

CITY OF CAMBRIDGE, MARYLAND

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

CITY OF CAMBRIDGE, MARYLAND

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 – 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 11
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements	
Statement of net position	12
Statement of activities	13
Governmental fund financial statements	
Balance sheet – governmental funds	14
Reconciliation of the governmental funds balance sheet to the statement of net position	15
Statement of revenues, expenditures and changes in fund balances – governmental funds	16
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	17
Proprietary fund financial statements	
Statement of net position – proprietary funds	18
Statement of revenues, expenses and changes in net position – proprietary funds	19
Statement of cash flows – proprietary funds	20 - 21
Notes to financial statements	22 – 57

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – general fund	58
Maryland State Retirement and Pension System	
Schedule of the City's proportionate share of the net pension liability	59
Schedule of the City's contributions	60
Actuarial assumptions – pension plan	61
Other Post-Employment Healthcare Benefit Plan	
Schedule of changes in the net OPEB liability and related ratios	62
Length of Service Award Program	
Schedule of changes in the net LOSAP liability and related ratios	63

SUPPLEMENTARY INFORMATION

Independent auditors' report on supplementary information	64
Schedules of revenues and expenditures – general fund	65
Schedules of revenues and expenses – Municipal Utilities Commission	66
Schedules of revenues and expenses – sewer fund	67
Schedules of revenues and expenses – marina fund	68

GOVERNMENT AUDITING STANDARDS REPORT

Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	69 – 70
Schedule of findings and responses	71 - 72

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Council
City of Cambridge, Maryland

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Cambridge, Maryland, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 3 through 11 and pages 58 through 63 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2022, on our consideration of City of Cambridge, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Cambridge, Maryland's internal control over financial reporting and compliance.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
February 10, 2022



CITY OF CAMBRIDGE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

This section of the City of Cambridge's (the City) annual report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2021. Please read it in conjunction with the city's financial statements, which begin on page 12.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Statements

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, economic development, and interest on long-term debt. The business-type activities of the City include Water, Sewer, and Marina operations.

The government-wide financial statements include the City of Cambridge and the Municipal Utilities Commission, which is a component unit of the City. The government-wide financial statements can be found on pages 12 and 13 of this report.

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The City has no fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. This helps readers better understand the long-term impact of the government's near-term financing decisions. Both, the Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances, provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains one individual governmental fund: the General Fund. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 14 through 17. The budgetary comparison can be found on page 58.

Proprietary Funds

Proprietary funds include enterprise funds and internal service funds.

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The City maintains three enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Municipal Utilities Commission, Sewer, and Marina activities.

The City maintains one internal service fund to report the City's partially self-insured employee health insurance function.

The basic proprietary fund financial statements can be found on pages 18 through 21 of this report.

Notes to the Financial Statements and Supplementary Information

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Notes to the financial statements are part of the basic financial statements and can be found on pages 22 through 57 of this report.

The statements are followed by a section of *Required Supplementary Information* that shows a budget comparison for the general fund and retirement and other employee benefit schedules. In addition to these required elements, we have included certain schedules that provide more detail about the City's finances.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net position at June 30, 2021 was \$47,637,229. Of this amount, \$51,872,773 is invested in capital assets net of related debt and \$999,304 is restricted. The remaining unrestricted amount is a deficit of \$5,234,848.

The City's net position increased \$2,302,050 or 5% from last year. The following table shows key financial information in a condensed form.

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

	Net Position (In thousands of dollars)					
	2021			2020		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current and other assets	\$ 8,605	\$ 5,574	\$ 14,179	\$ 12,735	\$ 5,500	\$ 18,235
Capital assets	27,049	36,181	63,230	21,574	36,975	58,549
Total assets	<u>35,654</u>	<u>41,755</u>	<u>77,409</u>	<u>34,309</u>	<u>42,475</u>	<u>76,784</u>
Deferred outflows of resources	<u>2,408</u>	<u>728</u>	<u>3,136</u>	<u>2,085</u>	<u>288</u>	<u>2,373</u>
Liabilities						
Current and other liabilities	1,333	1,124	2,457	1,563	1,679	3,242
Long-term liabilities outstanding	24,303	4,508	28,811	23,638	4,715	28,353
Total liabilities	<u>25,636</u>	<u>5,632</u>	<u>31,268</u>	<u>25,201</u>	<u>6,394</u>	<u>31,595</u>
Deferred inflows of resources	<u>1,272</u>	<u>369</u>	<u>1,641</u>	<u>1,915</u>	<u>312</u>	<u>2,227</u>
Net position						
Invested in capital assets, net of related debt	18,034	33,838	51,872	17,690	33,796	51,486
Restricted	847	153	1,000	725	342	1,067
Unrestricted (deficit)	(7,727)	2,492	(5,235)	(9,137)	1,919	(7,218)
Total net position	<u>\$ 11,154</u>	<u>\$ 36,483</u>	<u>\$ 47,637</u>	<u>\$ 9,278</u>	<u>\$ 36,057</u>	<u>\$ 45,335</u>

The City's total revenues were \$20,148,515. Of this amount, 37% comes from property taxes, 9% from grants and contributions, and 45% from fees charged for water, sewer, and marina services.

The City's expenses which totaled \$17,846,465 cover a range of services with 35% for public safety, 36% for water and sewer services, 16% for public works, and 6% for general government.

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

The following table considers the operations of governmental and business-type activities separately:

	Changes in Net Position (In thousands of dollars)					
	2021			2020		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues						
Program revenues						
Charges for services	\$ 1,967	\$ 7,133	\$ 9,100	\$ 1,894	\$ 6,702	\$ 8,596
Operating grants and contributions	1,263	243	1,506	462	243	705
Capital grants and contributions	111	231	342	127	135	262
General revenues						
Property taxes	7,464		7,464	7,376		7,376
Shared taxes	1,484		1,484	2,046		2,046
Intergovernmental	87		87			
Miscellaneous	119		119	208		208
Gain (loss) on disposal of assets	(29)		(29)	-		-
Unrestricted investment earnings	53	23	76	43	41	84
Total revenues	<u>12,519</u>	<u>7,630</u>	<u>20,149</u>	<u>12,156</u>	<u>7,121</u>	<u>19,277</u>
Expenses						
General government	1,172		1,172	1,297		1,297
Public safety	6,275		6,275	5,290		5,290
Public works	2,792		2,792	3,705		3,705
Economic development	169		169	412		412
Interest on long-term debt	234		234	251		251
Water		1,821	1,821		1,913	1,913
Sewer		4,629	4,629		4,762	4,762
Marina		755	755		569	569
Total expenses	<u>10,642</u>	<u>7,205</u>	<u>17,847</u>	<u>10,955</u>	<u>7,244</u>	<u>18,199</u>
Transfers				<u>(276)</u>	<u>276</u>	
Change in net position	<u>\$ 1,877</u>	<u>\$ 425</u>	<u>\$ 2,302</u>	<u>\$ 925</u>	<u>\$ 153</u>	<u>\$ 1,078</u>

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund – For the year ended June 30, 2021, the general fund balance increased \$1,789,616 compared to an increase of \$1,354,142 in 2020.

Significant variances from the prior year include:

- Total revenues increased \$519,547 due to increases in taxes, licenses and permits, and intergovernmental revenues.
- Total expenditures increased \$535,250. Expenditures increased in general government and capital outlay.
- Capital outlay expenditures of \$884,884 included roof improvements at City Hall, new police vehicles, sidewalk renovations, and land purchases from CDBG funds.

A comparison of revenues and expenditures for three years can be found on page 65.

As of June 30, 2021, the general fund reported a fund balance of \$7,569,701. Of this amount, \$5,309,303 is unassigned and represents 4.9 months of average daily operating expenditures.

Municipal Utilities Commission – For the year ended June 30, 2021, the Municipal Utilities Commission has an operating income of \$279,138, net non-operating revenues of \$15,444, and a total increase in net position of \$294,582. This compares to an increase in net position of \$166,690 in the prior year.

Significant variances from the prior year include:

- Charges for services increased \$195,321 due to increases in water sales and miscellaneous services for new housing developments.
- Operating expenses decreased \$58,848 due to decreases in repairs and maintenance costs.

A comparison of revenues and expenses for three years can be found on page 66.

As of June 30, 2021, the Municipal Utilities Commission reported a net position of \$2,845,351. Of this amount, \$1,991,827 is invested in capital assets, \$52,668 is restricted impact fees, and \$800,856 is unrestricted and available for use.

Sewer Fund – For the year ended June 30, 2021, the sewer fund had an operating income of \$192,881, net non-operating expenses of \$42,517, and a total increase in net position of \$150,364. This compares to a decrease in net position of \$81,109 in the prior year.

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

Significant variances from the prior year include:

- Charges for services increased \$83,864.
- Expenses decreased \$136,958 due to decreases in salaries and related costs and repairs and maintenance.
- Impact fees of \$10,350 were collected in the current year.

A comparison of revenues and expenses for three years is presented on page 67.

As of June 30, 2021, the sewer fund reported a net position of \$30,448,701. Of this amount, \$28,123,647 is invested in capital assets, \$99,849 is restricted impact fees, and \$2,225,205 is unrestricted and available for use.

GENERAL FUND BUDGETARY HIGHLIGHTS

A budgetary comparison schedule is provided in the required supplementary information for the general fund on page 58. The budgetary comparison schedule shows the original adopted budgets, the final amended budget, actual results and variances between the final budget and actual results. Major variances between the final budget and actual results are as follows:

- Taxes and utility fees were over budget by \$1,867,520 due to favorable variances in shared income taxes, room taxes, and highway user fees.
- Intergovernmental revenues were under budget by \$2,046,950 due to planned grant-funded projects that were postponed until a subsequent year.
- Economic development expenditures were under budget by \$2,484,357 due to planned projects to be funded with grants.
- Total expenditures were under the final budget by \$4,534,856.

The final budget included the use of prior year surplus funds of \$3,180,637. However, due to an increase in the fund balance, these surplus funds were not used during 2021.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets

The City's investment in capital assets for its governmental (government-wide) and business-type activities as of June 30, 2021 was \$63,230,248 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and fixtures, vehicles and water and sewer systems.

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY (Continued)

The following table of the City's capital assets is listed below. Additional information can be found on pages 35 through 38 of this report.

