996, the Town instituted a defined contribution retirement plan covering all of its full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are permitted to elect a salary reduction amount of up to 100% of regular salary, which then will be contributed to the plan. The Town does not match the employee contribution; however, the Town contributes 8% of the employee’s salary to the plan. Vesting for this plan is 100% after three years of employment for employees hired after January 1, 2011, after one year of employment for employees hired between March 1, 1997 and January 1, 2011, and immediately for employees hired on or before March 1, 1997. Plan provisions and contribution requirements are established and may be amended by the Town Council. The Town’s plan is administered by ICMA Retirement Corporation. During 2023, the Town contributed \$24,492.

NOTE 8 – LONG-TERM DEBT

On July 30, 2010, the Town issued \$1,800,000 in general obligation bonds with an interest rate of 3.74% for the purpose of construction of the pool bath house. During FY2012 the interest rate was reduced to 2.41%. Payments of interest are due in January and July of each year, while principal payments are due each July. The bonds mature July 15, 2031. The balance outstanding at June 30, 2023 is \$885,000.

Annual debt service requirements to maturity for the bonds are as follows:

FY	Principal	Interest	Total
2024	\$ 95,000	\$ 20,185	\$ 115,185
2025	100,000	17,835	117,835
2026	105,000	15,364	120,364
2027	110,000	12,773	122,773
2028	115,000	10,063	125,063
2029-2032	360,000	13,253	373,253
	<u>\$ 885,000</u>	<u>\$ 89,472</u>	<u>\$ 974,472</u>

The changes in long-term debt for the year ended June 30, 2023 are summarized below:

	Balance June 30, 2022	Additions	Retirements	Balance June 30, 2023	Amount Due Within 1 Year
General obligation bonds	\$ 980,000	\$ -	\$ 95,000	\$ 885,000	\$ 95,000
Due to State	231,758	-	12,527	219,231	12,527
Compensated absences	33,025		5,202	27,823	-
	<u>\$ 1,244,783</u>	<u>\$ -</u>	<u>\$ 112,729</u>	<u>\$ 1,132,054</u>	<u>\$ 107,527</u>

**TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 9 – COMPTROLLER OF THE TREASURY OF MARYLAND V. WYNNE

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

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

The original impact of the ruling on the Town was \$250,549 in total. During FY2021, the comptroller’s Office stated repayment will be made in 80 withholdings over 20 years, beginning in May 2021. Tax revenues will be reduced by \$12,527 each year going forward. The remaining balance is reflected as a liability on the Statement of Net Position, as the Town was required to start reimbursing the State in the fourth quarter of fiscal year 2021. The State will collect these funds by withholding \$3,132 of the Town’s income tax distributions four times per year over a period of 20 years. The annual deductions will be as follows:

FY	Principal
2024	\$ 12,527
2025	12,527
2026	12,527
2027	12,527
2028	12,527
thereafter	156,596
	\$ 219,231

NOTE 10 – CONCENTRATION OF CREDIT RISK

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

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 11 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to workers, and natural disasters. The Town participates in the County’s self-insurance program for worker’s compensation benefits.

The Town also has an insurance agreement with the Local Government Insurance Trust (LGIT). LGIT provides the Town’s general liability, auto and property liability and employee health benefits.

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

Premiums are charged to the Town’s General Fund, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments during the year ended June 30, 2023, and the amounts of settlements have not exceeded coverage for each of the past three years.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Grants

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

NOTE 13 – FUND BALANCE REPORTING

Fund balances for the Town’s governmental funds consisted of the following as of June 30, 2023:

Committed Fund Balances

Committed fund balances totals \$1,356,720 for the Rainy-Day Fund.

Unassigned Fund Balances

All remaining fund balances in the General Fund are unassigned. At June 30, 2023, this amount was \$3,360,701.