Capital Assets (net of depreciation) (In thousands of dollars)						
	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 5,627	\$ 5,524	\$ 156	\$ 156	\$ 5,783	\$ 5,680
Construction in progress	89				89	
Building and improvements	15,687	15,535	7,724	7,639	23,411	23,174
Distribution system			3,639	3,593	3,639	3,593
Machinery and equipment	1,779		633	577	2,412	577
Meter replacement program			852	721	852	721
Production ground storage			2,149	2,149	2,149	2,149
Furniture and equipment		2,313			-	2,313
Infrastructure	12,390	11,781	62,536	62,355	74,926	74,136
Vehicles	4,844	4,621	1,238	1,253	6,082	5,874
Less: accumulated depreciation	<u>(13,367)</u>	<u>(12,676)</u>	<u>(42,746)</u>	<u>(41,312)</u>	<u>(56,113)</u>	<u>(53,988)</u>
Net capital assets	<u>\$ 27,049</u>	<u>\$ 27,098</u>	<u>\$ 36,181</u>	<u>\$ 37,131</u>	<u>\$ 63,230</u>	<u>\$ 64,229</u>

Major capital purchases this year included:

Governmental activities

- City hall roof improvements for \$144,445
- Two police Ford Interceptors for \$96,581
- Cannery Park landscape and architectural services for \$73,662
- Chesapeake Street sidewalks for \$199,665
- Street sweeper for \$198,337 and brush chipper for \$39,029

Business-type activities

- Long Wharf electrical upgrades for \$74,464
- New pump at Southside Pump Station for \$62,612
- New handrails – Aeration Basis for \$92,620
- 500 water meters and 20 radio single ports for \$131,052
- F-350 diesel for \$60,973
- Stone boundary well pump and motor rehabilitation for \$38,703

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2021

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY (CONTINUED)

Long-term debt activity

	Outstanding Debt (In thousands of dollars)					
	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
General obligation bonds	\$ 7,870	\$ 8,415	\$ 2,325	\$ 3,300	\$ 10,195	\$ 11,715
Bond premium	577	629	18	35	595	664
Notes payable	568	364			568	364
Total	\$ 9,015	\$ 9,408	\$ 2,343	\$ 3,335	\$ 11,358	\$ 12,743

New debt was incurred during the year for the purchase of a sweeper and brush chipper.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The City has committed funds from the general fund of \$540,000 for the following projects to be completed in subsequent years: Bayly Road, Phillips Packing House, and Maces Lane.

The City was awarded \$12,079,282 from the American Rescue Plan Act of 2021 Coronavirus Local Fiscal Recovery Fund (CLFRF). 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. The first installment was received in July 2021 in the amount of \$6,039,641.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Cambridge’s finances for all those with an interest in the City’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Finance Director, City of Cambridge, 410 Academy St, Cambridge, Maryland 21613 or through an email at dcooper@choosecambridge.com.

CITY OF CAMBRIDGE, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2021

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,848,241	\$ 2,103,655	\$ 8,951,896
Certificates of deposit		1,021,141	1,021,141
Accounts receivable, net	469,785	666,974	1,136,759
Due from other governments	511,718	1,085,434	1,597,152
Internal balances	(325,233)	325,233	
Inventory		219,554	219,554
Prepaid expenses and other assets	117,611		117,611
Loan receivable	122,788		122,788
Capital assets, net of accumulated depreciation	27,049,278	36,180,970	63,230,248
Restricted cash and cash equivalents	860,301	152,517	1,012,818
Total assets	<u>35,654,489</u>	<u>41,755,478</u>	<u>77,409,967</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	1,388,634	567,189	1,955,823
LOSAP	402,177		402,177
OPEB	617,217	154,305	771,522
Deferred loss on refunding		6,392	6,392
Total deferred outflows of resources	<u>2,408,028</u>	<u>727,886</u>	<u>3,135,914</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	538,891	749,452	1,288,343
Other liabilities	90,554		90,554
Bonds and notes payable, current portion	703,458	374,818	1,078,276
Non-current liabilities			
Compensated absences	396,023	84,499	480,522
Bonds and notes payable, less current portion	8,311,300	1,967,899	10,279,199
Net pension liability	8,559,188	1,050,003	9,609,191
Net LOSAP obligation	1,416,462		1,416,462
Net OPEB obligation	5,620,493	1,405,123	7,025,616
Total liabilities	<u>25,636,369</u>	<u>5,631,794</u>	<u>31,268,163</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	539,393	220,315	759,708
LOSAP	139,136		139,136
OPEB	593,316	148,329	741,645
Total deferred inflows of resources	<u>1,271,845</u>	<u>368,644</u>	<u>1,640,489</u>
NET POSITION			
Invested in capital assets	18,034,520	33,838,253	51,872,773
Restricted	846,787	152,517	999,304
Unrestricted (deficit)	(7,727,004)	2,492,156	(5,234,848)
Total net position	<u>\$ 11,154,303</u>	<u>\$ 36,482,926</u>	<u>\$ 47,637,229</u>

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

CITY OF CAMBRIDGE, MARYLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES							
General government	\$ 1,172,086	\$ 888,823	\$	\$	\$ (283,263)	\$	\$ (283,263)
Public safety	6,275,490	38,085	328,959		(5,908,446)		(5,908,446)
Public works	2,791,523	1,040,203	713,493		(1,037,827)		(1,037,827)
Economic development	168,711		219,984	111,150	162,423		162,423
Interest on long-term debt	234,359				(234,359)		(234,359)
Total governmental activities	<u>10,642,169</u>	<u>1,967,111</u>	<u>1,262,436</u>	<u>111,150</u>	<u>(7,301,472)</u>		<u>(7,301,472)</u>
BUSINESS-TYPE ACTIVITIES							
Water	1,819,784	2,076,709				256,925	256,925
Sewer	4,629,512	4,507,246	243,000	10,350		131,084	131,084
Marina	755,000	548,634		220,445		14,079	14,079
Total business-type activities	<u>7,204,296</u>	<u>7,132,589</u>	<u>243,000</u>	<u>230,795</u>		<u>402,088</u>	<u>402,088</u>
Total	<u>\$ 17,846,465</u>	<u>\$ 9,099,700</u>	<u>\$ 1,505,436</u>	<u>\$ 341,945</u>	<u>(7,301,472)</u>	<u>402,088</u>	<u>(6,899,384)</u>
GENERAL REVENUES							
Taxes							
Property taxes, levied for general purposes							
					7,464,413		7,464,413
					581,257		581,257
					902,801		902,801
					87,217		87,217
					118,723		118,723
					(29,795)		(29,795)
					53,424	23,394	76,818
					<u>9,178,040</u>	<u>23,394</u>	<u>9,201,434</u>
					1,876,568	425,482	2,302,050
					<u>9,277,735</u>	<u>36,057,444</u>	<u>45,335,179</u>
					<u>\$ 11,154,303</u>	<u>\$ 36,482,926</u>	<u>\$ 47,637,229</u>

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

CITY OF CAMBRIDGE, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2021

ASSETS

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 6,848,241
Taxes receivable, net	366,947
Accounts receivable, net	102,838
Due from other governments	511,718
Prepaid expenses	117,611
Loan receivable	122,788
Restricted cash and cash equivalents	860,301
Total assets	<u>\$ 8,930,444</u>

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

LIABILITIES

Accounts payable and accrued expenses	\$ 439,173
Due to other funds	470,512
Other liabilities	90,554
Total liabilities	<u>1,000,239</u>

DEFERRED INFLOWS OF RESOURCES

Deferred property taxes	<u>360,504</u>
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FUND BALANCES

Nonspendable	117,611
Restricted	846,787
Committed	540,000
Assigned	756,000
Unassigned	5,309,303
Total fund balances	<u>7,569,701</u>

Total liabilities and fund balances	<u>\$ 8,930,444</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF CAMBRIDGE, MARYLAND

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

JUNE 30, 2021

Total fund balances, governmental funds	\$	7,569,701
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and are therefore not reported as assets in fund financial statements, but are reported in the governmental activities of the Statement of Net Position.</p>		27,049,278
<p>Certain expenditures that reduce current financial resources are reported as expenditures in the fund financial statements, but are reported as deferred outflows of resources in the governmental activities of the Statement of Net Position.</p>		
Deferred outflows of resources - Pension		1,388,634
Deferred outflows of resources - LOSAP		402,177
Deferred outflows of resources - OPEB		617,217
<p>Certain property tax collections are not available to pay for current period expenditures and therefore are reported as deferred inflows of resources in the governmental fund balance sheet but are reported as revenue in the statement of activities: Deferred property taxes</p>		360,504
<p>Some liabilities and deferred inflows of resources are not due and payable in the current period and therefore are not reported in the fund financial statements, but are included in the governmental activities in the Statement of Net Position.</p>		
Bonds and notes payable		(9,014,758)
Compensated absences		(396,023)
Net pension liability		(8,559,188)
Net LOSAP liability		(1,416,462)
Net OPEB liability		(5,620,493)
<p>Certain revenues that do not provide current financial resources are reported as deferred inflow of resources in the funds financial statements, but are reported as revenue in the governmental activities of the Statement of Net Position.</p>		
Deferred inflows of resources - Pension		(539,393)
Deferred inflows of resources - LOSAP		(139,136)
Deferred inflows of resources - OPEB		(593,316)
<p>Internal service funds are used by management to charge the costs of self insurance to individual funds. The assets and liabilities of the internal service funds, less the portion applicable to the enterprise funds, are included in governmental activities in the Statement of Net Position.</p>		45,561
Net assets, governmental activities in the Statement of Net Position	\$	11,154,303

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

CITY OF CAMBRIDGE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

	<u>General Fund</u>
REVENUES	
Taxes and utility fees	\$ 9,774,910
Licenses and permits	872,960
Intergovernmental	825,391
Charges for services	899,947
Fines and forfeitures	22,831
Miscellaneous	227,295
Total revenues	<u>12,623,334</u>
EXPENDITURES	
Current	
General government	949,731
Public safety	5,243,509
Public works	2,634,799
Economic development	368,635
Debt service	927,712
Capital outlay	884,884
Total expenditures	<u>11,009,270</u>
Revenues over expenditures	<u>1,614,064</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	(125,000)
Loan proceeds	300,552
Net other financing sources	<u>175,552</u>
Net change in fund balance	1,789,616
FUND BALANCE, BEGINNING OF YEAR	<u>5,780,085</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 7,569,701</u></u>

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

CITY OF CAMBRIDGE, MARYLAND

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

YEAR ENDED JUNE 30, 2021

Net change in fund balances, governmental funds	\$	1,789,616
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Capital outlay		884,884
Depreciation expense		(903,468)
Book value of capital assets disposed		(29,795)
<p>Governmental funds report the issuance of long term obligations as income and the repayment of long term obligations as expenditures. However, in the government-wide statements, the issuance and repayment of debt are reported as a change in long-term liabilities.</p>		
Proceeds from the issuance of long-term liabilities		(300,552)
Principal payments on long-term liabilities		693,571
<p>Property tax revenues in the government-wide statement of activities include economic resources that are not reported as revenues in the governmental fund operating statement. Change in deferred property taxes.</p>		
		(94,805)
<p>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 the governmental funds. These activities include:</p>		
Change in compensated absences		37,335
Change in deferred outflows of resources - pension		60,846
Change in deferred inflows of resources - pensions		472,265
Change in net pension liability		(367,970)
Change in deferred outflows of resources - LOSAP		87,962
Change in deferred inflows of resources - LOSAP		21,865
Change in net LOSAP obligation		(209,279)
Change in deferred outflows of resources - OPEB		173,912
Change in deferred inflows of resources - OPEB		148,620
Change in net OPEB obligation		(578,918)
<p>Internal service funds are used by management to charge the costs of self insurance to individual funds. The net expense of these internal service funds, less the portion applicable to the enterprise funds, is reported in the statement of activities</p>		
		(9,521)
Change in net position, governmental activities	\$	1,876,568

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

CITY OF CAMBRIDGE, MARYLAND

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2021

	Municipal Utilities Commission	Sewer Fund	Marina Fund	Total	Internal Service Fund
ASSETS					
Cash and cash equivalents	\$ 1,236,087	\$ 533,280	\$ 334,288	\$ 2,103,655	\$
Certificates of deposit	1,021,141			1,021,141	
Accounts receivable, net	191,490	466,207	9,277	666,974	
Due from other governments		1,046,049	39,385	1,085,434	
Due from other funds		1,538,485		1,538,485	150,349
Inventory	219,554			219,554	
Capital assets, net of accumulated depreciation	1,991,827	30,198,940	3,990,203	36,180,970	
Cash - restricted impact fees	52,668	99,849		152,517	
Total assets	<u>4,712,767</u>	<u>33,882,810</u>	<u>4,373,153</u>	<u>42,968,730</u>	<u>150,349</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension	312,932	254,257		567,189	
OPEB	92,583	61,722		154,305	
Deferred loss on refunding			6,392	6,392	
Total deferred outflows of resources	<u>405,515</u>	<u>315,979</u>	<u>6,392</u>	<u>727,886</u>	
LIABILITIES					
Current liabilities					
Accounts payable and accrued expenses	217,132	480,862	26,528	724,522	124,648
Due to other funds	181,620		876,859	1,058,479	
Bonds and notes payable, current portion		107,394	267,424	374,818	
Non-current liabilities					
Compensated absences	81,400	3,099		84,499	
Due to other funds	159,843			159,843	
Bonds and notes payable, less current portion		1,967,899		1,967,899	
Net pension liability	579,312	470,691		1,050,003	
Net OPEB obligation	843,074	562,049		1,405,123	
Total liabilities	<u>2,062,381</u>	<u>3,591,994</u>	<u>1,170,811</u>	<u>6,825,186</u>	<u>124,648</u>
DEFERRED INFLOWS OF RESOURCES					
Pension	121,553	98,762		220,315	
OPEB	88,997	59,332		148,329	
Total deferred inflows of resources	<u>210,550</u>	<u>158,094</u>		<u>368,644</u>	
NET POSITION					
Net investment in capital assets	1,991,827	28,123,647	3,722,779	33,838,253	
Restricted, impact fees	52,668	99,849		152,517	
Unrestricted (deficit)	800,856	2,225,205	(514,045)	2,512,016	25,701
Total net position	<u>\$ 2,845,351</u>	<u>\$ 30,448,701</u>	<u>\$ 3,208,734</u>	<u>36,502,786</u>	<u>\$ 25,701</u>

Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service fund and the enterprise funds over time

Balance beginning of year	13,770
Current year activity	(33,630)
Net position of business-type activities	<u>\$ 36,482,926</u>

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

CITY OF CAMBRIDGE, MARYLAND

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS**

YEAR ENDED JUNE 30, 2021

	Municipal Utilities Commission	Sewer Fund	Marina Fund	Total	Internal Service Fund
OPERATING REVENUES					
Charges for services	\$ 2,076,709	\$ 4,507,246	\$ 548,634	\$ 7,132,589	\$ 1,523,399
Operational grants		243,000		243,000	
Total operating revenues	2,076,709	4,750,246	548,634	7,375,589	1,523,399
OPERATING EXPENSES					
Salaries and related costs	1,067,958	1,312,065		2,380,023	1,691,754
Repairs and maintenance	215,837	45,653	164,441	425,931	
Distribution and operating expenses	229,326	1,957,443	145,613	2,332,382	
Professional services			256,146	256,146	
Depreciation	121,007	1,181,920	155,550	1,458,477	
General and administrative	163,443	60,284	33,250	256,977	
Total operating expenses	1,797,571	4,557,365	755,000	7,109,936	1,691,754
Operating income (loss)	279,138	192,881	(206,366)	265,653	(168,355)
NON-OPERATING REVENUES (EXPENSES)					
Capital grants			220,445	220,445	
Impact fees		10,350		10,350	
Interest income	22,567	740	87	23,394	204
Interest expense	(7,123)	(53,607)		(60,730)	
Total non-operating revenues (expenses)	15,444	(42,517)	220,532	193,459	204
Income (loss) before transfers	294,582	150,364	14,166	459,112	(168,151)
TRANSFERS IN					125,000
Change in net position	294,582	150,364	14,166	459,112	(43,151)
NET POSITION, BEGINNING OF YEAR	2,550,769	30,298,337	3,194,568		68,852
NET POSITION, END OF YEAR	\$ 2,845,351	\$ 30,448,701	\$ 3,208,734		\$ 25,701
Adjustment to report the cumulative internal balance for the net effect of the activity between internal service funds and the enterprise funds over time				(33,630)	
Change in net position of business-type activities				\$ 425,482	

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

CITY OF CAMBRIDGE, MARYLAND

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

YEAR ENDED JUNE 30, 2021

	Municipal Utilities Commission	Sewer Fund	Marina Fund	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,027,622	\$ 4,514,062	\$ 540,620	\$ 7,082,304	\$
Cash received for operating grants		243,000		243,000	
Cash received for interfund services					1,558,015
Cash paid to vendors	(629,841)	(2,068,773)	(554,653)	(3,253,267)	
Cash paid to or on behalf of employees	(1,170,233)	(1,414,369)		(2,584,602)	(1,691,754)
Net cash provided (used) by operating activities	<u>227,548</u>	<u>1,273,920</u>	<u>(14,033)</u>	<u>1,487,435</u>	<u>(133,739)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers between funds					125,000
Interfund borrowings/repayments	(79,259)	(522,820)	286,554	(315,525)	(229,858)
Net cash provided (used) by noncapital financing activities	<u>(79,259)</u>	<u>(522,820)</u>	<u>286,554</u>	<u>(315,525)</u>	<u>(104,858)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	(244,363)	(189,778)	(74,463)	(508,604)	
Capital grant income		31,025	181,060	212,085	
Impact fees		10,350		10,350	
Principal paid on long-term obligations		(734,662)	(240,000)	(974,662)	
Interest paid on long-term obligations	(7,123)	(53,607)	(4,090)	(64,820)	
Premium on sale of bond			(17,435)	(17,435)	
Deferred refunding costs			6,400	6,400	
Net cash used by capital and related financing activities	<u>(251,486)</u>	<u>(936,672)</u>	<u>(148,528)</u>	<u>(1,336,686)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in certificates of deposit	(22,292)			(22,292)	
Interest income	22,567	740	87	23,394	204
Net cash provided by investing activities	<u>275</u>	<u>740</u>	<u>87</u>	<u>1,102</u>	<u>204</u>
Net increase (decrease) in cash	(102,922)	(184,832)	124,080	(163,674)	(238,393)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,391,677</u>	<u>817,961</u>	<u>210,208</u>	<u>2,419,846</u>	<u>238,393</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,288,755</u>	<u>\$ 633,129</u>	<u>\$ 334,288</u>	<u>\$ 2,256,172</u>	<u>\$</u>
CASH AND CASH EQUIVALENTS CONSISTS OF:					
Unrestricted cash	\$ 1,236,087	\$ 533,280	\$ 334,288	\$ 2,103,655	
Restricted cash	52,668	99,849		152,517	
	<u>\$ 1,288,755</u>	<u>\$ 633,129</u>	<u>\$ 334,288</u>	<u>\$ 2,256,172</u>	

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

CITY OF CAMBRIDGE, MARYLAND

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(CONTINUED)**

YEAR ENDED JUNE 30, 2021

	<u>Municipal Utilities Commission</u>	<u>Sewer Fund</u>	<u>Marina Fund</u>	<u>Total</u>	<u>Internal Service Fund</u>
INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 279,138	\$ 192,881	\$ (206,366)	\$ 265,653	\$ (168,355)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	121,007	1,181,920	155,550	1,458,477	
Deferred financing outflows - pension	(223,418)	(179,662)		(403,080)	
Deferred financing outflows - OPEB	(26,087)	(17,392)		(43,479)	
Deferred financing inflows - pension	53,351	41,927		95,278	
Deferred financing inflows - OPEB	(22,294)	(14,862)		(37,156)	
(Increase) decrease in assets					
Accounts and other receivables	(49,087)	6,816	(8,014)	(50,285)	
Prepaid expenses			22,540	22,540	
Inventory	(29,204)			(29,204)	
Increase (decrease) in liabilities					
Accounts payable and accrued expenses	7,969	(5,393)	22,257	24,833	34,616
Compensated absences	2,241	(716)		1,525	
Net pension liability	27,095	10,509		37,604	
Net OPEB obligation	86,837	57,892		144,729	
Net cash provided (used) by operating activities	<u>\$ 227,548</u>	<u>\$ 1,273,920</u>	<u>\$ (14,033)</u>	<u>\$ 1,487,435</u>	<u>\$ (133,739)</u>

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

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

ORGANIZATION

The City of Cambridge, Maryland (the City) was incorporated on December 28, 1793, under the provisions of the laws of the State of Maryland. The City is governed by a Mayor and five Commissioners and is located in Dorchester County, Maryland. The City provides the following services as authorized by its charter: General Government, Public Safety, Public Works, and Economic Development.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial reporting entity

The City's financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name);
- The City holds the corporate powers of the organization;
- The City appoints a voting majority of the organization's board;
- The City is able to impose its will on the organization;
- The organization has the potential to impose a financial benefit/burden on the City; and
- There is a fiscal dependency by the organization on the City.

Based on the aforementioned criteria, the Municipal Utilities Commission is included in the accompanying financial statements as a blended component unit.

Basis of presentation

The City's basic financial statements consist of government-wide financial 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 statements: The statement of net position and the statement of activities display information about the City as whole. These statements include the financial activities of the City. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (continued)

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function and of the City's governmental activities are for business-type activities of the City. 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 that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identified the extent to which each business segment or governmental function is self-financing or draws from general revenues of the City.

Fund financial statements: During the year, the City segregates transactions related to certain City 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 City at a more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. The City has elected to treat all proprietary funds as major.