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

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

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

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

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

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

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

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

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

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

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

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

TOWN OF SOMERSET, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS – continued

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

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

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

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

TOWN OF SOMERSET, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2023

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues				
Income taxes	\$ 1,163,663	\$ 1,163,663	\$ 1,897,864	\$ 734,201
Property taxes	672,422	672,422	735,940	63,518
Other taxes	16,150	16,150	17,311	1,161
Fines, licenses and permits	21,788	21,788	26,916	5,128
Interest and investment earnings	3,286	3,286	67,839	64,553
Charges for services	24,646	24,646	17,742	(6,904)
Operating grants and contributions	149,045	149,045	120,919	(28,126)
Other revenues	628,941	628,941	564,008	(64,933)
Total Revenues	\$ 2,679,941	\$ 2,679,941	\$ 3,448,539	\$ 768,598
Expenditures				
General government	\$ 859,040	\$ 859,040	\$ 819,006	\$ 40,034
Streets and sidewalks	129,286	129,286	63,205	66,081
Trees, grounds and parks	93,961	93,961	80,464	13,497
Sanitation	228,233	228,233	230,791	(2,558)
Recreation	265,360	265,360	209,440	55,920
Capital outlays	-	-	88,287	(88,287)
Miscellaneous	186,905	186,905	477,638	(290,733)
Total Expenditures	\$ 1,762,785	\$ 1,762,785	\$ 1,968,831	\$ (206,046)

SUPPLEMENTAL SCHEDULES

TOWN OF SOMERSET, MARYLAND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

	Final Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES			
Taxes			
General property taxes, penalties	\$ 672,422	\$ 735,940	\$ 63,518
Total Taxes	<u>672,422</u>	<u>735,940</u>	<u>63,518</u>
Intergovernmental			
State income taxes	1,163,663	1,897,864	734,201
Highway user revenues	50,088	15,319	(34,769)
Bank share levy	269	269	-
County revenue sharing	98,957	105,600	6,643
Cable franchise tax	15,881	17,042	1,161
Fines	-	4,000	4,000
ARPA	627,118	512,240	(114,878)
Total Intergovernmental	<u>1,955,976</u>	<u>2,552,334</u>	<u>596,358</u>
Recreation			
Swimming guest fees	9,500	9,242	(258)
Water Aerobics	2,000	3,688	1,688
Tennis membership	3,100	4,212	1,112
Morning swim	2,046	(1,288)	(3,334)
Camp Summerset	8,000	1,888	(6,112)
Total Recreation	<u>24,646</u>	<u>17,742</u>	<u>(6,904)</u>
Miscellaneous			
Interest income	3,286	67,839	64,553
Permits	21,788	22,916	1,128
Other	1,823	51,768	49,945
Total Miscellaneous	<u>26,897</u>	<u>142,523</u>	<u>115,626</u>
Total Revenues	<u><u>\$ 2,679,941</u></u>	<u><u>\$ 3,448,539</u></u>	<u><u>\$ 768,598</u></u>

TOWN OF SOMERSET, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

	Final Budget	Actual	Variance- Favorable (Unfavorable)
General Government			
Personnel			
Salaries	\$ 275,335	\$ 242,899	\$ 32,436
Employer retirement contribution	20,667	24,492	(3,825)
Health insurance	45,796	50,370	(4,574)
Workers' compensation	25,600	16,790	8,810
FICA, Medicare & Unemployment Insurance	25,600	-	25,600
Staff/training	500	250	250
Payroll software	4,400	56,159	(51,759)
Employee holiday fund	-	14,112	(14,112)
Total Personnel	<u>397,898</u>	<u>405,072</u>	<u>(7,174)</u>
Other			
Arborist	19,260	46,665	(27,405)
Auditing and accounting	24,640	47,054	(22,414)
Legal fees	97,500	83,619	13,881
Police	59,300	-	59,300
Traffic calming	10,000	-	10,000
Information technology	5,500	13,213	(7,713)
Code enforcement officer	112,000	102,350	9,650
Civic affairs	25,302	19,380	5,922
Professional services	-	2,085	(2,085)
Pool engineer consultant	10,000	-	10,000
Publications	23,296	31,734	(8,438)
Insurance	8,974	9,295	(321)
Website credit card fee	-	159	(159)
Town Hall/garage	65,370	58,380	6,990
Total Other	<u>461,142</u>	<u>413,934</u>	<u>47,208</u>
Total general government	<u>859,040</u>	<u>819,006</u>	<u>40,034</u>
Streets and sidewalks			
Sweeping	9,000	37,984	(28,984)
Repairs	3,340	102	3,238
Supplies and signs	7,100	1,192	5,908
Lighting	22,746	23,927	(1,181)
Snow removal	87,100	-	87,100
Total Streets and Sidewalks	<u>129,286</u>	<u>63,205</u>	<u>66,081</u>