Fund accounting

The City 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 City has no 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 City's only governmental fund:

General fund: The general fund is the general operating fund of the City. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund accounting (continued)

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.

Internal service fund: Internal service funds are used to account for employee health insurance.

The City has three major enterprise funds. The Municipal Utilities Commission operates the water treatment plants and distribution system. The Sewer Fund is used to record the operations of the sewage treatment plant, pumping stations, and collection system. The Marina Fund is used to record the operations of the marina.

Measurement focus

Government-wide financial statements: The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the City 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.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows 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 net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 (within 60 days after year end) to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the City 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 City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City 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, fines and forfeitures, state-levied locally shared taxes, grants, interest and rent.

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.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and budgetary accounting

Formal budgetary accounting is employed as a management control for the City's General Fund and the Municipal Utilities Commission. The annual budget for the General Fund is prepared in accordance with the budgetary basis of accounting.

The City follows these procedures in establishing budgetary data reflected in the financial statements:

- (1) The City Manager will prepare the City budget and capital program annually and submit to the Mayor and City Commissioners as a body with a narrative describing the important features. After adoption, the City Manager is responsible for the administration and implementation of the final budget and any capital program approved by the City Commissioners to achieve the goals of the City.
- (2) No later than July 1, the budget is legally enacted by a favorable vote of at least a majority of a quorum of the Commissioners.
- () As set forth in the City Code, the Council may amend or supplement the budget at any time after its adoption by supermajority vote of the Council members. The City Manager has the authority to make administrative adjustments to the department budgets as long as those changes will not have a significant policy impact on budgeted year-end balances.
- (4) All annual appropriations lapse at fiscal year-end.

Property tax

Taxpayers have the option to pay their real property tax in two installments. The first installment is due July 1 and the second installment is due October 1. Dorchester County bills and receives the tax payments on behalf of the City and remits to the City on a regular basis.

Taxes on real and personal property are levied on a fiscal year basis as of July 1. All unpaid taxes as of 90 days after the levy are subject to interest at 12% per annum. Delinquent property taxes are attached as an enforceable lien on the underlying properties. Property tax revenue is recognized in the year it is levied and becomes available to pay liabilities of the current period in the General Fund Statements.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property tax(continued)

Real and personal property taxes are levied at rates enacted by the Commissioners in the annual budget ordinance on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The rates of levy cannot exceed the constant yield rate furnished by the Maryland State Department of Assessment and Taxation without public notice and only after public hearings. For fiscal 2021, the City of Cambridge real property tax rate was \$.8473 per \$100 of assessed value and the business personal property tax rate was \$1.69 per \$100 of assessed value.

Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as “due to / due from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances” and are eliminated.

Allowance for Uncollectible Accounts

Trade and other receivables are shown net of an allowance for uncollectible accounts. Provision is made for estimated uncollectible balances based upon historical collection data and, in some cases, specific account analysis. At June 30, 2021, the allowance in the General Fund was \$80,132 and the Proprietary Funds was \$3,600.

Inventory

Inventory of materials held by the Municipal Utilities Commission consists primarily of meters and supplies, valued at the lower of cost or market on a first-in, first-out basis. The cost of inventories is recorded as capital outlay or expenses when placed in service or consumed rather than when purchased.

Capital assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets (continued)

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 acquisition value as of the date received. The City maintains a capitalization threshold of \$5,000. 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 capitalized.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Category</u>	<u>Years</u>
Buildings and Improvements	5 - 40
Furniture and equipment	2 - 10
Infrastructure	40
Distribution system	5 - 60
Wastewater systems	7 - 40
Machinery and equipment	5 - 10
Vehicles	3 - 15
Meter replacement program	10 - 30
Office and lab equipment	5
Production ground storage	7 - 50

Deferred outflows and inflows of resources

The statement of financial position and/or balance sheet may 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. The City has two types of items that qualify for reporting in this category: (a) deferred financing outflows related to retirement and other employee benefit programs and (b) deferred loss on debt refunding.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred outflows and inflows of resources

The statement of financial position and/or balance sheet may 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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in the category: (a) deferred property taxes which are not recognized until available (collected not later than 60 days after the end of the City's fiscal year), and (b) deferred financing outflows related to retirement and other employee benefit programs.

Pensions

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

Accrued compensated absences

Vested or accumulated vacation is accrued when earned by employees and a liability is recorded in the government-wide and proprietary fund financial statements. No liability is recorded for non-vesting accumulated rights to receive sick pay benefits as the City does not pay these amounts when employees separate from service.

City ordinance provides that full-time employees may accumulate up to a maximum of forty-five (45) days annual leave based upon years of service and upon termination will be paid for all accumulated leave not to exceed this amount. The accrual is included in "Non-current liabilities" in the government-wide statements. A liability for vacation pay is recorded in the governmental fund financial statements only if it has matured (i.e. unused reimbursable leave still outstanding following an employee's resignation or retirement).

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued liabilities and long-term obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental 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 and compensated absences 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.

Net position

Net position represents the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources. Invested in capital assets 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 City applies restricted resources first when an expense is incurred for purposes for which restricted and unrestricted resources are available.

Governmental fund balances

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

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of the City Charter, state or federal laws, or externally imposed conditions by grantors or creditors.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the City Council by ordinance or resolution.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund balances (continued)

- *Assigned fund balance*—amounts that are designated by Council or management with intent to be used for specific purposes, but are neither restricted nor committed by ordinance or resolution.
- *Unassigned fund balance*—all amounts not included in other spendable classifications.

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

Operating revenues and expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as non-operating.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

DEPOSITS AND INVESTMENTS

Deposits

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

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2021, \$6,697,188 of the City's deposits were exposed to custodial credit risk. These amounts were not covered by the Federal Deposit Insurance Corporation (FDIC) but were collateralized with securities held by the pledging financial institution's trust department, but not in the Town's name.

Restricted Cash

Restricted cash in the general fund consists of monies restricted for the Choptank Lighthouse of \$66,281, police forfeited and confiscated funds of \$64,606, unspent state grant monies of \$47,547, and LOSAP plan assets of \$681,867.

Restricted cash in the sewer fund and Municipal Utilities Commission is impact fees reserved for capital projects and debt service costs of \$99,849 and \$52,668, respectively.

Cash equivalents

For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The City is authorized to invest in United States Government bonds on evidence of indebtedness, or in federally insured bonding institutions which pledge United States Treasury bills, notes or other obligations to secure such deposits.

Investments

At June 30, 2021, the City's investments were pooled in the State-created Maryland Local Government Investment Pool (MLGIP), a money market fund. The cost of those investments, which approximates fair value, were \$382,052 and are included in cash equivalents.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

DEPOSITS AND INVESTMENTS (Continued)

Investments (continued)

Investments in the Maryland Local Government Investment Pool (MLGIP) are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP.

A single financial institution is contracted to operate the Pool. In addition, the State Treasurer has established an advisory board composed of Pool participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments. The MLGIP uses the amortized cost method to compute unit value rather than market value to report net position. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares. The MLGIP is rated AAA by Standard and Poor's. As of June 30, 2021, the City's investments, for both custodial and credit risk purposes, consisted solely of shares in the MLGIP. This investment is not deemed to have either risk and is in conformity with the City's policy relating to minimal credit risk of investments. The Pool is managed as a Rule 2a-7 pool. Therefore, the City faces no interest rate risk.

LOSAP funds

The LOSAP funds are invested in a MassMutual General Investment Account (GIA). The GIA, backed by MassMutual's general assets, is designed to provide stable, guaranteed rate of return and guarantee of principal. General investment account assets are managed with reference to their associated liabilities so product specifications and obligations to clients can be met with a high degree of certainty, even when market conditions change. Investment risk management is a high priority. Strict diversification among industries and individual issuers help mitigate credit risk. Various quantitative tools and systems, as well as qualitative approaches, are used to manage interest rate risk and liquidity risk. Assets in the GIA were managed to range from 5 to 6 years. The Massachusetts Mutual Life Insurance Company (does not apply to any separate investment accounts or mutual funds offered by MassMutual or its affiliates) are rated AA+ from Standard and Poor's.

If the GIA Contract is fully or partially terminated, participants will receive the liquidation value of the GIA instead of the book value (i.e., contract value), which is the value disclosed on participant statements and recorded within these financial statements. The liquidation value is determined in accordance with a formula contained in the GIA Contract and is designed to reflect the value of the

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

DEPOSITS AND INVESTMENTS (Continued)

LOSAP funds (continued)

assets in the general investment account. This liquidation value may be more or less than the book value of the plan’s investment in the GIA Contract. This means that upon partial or full termination of the GIA Contract a participant’s account balance in the GIA may be either increased or decreased.

The City’s LOSAP fund GIA account balance as of June 30, 2021 is \$681,867 and is included in restricted cash and cash equivalents on the general fund balance sheet.

The fair value GAAP hierarchy is based on the valuation of inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 are significant unobservable inputs. GIA is measured on recurring basis and is considered to be Level 3 as liquidation value is based on actuarial formula as defined under the terms of the contract with no observable price.

INTERFUND TRANSACTIONS

Interfund receivables and payables consist of the following:

	Governmental activities	Business-type activities			
	General fund	Municipal Utilities Commission	Sewer fund	Marina fund	Total
Net receivable (payable)	\$ (325,233)	\$ (341,463)	\$ 1,538,485	\$ (876,859)	\$ 325,233

The outstanding balances between funds result from actual transfers of dollars between the Municipal Utilities Commission, Sewer, Marina and General Funds and the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between the funds are made.

The balances are not expected to be repaid within one year.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

INTERFUND TRANSACTIONS (Continued)

Transfers in and out were as follows:

	Governmental activities	Business-type activities
	General fund	Internal service fund
Net transfers in (out)	\$ (125,000)	\$ 125,000

CAPITAL ASSETS

Capital assets of the Governmental Activities are summarized as follows:

	Balance June 30, 2020	Additions & Transfers	Deletions & Transfers	Balance June 30, 2021
Capital assets not being depreciated				
Land	\$ 5,523,581	\$ 103,579	\$	\$ 5,627,160
Construction in progress		88,662		88,662
Total capital assets not being depreciated	5,523,581	192,241		5,715,822
Capital assets being depreciated				
Building and improvements	15,535,162	152,016		15,687,178
Furniture and equipment	1,904,152	7,015	(131,405)	1,779,762
Infrastructure	12,190,628	199,665		12,390,293
Vehicles	4,620,602	333,947	(110,916)	4,843,633
Total capital assets being depreciated	34,250,544	692,643	(242,321)	34,700,866
Less accumulated depreciation for				
Building and improvements	(5,238,892)	(380,036)		(5,618,928)
Furniture and equipment	(1,472,860)	(74,725)	101,610	(1,445,975)
Infrastructure	(2,139,172)	(310,896)		(2,450,068)
Vehicles	(3,825,544)	(137,811)	110,916	(3,852,439)
Total accumulated depreciation	(12,676,468)	(903,468)	212,526	(13,367,410)
Governmental activities, capital assets, net	\$ 27,097,657	\$ (18,584)	\$ (29,795)	\$ 27,049,278

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

CAPITAL ASSETS (Continued)

Capital assets of the Municipal Utilities Commission are summarized as follows:

	<u>Balance June 30, 2020</u>	<u>Additions & Transfers</u>	<u>Deletions & Transfers</u>	<u>Balance June 30, 2021</u>
Capital assets not being depreciated				
Land	\$ 90,189	\$	\$	\$ 90,189
Total capital assets not being depreciated	<u>90,189</u>	<u></u>	<u></u>	<u>90,189</u>
Capital assets being depreciated				
Building and improvements	155,152			155,152
Distribution system	3,594,667	44,753		3,639,420
Machinery and equipment	382,615	7,585		390,200
Meter replacement program	720,947	131,052		851,999
Office and lab equipment	86,849			86,849
Production ground storage	2,148,879			2,148,879
Transportation equipment	337,508	60,973	(25,000)	373,481
Total capital assets being depreciated	<u>7,426,617</u>	<u>244,363</u>	<u>(25,000)</u>	<u>7,645,980</u>
Less accumulated depreciation for				
Building and improvements	(104,028)	(3,657)		(107,685)
Distribution system	(2,138,176)	(59,541)		(2,197,717)
Machinery and equipment	(367,375)	(4,650)		(372,025)
Meter replacement program	(664,848)	(13,570)		(678,418)
Office and lab equipment	(86,849)			(86,849)
Production ground storage	(2,037,248)	(15,245)		(2,052,493)
Transportation equipment	(249,811)	(24,344)	25,000	(249,155)
Total accumulated depreciation	<u>(5,648,335)</u>	<u>(121,007)</u>	<u>25,000</u>	<u>(5,744,342)</u>
Municipal Utilities Commission, capital assets, net	<u>\$ 1,868,471</u>	<u>\$ 123,356</u>	<u>\$</u>	<u>\$ 1,991,827</u>

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

CAPITAL ASSETS (Continued)

Capital assets of the Sewer Fund are summarized as follows:

	<u>Balance June 30, 2020</u>	<u>Additions & Transfers</u>	<u>Deletions & Transfers</u>	<u>Balance June 30, 2021</u>
Capital assets not being depreciated				
Land	\$ 65,950	\$	\$	\$ 65,950
Total capital assets not being depreciated	<u>65,950</u>			<u>65,950</u>
Capital assets being depreciated				
Building and improvements	1,326,400	10,500		1,336,900
Computer and equipment	3,885			3,885
Wastewater systems	62,355,443	179,278		62,534,721
Furniture and equipment	103,232			103,232
Vehicles	854,554			854,554
Total capital assets being depreciated	<u>64,643,514</u>	<u>189,778</u>		<u>64,833,292</u>
Less accumulated depreciation for				
Building and improvements	(1,326,400)	(292)		(1,326,692)
Computer and equipment	(3,885)			(3,885)
Wastewater systems	(31,453,952)	(1,151,260)		(32,605,212)
Furniture and equipment	(103,236)			(103,236)
Vehicles	(630,909)	(30,368)		(661,277)
Total accumulated depreciation	<u>(33,518,382)</u>	<u>(1,181,920)</u>		<u>(34,700,302)</u>
Sewer activities, capital assets, net	<u>\$ 31,191,082</u>	<u>\$ (992,142)</u>	<u>\$</u>	<u>\$ 30,198,940</u>

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

CAPITAL ASSETS (Continued)

Capital assets of the Marina Fund are summarized as follows:

	<u>Balance June 30, 2020</u>	<u>Additions & Transfers</u>	<u>Deletions & Transfers</u>	<u>Balance June 30, 2021</u>
Capital assets being depreciated				
Building and improvements	\$ 6,157,885	\$ 74,463	\$	\$ 6,232,348
Furniture and fixtures	49,239			49,239
Vehicles	10,290			10,290
Total capital assets being depreciated	<u>6,217,414</u>	<u>74,463</u>		<u>6,291,877</u>
Less accumulated depreciation for				
Building and improvements	(2,127,523)	(150,626)		(2,278,149)
Furniture and fixtures	(8,310)	(4,924)		(13,234)
Vehicles	(10,291)			(10,291)
Total accumulated depreciation	<u>(2,146,124)</u>	<u>(155,550)</u>		<u>(2,301,674)</u>
Marina activities, capital assets, net	<u>\$ 4,071,290</u>	<u>\$ (81,087)</u>	<u>\$</u>	<u>\$ 3,990,203</u>
Business-type activities, capital assets, net	<u>\$ 37,130,843</u>	<u>\$ (949,873)</u>	<u>\$</u>	<u>\$ 36,180,970</u>

Depreciation expense is recorded as follows:

Governmental activities:	
General government	\$ 87,228
Public Safety	122,280
Public Works	<u>693,960</u>
Total governmental activities	<u>\$ 903,468</u>

LINE OF CREDIT

The City has a \$2,500,000 line of credit with 1880 Bank, interest at 3.25%. This line of credit had \$0 balance at June 30, 2021.

The City has a \$1,000,000 line of credit with PSB, interest at 2.25%. This line of credit had \$0 balance at June 30, 2021.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

LONG-TERM DEBT

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

	Beginning Balance	Additions	Principal Repayments	Ending Balance
Governmental activities:				
General obligation bonds	\$ 8,414,500	\$	\$ 544,500	\$ 7,870,000
Bond premiums	629,305		52,125	577,180
Notes payable	363,971	300,552	96,945	567,578
Total	\$ 9,407,776	\$ 300,552	\$ 693,570	\$ 9,014,758
Business-type activities:				
General obligation bonds	\$ 3,299,954	\$	\$ 974,661	\$ 2,325,293
Bond premiums	34,859		17,435	17,424
Total	\$ 3,334,813	\$	\$ 992,096	\$ 2,342,717

Governmental Activities

General obligation bonds consist of the following:

Public Facilities Bond of 2016: \$8,695,000, maturing February 2031, annual principal payments ranging from \$460,000 to \$710,000, semi-annual interest payments at 2-4%	\$ 6,250,000
Bond premiums	488,350
Infrastructure Bond of 2018: \$1,718,538, maturing April 2048, annual principal payments ranging from \$30,000 to \$94,000, semi-annual interest payments at 4.14%	1,620,000
Bond premiums	88,830
	<u>8,447,180</u>

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

LONG-TERM DEBT (Continued)

Notes payable consist of the following:

Maryland Department of Natural Resources loan : \$280,575, unsecured, maturing July 2029, annual principal payment of \$11,223. The obligation is without interest.	89,784
Hebron Savings Bank mortgage: \$200,000, secured by property, maturing February 2028, monthly principal and interest payments of \$1,448, interest at 3.68%.	101,295
1880 Bank loan of \$500,000 secured by fire engine with principal payments in monthly installments of \$6,415 beginning July 2015. Interest is payable monthly at 2.14%.	75,947
Bay Vanguard Bank loan of \$300,552 secured by equipment payments in annual installments of \$75,933 maturing February 2025. Interest is payable annually at 0.5%.	300,552
Total notes payable	<u>567,578</u>
Total long-term debt, governmental activities	<u><u>\$ 9,014,758</u></u>

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

LONG-TERM DEBT (Continued) Business-Type Activities

General obligation bonds consist of the following:

	Sewer Fund	Marina Fund	Total
Public Facilities Bond of 2015: \$1,375,000, maturing August 2021, annual principal payments ranging from \$215,000 to \$250,000, semi-annual interest payments at 2 - 4%			
of 15 years.	\$	\$ 250,000	\$ 250,000
Bond premiums		17,424	17,424
2011 Water Quality Bonds: \$1,214,000 maturing February 2032 annual principal payments ranging from \$57,752 to \$70,321 interest at 1.1%.	705,587		705,587
\$1,718,895 - USDA. 120 quarterly installments beginning November 18, 2011. Quarterly payments of \$25,045 including principal and interest of 4.125%.	1,369,706		1,369,706
Total business-type activities general obligation bonds	\$ 2,075,293	\$ 267,424	\$ 2,342,717

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

LONG-TERM DEBT (Continued)

Debt Service Requirements

Total annual debt service requirements to maturity for long-term debt, excluding bond premiums, are as follows:

Year Ending June 30,	Governmental Activities			
	General Obligation Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2022	\$ 565,500	\$ 265,352	\$ 137,958	\$ 5,062
2023	586,000	242,416	138,526	4,341
2024	609,000	218,665	101,338	3,190
2025	634,500	193,901	102,273	2,256
2026	660,000	168,303	27,297	1,298
2027 - 2031	3,616,000	526,632	60,186	815
2032 - 2036	275,500	262,548		
2037 - 2041	333,500	203,784		
2041 - 2046	404,500	120,703		
2047 - 2048	185,500	20,162		
	<u>\$ 7,870,000</u>	<u>\$ 2,222,466</u>	<u>\$ 567,578</u>	<u>\$ 16,962</u>

Year Ending June 30,	Business-Type Activities	
	General Obligation Bonds	
	Principal	Interest
2022	\$ 357,394	\$ 71,898
2023	109,946	64,346
2024	112,583	61,709
2025	115,309	58,983
2026	118,127	56,164
2027 – 2031	636,406	235,053
2032 – 2036	406,661	141,138
2037 – 2041	446,356	54,544
2042	22,511	232
	<u>\$ 2,325,293</u>	<u>\$ 744,067</u>

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

LONG-TERM DEBT (Continued)

Technology Park Water and Sewer Systems

The Commissioners of Cambridge and the Municipal Utilities Commission have entered into an agreement with the County Council of Dorchester County, Maryland, Dorchester County Sanitary Commission, Inc. and Maryland Economic Development Corporation to construct water and sewer infrastructure facilities to the Technology Park. Of the total costs of the project, \$1,718,895 was financed with a loan from the United States Department of Agriculture in the City's name. Of this amount, 76% will be repaid by the County and is recorded as a Due from Dorchester County and 24% will be repaid by the City and MUC. As of June 30, 2021, this loan has a balance of \$1,369,706 with \$1,040,962 due from the County and \$164,367 due from MUC.

Enhanced Nutrient Removal

The Commissioners of Cambridge have acquired a bond with the Maryland Water Quality Financing Administration for \$1,619,000 to provide enhanced nutrient removal to the wastewater plant. The bond is payable in two series of \$1,214,000 and \$405,000 drawn down simultaneously. It is agreed that if all requirements of the loan are met, the \$405,000 portion of the loan will be forgiven. At June 30, 2021, the outstanding loan balance was \$705,587.