TOWN OF SOMERSET, MARYLAND
SCHEDULE OF EXPENDITURES - continued
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

	Final Budget	Actual	Variance- Favorable (Unfavorable)
Trees, grounds and parks			
Contract - trees & grounds	\$ 58,892	\$ 16,152	\$ 42,740
Dumping fees	2,675	-	2,675
Garden supervisor	24,000	9,995	14,005
General	8,394	54,317	(45,923)
Total Trees, Grounds and Parks	<u>93,961</u>	<u>80,464</u>	<u>13,497</u>
Sanitation			
Dumping fees		-	-
Trash	85,237	85,408	(171)
Recycling	43,648	41,531	2,117
Leaves	45,400	52,500	(7,100)
Composting	33,158	30,876	2,282
Yard waste	20,790	20,476	314
Total Sanitation	<u>228,233</u>	<u>230,791</u>	<u>(2,558)</u>
Recreation			
Swimming pool	259,553	208,785	50,768
Batting cage	5,000	-	5,000
Tennis courts	807	655	152
Total Recreation	<u>265,360</u>	<u>209,440</u>	<u>55,920</u>
Other			
Bank service charge	1,000	41,724	(40,724)
Debt service	111,107	121,594	(10,487)
Miscellaneous	56,198	64,385	(8,187)
Parkland management	-	45,109	(45,109)
Project management support	18,600	32,680	(14,080)
Equipment	-	72	(72)
Town hall, garage and office	-	32,821	(32,821)
Streets & sidewalks	-	47,650	(47,650)
Trees, grounds and parks	-	15,595	(15,595)
Recreation	-	76,008	(76,008)
Total Other	<u>186,905</u>	<u>477,638</u>	<u>(290,733)</u>
Capital outlay			
Vehicle purchase	-	88,287	(88,287)
Total Capital Outlay	<u>-</u>	<u>88,287</u>	<u>(172,074)</u>
Total Expenditures	<u>\$ 1,762,785</u>	<u>\$ 1,968,831</u>	<u>\$ (289,833)</u>

June 28, 2024

To the Mayor, Town Council and Town Manager
Town of Somerset, Maryland

We audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Somerset, Maryland (the “Town”) for the year ended June 30, 2023, and have issued our report thereon dated June 28, 2024. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U. S. Generally Accepted Auditing Standards

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

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

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

Planned Scope and Timing of the Audit

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Town are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2023, except as may be explained in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Difficulties Encountered in Performing the Audit

The audit was delayed due to resolving certain accounting issues.

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representation from management that is included in the management representation letter dated June 28, 2024.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

We have also provided the Town’s management with a letter dated June 28, 2024, pertaining to our audit findings and recommendations.

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

Very truly yours,

Hindley & Associates, LLC

June 28, 2024

To the Mayor, Town Council and Town Manager
Town of Somerset, MD

In planning and performing our audit of the financial statements of the Town of Somerset (the “Town”) as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Somerset’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 significant deficiencies or material weaknesses, and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed 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 material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the Town’s internal control to be material weaknesses:

Preparation of Financial Statements

In the current year, as well as the prior year, we noted that no Town employee has the technical background to prepare the financial statements, including the related notes to the financial statements, in accordance with generally accepted accounting principles.

As part of the audit, the Town’s management has requested us to prepare a draft of the Town’s financial statements, including related notes to the financial statements. Similar to prior years, the Clerk-Treasurer performed a review of the financial statements. However, in order to provide improved oversight of the financial statement preparation services at an appropriate level and implement controls over the financial reporting process, we recommend the Town obtain and

use one or both of the following publications in subsequent years when reviewing the financial statements: *Governmental Accounting, Auditing, and Financial Reporting Using the GASB 34 Model* available from the Government Finance Officers Association at www.gfoa.org or *Preparing Governmental Financial Statements Under GASBS No. 34* available from Thomson Tax & Accounting at www.ppc.thomson.com.

This communication is intended solely for the information and use of management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Hindley & Associates, LLC