FUND BALANCES

Nonspendable fund balances are expenses prepaid for the subsequent year.

Restricted fund balances of \$846,787 are the amounts restricted for the Choptank River Lighthouse, forfeited and confiscated police funds, unspent grant funds, and LOSAP plan assets.

Committed fund balances are amounts encumbered of \$540,000 for projects to be completed in the subsequent year and include the Bayly Road project, Phillips Packing House, and the Maces Lane project.

Assigned fund balance includes the use of budget surplus of \$756,000 included in the 2022 approved budget.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

RETIREMENT AND PENSION PLANS

General information about the pension plan

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

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

Covered members. On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension system was established. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979, became members of the Employees' Pension System as a condition of employment. On or after January 1, 2005, an individual who is a member of the Employees' Retirement System may not transfer membership to the Employees' Pension System.

The Law Enforcement Officers' Pension System (LEOPS) was established on July 2, 1990, to provide retirement allowances and other benefits for certain State and local law enforcement officers. This System includes both retirement plan and pension plan provisions which are applicable to separate portions of the System's membership. The retirement plan provisions are only applicable to those members who, on the date they elected to participate in LEOPS, were members of the Employees' Retirement System. This System's pension plan provisions are applicable to all other participating law enforcement officers.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

RETIREMENT AND PENSION PLANS (Continued)

General information about the pension plan

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

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

A member of the LEOPS is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 25 years of eligibility service regardless of age. The annual retirement allowance for a member who is covered under the retirement plan provisions equal $1/50$ (2.0%) of the member's AFC multiplied by the number of years of accumulated creditable service up to 30 years, plus $1/100$ (1.0%) of the member's AFC multiplied by the number of years of accumulated creditable service in excess of 30 years. For members subject to the pension provision, full service pension allowances equal 2.0% of AFC up to a maximum of 60% (30 years of credit).

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

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

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

RETIREMENT AND PENSION PLANS (Continued)

General information about the pension plan (continued)

Contributions. The State Personnel and Pensions Article requires active members to contribute to the MSRPS at the rate of 4%, 5% or 7% of their covered salary depending upon the retirement option selected. For the LEOPS, members are required to contribute 7% of annual earnable compensation during employment. The City is required to contribute at an actuarially determined rate. Contributions to the plan from the City were \$911,570.

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

At June 30, 2021, the City reported a liability of \$9,609,191 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. At June 30, 2020, the City's proportion was .0160% for the general employees' plan and .0265% for the police officers' plan.

For the year ended June 30, 2021 the City recognized pension expense of \$1,071,270. At June 30, 2021, the City reported deferred outflows of resources or deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Changes of assumptions	\$ 49,860	\$ 196,981
Net difference between projected and actual earnings on pension plan investments	849,613	142,177
Difference between actual and expected experience		420,550
Contributions subsequent to measurement date	<u>1,056,350</u>	<u> </u>
	<u>\$ 1,955,823</u>	<u>\$ 759,708</u>

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

RETIREMENT AND PENSION PLANS (Continued)

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

The City's contribution subsequent to the measurement date of \$1,056,350, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

Deferred financial inflows and outflows are made up of changes in actuarial assumptions, differences in actual and expected experience, and net difference between projected and actual investment earnings. The deferred outflows and inflows related to non-investment activity are being amortized over the remaining service life ranging from 5 to 5.87 years. The net difference in investment earnings are being amortized over a closed five-year period.

Year Ending June 30	Deferred Outflows	Deferred Inflows
2022	\$ 246,015	\$ (364,013)
2023	243,802	(226,892)
2024	232,729	(113,661)
2025	176,927	(53,403)
2026		(1,739)
Total	\$ 899,473	\$ (759,708)

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

Inflation	2.60% general, 3.10% wage
Salary increases	3.10% to 11.6%, including wage inflation
Investment rate of return	7.40%

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

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

RETIREMENT AND PENSION PLANS (Continued)

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

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

Investments. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board of Trustees after considering input from MSRPS’s investment consultants and actuaries.

For each major class that is included in the MSRPS’s target asset allocation as of June 30, 2020, these best estimates are summarized in the following table:

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

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

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

RETIREMENT AND PENSION PLANS (Continued)

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

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

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.40%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.40%) or 1-percentage higher (8.4%).

1% Decrease (6.40%)	\$ 13,680,211
Current discount rate (7.40%)	\$ 9,609,191
1% Increase (8.40%)	\$ 6,218,378

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

OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS

Plan description. The City administers a single-employer defined benefit healthcare plan (the "Plan"). The Plan has no assets accumulated in a trust that meet the criteria in GASB Statement No. 75.

Benefits provided. Retirees hired prior to July 1, 2017 can continue the same medical coverage they had as active employees until 65 if they retire upon reaching age 62 with 20 years of service or after attaining 25 years of service. Effective July 1, 2017 the plan is closed to new hires.

Retirees are eligible to continue their medical coverage upon retirement and receive the full subsidy from the City of Cambridge which is a monthly contribution of \$80 for individual and \$392 for employee and spouse. The subsidy is provided to retirees and dependents only.

When someone receiving this health benefit turns 65, they can no longer stay on the regular City health plan. Instead the City will subsidize for retirees a Medicare part - F supplement, at no cost to the retiree. Dependents are not eligible for this benefit.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Employees covered by benefit terms. As of July 1, 2019, a total of 125 employees were covered by the benefit terms as follows:

Retirees in pay status (pre-Medicare)	20
Retirees in pay status (post-Medicare)	20
Active employees	85

Contributions. The City has not established an irrevocable trust. The plan is funded on a pay-as-you-go basis. An actuarial valuation was performed as of June 30, 2019 to determine the unfunded actuarial accrued liability.

Total OPEB liability. Generally accepted accounting principles require that the reported results must pertain to liability information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	July 1, 2019
Measurement Date	June 30, 2020
Measurement Period	July 1, 2019 to June 30, 2020

Actuarial assumptions. The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement. The medical trend assumption was developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model. The model was updated in September 2019.

Inflation	2.5%
Rate of growth in real income/GDP per year	1.5%
Excess medical cost growth	1.1%
Health share of GDP in 2029	20.0%
Health share of GDP resistance point	25.0%
Year for limiting cost growth to GDP Growth	2075

Discount rate. The discount rate used to measure the total OPEB liability as of the beginning of the year (June 30, 2019) is 3.13%. The rate as of June 30, 2020 is 2.45%.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Changes in the total OPEB liability.

	Total OPEB Liability
Balance as of June 30, 2019 for FY20	\$ 6,301,969
Changes for the year:	
Service cost	177,736
Interest	192,757
Experience losses	8,531
Changes in assumptions	640,363
Benefit payouts	(295,740)
Net changes	723,647
Balance as of June 30, 2020 for FY21	\$ 7,025,616

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

1% Decrease (1.45%)	\$ 8,163,183
Current discount rate (2.45%)	\$ 7,025,616
1% Increase (3.45%)	\$ 6,114,612

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare trend rate:

1% Decrease (3.0%)	\$ 5,959,174
Current discount rate (4.0%)	\$ 7,025,616
1% Increase (5.0%)	\$ 8,392,421

OPEB expense and deferred inflows of resources related to OPEB. Benefit payments are recognized when currently due and payable in accordance with the benefit terms. For the year ended June 30, 2021, the City recognized an OPEB expense of \$320,481. At June 30, 2021, the City reported deferred outflows of resources or deferred inflows of resources related to the OPEB plan from the following sources:

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,312	\$ 449,697
Changes of assumptions	764,210	291,948
Total	\$ 771,522	\$ 741,645

Amounts reported as deferred inflows of resources related to the OPEB plan will be recognized in expense over a closed period equal to the average of the remaining service lives of all employees that are provided with OPEB through the OPEB plan or twelve years as follows:

Fiscal Year Ended June 30	Measurement Date	
2022	6/30/2021	\$ (50,012)
2023	6/30/2022	(50,012)
2024	6/30/2023	(50,014)
2025	6/30/2024	41,377
2026	6/30/2025	45,837
Thereafter	6/30/26 and after	92,701
Total		\$ 29,877

VOLUNTEER FIREMAN PENSION PLAN LENGTH OF SERVICE AWARD PROGRAM (LOSAP)

Plan description. The City established the Volunteer Fireman Pension Plan Length of Service Award Program (“LOSAP”) for volunteer firefighters in October 2004. The LOSAP is a single-employer defined benefit length of service award program that covers all volunteer members (“members”) of the City’s Fire Rescue Company, Inc.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

VOLUNTEER FIREMAN PENSION PLAN LENGTH OF SERVICE AWARD PROGRAM (LOSAP) (Continued)

Benefits provided. An active member, upon reaching 65 years of age, is eligible to receive \$10 per year of eligible service, with a \$300 maximum monthly benefit that may be earned. Insured participants' designated beneficiary shall receive the greater of \$10,000 face amount of the life insurance or the present value of the participants' accrued benefit. Non-insured participants' designated beneficiary shall receive the lump sum of the present value of the participants' accrued benefit.

Participant summary. As of October 1, 2020, a total of 71 employees were participants as follows:

Active members	58
Vested – terminated	12
Retired and beneficiaries	1

Contributions. The City has not established an irrevocable trust. The plan is funded on a pay-as-you-go basis. An actuarial valuation was performed as of October 1, 2019 to determine the unfunded actuarial accrued liability.

Total LOSAP liability. Generally accepted accounting principles require that the reported results must pertain to liability information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date:	October 1, 2019
Measurement Date:	September 30, 2020
Measurement Period:	June 30, 2021

Actuarial assumptions. The total LOSAP liability was determined by an actuarial valuation as of October 1, 2019 rolled forward to September 30, 2020 measurement date using the following actuarial assumptions, applied to all period included in the measurement.

Inflation	0.0%
Salary increases	Not applicable
Investment rate of return	2.41%, net of pension plan investment expense, including inflation
Mortality	No pre-retirement mortality, post retirement RP2000 projected to 2030
Retirement	First eligible
Turnover	T5
Disability	None

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

VOLUNTEER FIREMAN PENSION PLAN LENGTH OF SERVICE AWARD PROGRAM (LOSAP) (Continued)

The above is a summary of key actuarial assumptions. Full description of actuarial assumptions are available in the October 1, 2019 actuarial report.

Discount rate. The 2.41% discount rate is based on a 20 year AA general obligation bond rate as of September 30, 2020.

Changes in LOSAP liability.

	Net LOSAP Liability
Balances, October 1, 2019	\$ 1,207,183
Changes for the year	
Service cost	53,251
Interest	29,093
Differences between expected and actual experience	41,940
Changes of assumptions	94,463
Benefit payments and expenses	(9,468)
Net changes	209,279
Balances, September 30, 2020	\$ 1,416,462

Sensitivity of the total LOSAP liability to changes in the discount rate. The following presents the total LOSAP liability of the City, as well as what the total LOSAP liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

1% Decrease (1.41%)	\$ 1,315,870
Current discount rate (2.41%)	\$ 1,416,462
1% Increase (3.41%)	\$ 1,514,841

LOSAP expense and deferred inflows of resources related to LOSAP. Benefit payments are recognized when currently due and payable in accordance with the benefit terms. For the year ended June 30, 2021, the City recognized a LOSAP expense of \$99,452. At June 30, 2021, the City reported deferred outflows of resources or deferred inflows of resources related to the OPEB plan from the following sources:

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

VOLUNTEER FIREMAN PENSION PLAN LENGTH OF SERVICE AWARD PROGRAM (LOSAP) (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 79,491	\$ (41,839)
Changes of assumptions	270,670	(97,297)
Contributions subsequent to measurement date	52,016	
Total	<u>\$ 402,177</u>	<u>\$ (139,136)</u>

The \$52,016 of deferred outflows of resources resulting from the City's contribution subsequent to the measurement date will be recognized as a reduction of the net LOSAP liability in the year ending June 30, 2022. Amounts reported as deferred outflows and deferred inflows will be amortized as follows:

<u>Year Ending June 30</u>	
2022	\$ 20,200
2023	20,200
2024	20,200
2025	20,200
2026	20,200
Thereafter	<u>110,025</u>
Total	<u>\$ 211,025</u>

RISK MANAGEMENT

The City 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 City's risk financing techniques include the purchase of commercial insurance.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

RISK MANAGEMENT (Continued)

The City is fully insured for workers' compensation through commercial insurance, and employees are bonded to limit the loss to the City in the event of employees committing acts of embezzlement or theft. There has been no significant reduction in insurance coverage from the prior year by major categories of risk, and amounts of settlements have not exceeded insurance coverage for each of the past three fiscal years.

COMMITMENTS AND CONTINGENCIES

Legal

The City is a defendant in several lawsuits. After considering all relevant facts and the opinion of legal counsel, it is the opinion that the lawsuits will not, in the aggregate, have a material adverse effect on the financial position of the City.

Health

The City participates in a "minimum premium plan" for its employee healthcare insurance. Under this plan, the City, who uses a third party administrator to process and pay claims, is responsible for paying all claims up to agreed-upon aggregate level with an insurance program responsible for the excess. The City has obtained a stop loss insurance policy of \$100,000 per participant to limit its healthcare costs. The City has been provided by the third party administrator an estimated accrual for claims incurred and included in these financial statements of \$124,648 as of June 30, 2021.

Federal and State Grants

In the normal course of operations, the City 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.

Maryland Environmental Services

The City has entered into a contract with the Maryland Environmental Services (MES), a body politic and corporate constituting an instrumentality of the State of Maryland. The contract dated June 18, 1993 and amended December 16, 1998 states that MES shall operate and maintain the City's sewage collection and wastewater treatment plant on a full time basis and provide properly trained and licensed personnel to operate and maintain the City's plant and pump stations including all rules, regulations, and analysis and reports as required by local, state, and federal regulatory agencies.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

COMMITMENTS AND CONTINGENCIES (Continued)

Maryland Environmental Services (Continued)

The contract states that the City shall be responsible for reimbursing all cost of salary administration cost and overhead at a monthly rate mutually agreed to annually and bear all cost of maintenance and improvements to the system.

NEW GASB PRONOUNCEMENTS

GASB issued Statement No. 87, *Leases*, in June 2017. It is effective for reporting periods beginning after June 15, 2021. The new guidance requires recognition of certain lease assets and liabilities that were previously classified as operating leases. It also recognizes inflows of resources or outflows of resources based on the payment provisions of the contract.

IMPACT OF COVID-19

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. There were mandates from federal, state, and local authorities requiring forced closures of schools, businesses, and other facilities. Most state and local governments have begun to ease restrictions on closures and movement, however, the COVID-19 pandemic remains a rapidly evolving situation. It is possible that a resurgence in COVID-19 cases could prompt a return to tighter restrictions. Therefore, significant uncertainty remains regarding the financial impact on the City's financial condition and future results of operations.

SUBSEQUENT EVENT

The City was awarded \$12,079,282 from the American Rescue Plan Act of 2021 Coronavirus Local Fiscal Recovery Fund (CLFRF). 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. The first installment was received in July 2021 in the amount of \$6,039,641.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CAMBRIDGE, MARYLAND

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

YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
REVENUES				
Taxes and utility fees	\$ 7,907,390	\$ 7,907,390	\$ 9,774,910	\$ 1,867,520
Licenses and permits	477,800	477,800	872,960	395,160
Intergovernmental	2,684,841	2,872,341	825,391	(2,046,950)
Charges for services	894,000	894,000	899,947	5,947
Fines and forfeitures	27,200	27,200	22,831	(4,369)
Miscellaneous	255,368	255,368	227,295	(28,073)
Total revenues	<u>12,246,599</u>	<u>12,434,099</u>	<u>12,623,334</u>	<u>189,235</u>
EXPENDITURES				
Current				
General government	874,415	1,023,618	949,731	73,887
Public safety	5,569,044	5,698,044	5,243,509	454,535
Public works	3,129,226	3,238,190	2,634,799	603,391
Economic development	2,515,455	2,852,992	368,635	2,484,357
Debt service	977,911	1,623,832	927,712	696,120
Capital outlay	1,092,308	1,107,450	884,884	222,566
Total expenditures	<u>14,158,359</u>	<u>15,544,126</u>	<u>11,009,270</u>	<u>4,534,856</u>
Revenues over (under) expenditures	<u>(1,911,760)</u>	<u>(3,110,027)</u>	<u>1,614,064</u>	<u>4,724,091</u>
OTHER FINANCING SOURCES (USES)				
Prior year surplus	2,107,760	3,180,637		(3,180,637)
Transfers out	(396,000)	(270,610)	(125,000)	145,610
Loan proceeds	200,000	200,000	300,552	100,552
Total other financing sources	<u>1,911,760</u>	<u>3,110,027</u>	<u>175,552</u>	<u>(2,934,475)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ 1,789,616</u>	<u>\$ 1,789,616</u>

CITY OF CAMBRIDGE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE TOWN'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
(UNAUDITED)

Fiscal year/ measurement date	Town's proportion of the net pension liability	Town's proportionate share of the net pension liability	Town's covered employee payroll	Town's proportionate share as a percentage of covered payroll	Plan fiduciary net position as a percentage of total pension liability
2015/2014	0.0381800%	\$ 6,776,366	\$ 4,683,287	145%	72%
2016/2015	0.0379844%	7,893,803	4,487,284	176%	69%
2017/2016	0.0425362%	10,035,993	4,563,208	220%	66%
2018/2017	0.0444606%	9,614,010	5,031,681	191%	69%
2019/2018	0.0436439%	9,157,186	4,715,375	194%	71%
2020/2019	0.0446223%	9,203,617	4,834,060	190%	72%
2021/2020	0.0425159%	9,609,191	4,629,988	208%	71%

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

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

Fiscal Year	Contractually required contribution	Actual contribution	Contribution deficiency (excess)	Town's covered payroll	Actual contribution as a percentage of covered payroll
2015	\$ 800,608	\$ 800,608	\$	\$ 4,487,284	18%
2016	828,640	828,640		4,563,208	18%
2017	904,924	904,924		5,031,681	18%
2018	870,293	870,293		4,715,375	18%
2019	916,319	916,319		4,834,060	19%
2020	911,570	911,570		4,629,988	20%
2021	1,056,350	1,056,350		4,812,343	22%

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

CITY OF CAMBRIDGE, MARYLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

JUNE 30, 2021

Changes in benefit terms:

There were no benefit changes during the year.

Changes in assumptions:

Discount rates remained at 7.40%

Method and assumptions used in calculations of actuarially determined contributions for the plan years ended June 30, 2021 and 2020:

Actuarial	Entry age normal.
Amortization method	Level percentage of payroll. Closed.
Remaining amortization period	25 year closed amortization period ending June 30, 2039; 18 years remaining.
Asset valuation model	Five year smoothed market (maximum 120% and minimum 80% of market value.)
Inflation	2020 2.60% general; 3.10% wage 2019 2.65% general; 3.15% wage
Salary increases	2020 3.10% to 11.6%, including wage inflation 2019 3.10% to 11.6%, including wage inflation
Investment rate of return	2020 7.40% 2019 7.40%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period July 1, 2014 to July 30, 2018.
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale.

CITY OF CAMBRIDGE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN THE NET
OPEB LIABILITY AND RELATED RATIOS
(UNAUDITED)**

Fiscal year/measurement date	2021/2020	2020/2019	2019/2018	2018/2017
Total OPEB liability				
Service cost	\$ 177,736	\$ 175,330	\$ 171,033	\$ 164,596
Interest cost	192,757	230,519	225,125	194,935
Changes in benefit terms				
Difference between expected and actual experience	8,531	(629,514)	(81)	
Changes of assumptions	640,363	301,456	(31,147)	(639,683)
Benefit payments	(295,740)	(293,603)	(271,188)	(271,269)
Net change in total OPEB liability	723,647	(215,812)	93,742	(551,421)
Total OPEB liability, beginning of year	6,301,969	6,517,781	6,424,039	6,975,460
Total OPEB liability, end of year	<u>\$ 7,025,616</u>	<u>\$ 6,301,969</u>	<u>\$ 6,517,781</u>	<u>\$ 6,424,039</u>
Plan fiduciary net position				
Contributions employer	\$ 295,740	\$ 293,603	\$ 271,188	\$ 271,269
Benefit payments	(295,740)	(293,603)	(271,188)	(271,269)
Net change in fiduciary net position				
Fiduciary net position, beginning of year				
Fiduciary net position, end of year	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
City's total OPEB liability, end of year	<u>\$ 7,025,616</u>	<u>\$ 6,301,969</u>	<u>\$ 6,517,781</u>	<u>\$ 6,424,039</u>
Fiduciary net position as a % of total OPEB liability	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>

Notes to schedule

No benefit changes.

Changes of assumptions: The discount rate was changed as follows:

6/30/2019	3.62%
6/30/2020	3.13%
6/30/2021	2.45%

Because this OPEB plan does not depend on salary, no salary information is presented.

Information for fiscal year 2017 and earlier is not available.

CITY OF CAMBRIDGE, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN THE NET
LOSAP LIABILITY AND RELATED RATIOS
(UNAUDITED)**

Fiscal year/measurement date	2021/2020	2020/2019	2019/2018	2018/2017
Total LOSAP liability ("TLL")				
Service cost	\$ 53,251	\$ 46,515	\$ 33,144	\$ 40,272
Interest cost	29,093	23,780	37,453	37,496
Difference between expected and actual experience	41,940	52,180	(62,758)	1
Changes of assumptions	94,463	232,067	(62,511)	(87,408)
Benefit payments and administrative expenses	(9,468)	(14,112)	(102,887)	(63,564)
Net change in total OPEB liability	209,279	340,430	(157,559)	(73,203)
TLL, beginning of year	1,207,183	866,753	1,024,312	1,097,515
TLL, end of year	<u>\$ 1,416,462</u>	<u>\$ 1,207,183</u>	<u>\$ 866,753</u>	<u>\$ 1,024,312</u>
Plan fiduciary net position				
Contributions employer	\$	\$	\$	\$
Benefit payments	_____	_____	_____	_____
Net change in fiduciary net position	_____	_____	_____	_____
Fiduciary net position, beginning of year	_____	_____	_____	_____
Fiduciary net position, end of year	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
City's total LOSAP liability, end of year	<u>\$ 1,416,462</u>	<u>\$ 1,207,183</u>	<u>\$ 866,753</u>	<u>\$ 1,024,312</u>
Fiduciary net position as a % of total LOSAP liability	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>

Notes to schedule

No benefit changes.

Changes of assumptions: The discount rate was changed as follows:

6/30/2019	3.83%
6/30/2020	2.75%
6/30/2021	2.41%

Because this LOSAP plan does not depend on salary, no salary information is presented.

Information for fiscal year 2017 and earlier is not available.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

The Honorable Mayor and Council
City of Cambridge, Maryland

Report on Supplementary Information

Our report on our audit of the financial statements that collectively comprise City of Cambridge, Maryland's basic financial statements as of June 30, 2021, appears on pages one and two. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cambridge, Maryland's basic financial statements. The supplementary information presented on pages 65 through 68 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Matter

The prior year comparative information has been derived from the City's 2020 and 2019 financial statements. In our report dated December 22, 2020, we expressed an unmodified opinion on the 2020 respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. The 2019 financial statements were audited by other accountants. Their report dated November 12, 2019 expressed an unmodified opinion on the 2019 financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
February 10, 2022

CITY OF CAMBRIDGE, MARYLAND
SCHEDULES OF REVENUES AND EXPENDITURES
GENERAL FUND
YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR 2020 AND 2019)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
REVENUES			
Taxes and utility fees	\$ 9,774,910	\$ 9,372,872	\$ 8,745,240
Licenses and permits	872,960	774,695	482,094
Intergovernmental	825,391	600,272	1,224,548
Charges for services	899,947	1,030,927	903,846
Fines and forfeitures	22,831	55,418	28,974
Miscellaneous	227,295	269,603	228,941
Total revenues	<u>12,623,334</u>	<u>12,103,787</u>	<u>11,613,643</u>
EXPENDITURES			
Current			
General government	949,731	805,310	852,586
Public safety	5,243,509	5,206,330	4,915,178
Public works	2,634,799	2,966,518	3,834,390
Economic development	368,635	463,051	390,844
Debt service	927,712	926,437	1,009,873
Capital outlay	884,884	106,374	591,887
Total expenditures	<u>11,009,270</u>	<u>10,474,020</u>	<u>11,594,758</u>
Revenues over expenditures	<u>1,614,064</u>	<u>1,629,767</u>	<u>18,885</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from asset disposal		600	8,000
Transfers	(125,000)	(276,225)	(203,779)
Loan proceeds	300,552		1,817,311
Total other financing sources (uses)	<u>175,552</u>	<u>(275,625)</u>	<u>1,621,532</u>
Net change in fund balance	<u>\$ 1,789,616</u>	<u>\$ 1,354,142</u>	<u>\$ 1,640,417</u>

CITY OF CAMBRIDGE, MARYLAND
SCHEDULES OF REVENUES AND EXPENSES
MUNICIPAL UTILITIES COMMISSION
YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR 2020 AND 2019)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
OPERATING REVENUES			
Charges for services	\$ 2,076,709	\$ 1,881,388	\$ 1,847,307
OPERATING EXPENSES			
Salaries and related costs	1,067,958	1,000,697	918,710
Repairs and maintenance	215,837	315,119	459,691
Distribution and operating expenses	229,326	223,266	231,119
Depreciation	121,007	133,587	136,800
General and administrative	163,443	183,750	169,436
Total operating expenses	<u>1,797,571</u>	<u>1,856,419</u>	<u>1,915,756</u>
Operating income (loss)	<u>279,138</u>	<u>24,969</u>	<u>(68,449)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	22,567	31,104	459
Interest expense	(7,123)	(7,094)	(7,315)
Capital grants		117,711	354,645
Total non-operating revenues	<u>15,444</u>	<u>141,721</u>	<u>347,789</u>
Change in net position	<u>\$ 294,582</u>	<u>\$ 166,690</u>	<u>\$ 279,340</u>

CITY OF CAMBRIDGE, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
SEWER FUND**

**YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR 2020 AND 2019)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
OPERATING REVENUES			
Charges for services	\$ 4,507,246	\$ 4,423,382	\$ 4,235,159
Operating grants	243,000	243,000	243,000
Total operating income	<u>4,750,246</u>	<u>4,666,382</u>	<u>4,478,159</u>
OPERATING EXPENSES			
Salaries and related costs	1,312,065	1,398,012	1,449,598
Repairs and maintenance	45,653	155,350	304,845
Distribution and operating expenses	1,957,443	1,891,794	1,886,782
Depreciation	1,181,920	1,199,623	1,203,334
Other general and administrative	60,284	49,544	55,372
Total operating expenses	<u>4,557,365</u>	<u>4,694,323</u>	<u>4,899,931</u>
Operating income (loss)	<u>192,881</u>	<u>(27,941)</u>	<u>(421,772)</u>
NON-OPERATING REVENUES (EXPENSES)			
Impact fees	10,350		
Interest income	740	9,571	12,432
Interest expense	(53,607)	(62,739)	(76,534)
Total non-operating expenses	<u>(42,517)</u>	<u>(53,168)</u>	<u>(64,102)</u>
Change in net position	<u>\$ 150,364</u>	<u>\$ (81,109)</u>	<u>\$ (485,874)</u>

CITY OF CAMBRIDGE, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
MARINA FUND**

**YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR 2020 AND 2019)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
OPERATING REVENUES			
Charges for services	\$ 548,634	\$ 397,464	\$ 378,761
OPERATING EXPENSES			
Salaries			7,646
Repairs and maintenance	164,441	17,825	4,087
Operating expenses	145,613	97,819	80,901
Professional services	256,146	270,480	293,020
Depreciation	155,550	160,507	158,778
General and administrative	33,250	13,291	67,558
Total operating expenses	<u>755,000</u>	<u>559,922</u>	<u>611,990</u>
Operating loss	<u>(206,366)</u>	<u>(162,458)</u>	<u>(233,229)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	87	42	306
Interest expense		(8,872)	(20,839)
Capital grants	220,445	17,508	49,983
Total non-operating revenues	<u>220,532</u>	<u>8,678</u>	<u>29,450</u>
Income (loss) before transfers	14,166	(153,780)	(203,779)
TRANSFERS IN		<u>276,225</u>	<u>203,779</u>
Change in net position	<u>\$ 14,166</u>	<u>\$ 122,445</u>	<u>\$</u>

GOVERNMENT AUDITING STANDARDS REPORTS

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

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To the Mayor and Council
City of Cambridge, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cambridge, Maryland, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Cambridge, Maryland's basic financial statements and have issued our report thereon dated February 10, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Cambridge, Maryland's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Cambridge, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Cambridge, Maryland's internal control.

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

Our consideration of internal control was for the limited purpose described in the first preceding paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001, 2021-002, and 2021-003, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cambridge, Maryland's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City of Cambridge, Maryland's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
February 10, 2022

CITY OF CAMBRIDGE, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2021

MATERIAL WEAKNESSES

Finding: 2021-001 – Accounts receivable balances did not reconcile with the subsidiary ledgers.

Criteria: The reconciliation of accounts receivable is the process of matching the detailed listing of unpaid customer balances with the total recorded in the general ledger. Accounting policies and procedures should be properly designed to ensure periodic reconciliations of material general ledger accounts with the subsidiary ledgers.

Condition: The general ledger balances and subsidiary ledgers for business taxes receivable, sewer fees receivable, and miscellaneous accounts receivable did not reconcile.

Cause: Policies have not been implemented to reconcile the accounts receivable subsidiary ledgers to the general ledger on a periodic basis.

Effect or potential effect: This condition could result in misstated accounts receivable reports and/or financial statement balances as well as the inability to determine accounts receivable balances and to assess account aging. During our audit, significant adjusting journal entries were prepared.

Recommendation: We recommend the City prepare an accounts receivable listing on a monthly basis and reconcile the totals to the general ledger balances. An independent person should review and approve the monthly reconciliations. The review should be documented by the signature of initials of the review and the date of the review.

Responsible Official's Response: Management will review its procedures and policies related to accounts receivable reconciliations.

Finding: 2021-002 – Interfund receivables and payables did not reconcile.

Criteria: Interfund accounts receivable and/or accounts payable accounts are maintained in each fund to report the amounts due to or due from other funds. Accounting policies and procedures should be in place to ensure the interfund receivable and payable accounts reconcile between funds.

Condition: Interfund accounts receivable and accounts payable did not reconcile.

Cause: The City does not have a formal policy in place regarding the reconciliation of the interfund accounts receivable and payable accounts. The major part of the variance was caused by journal entries prepared to allocate health insurance expense that were prepared incorrectly.

Effect or potential effect: This condition could result in misstated financial statements. During our audit, material adjusting entries were prepared to reconcile the interfund accounts.

CITY OF CAMBRIDGE, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
(CONTINUED)

YEAR ENDED JUNE 30, 2021

Recommendation: We recommend that the City implement procedures to reconcile the interfund receivable and payable accounts on a monthly basis.

Responsible Official's Response: Management will review its policies and procedures related to interfund accounts.

Finding: 2021-003 – Significant audit adjustments.

Criteria: Journal entries must be made to properly reflect the City's financial status at year end.

Condition: During our audit, we proposed numerous material adjustments in basic areas such as cash, accounts receivable, revenues, and expenditures/expenses.

Cause: The existence of such material adjustments indicates that the City's system of controls did not detect and prevent such misstatements.

Effect or potential effect: This condition could result in misstated financial statement balances.

Recommendation: The accounting department should prepare detail reconciliations of all material accounts and perform a review of the final trial balance to ensure that all significant journal entries are posted. Management should examine the adjustments required as a result of our audit and make improvements to the internal control system to prevent the adjustments in the future.

Responsible Official's Response: Management will review the adjustments provided by the auditors to prevent adjustments in the future.