

CITY OF CAMBRIDGE, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023

CITY OF CAMBRIDGE, MARYLAND

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INDEPENDENT AUDITORS' REPORT

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The Honorable Mayor and Council
City of Cambridge, Maryland

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Cambridge, Maryland, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Cambridge, Maryland's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Cambridge, Maryland, as of June 30, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Cambridge, Maryland and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

Responsibilities of Management for the Financial Statements (continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

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 4 through 12 and pages 58 through 63 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2024 on our consideration of the 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 the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cambridge, Maryland's internal control over financial reporting and compliance.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 5, 2024



CITY OF CAMBRIDGE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

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, 2023. Please read it in conjunction with the City's financial statements, which begin on page 13.

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, special revenue, 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 13 and 14 of this report.

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2023

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 two individual governmental funds: the General Fund and the Special Revenue 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 15 through 18. 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, 2023

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 basic proprietary fund financial statements can be found on pages 19 through 22 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 23 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 on June 30, 2023 was \$56,909,158. Of this amount, \$52,173,159 is invested in capital assets net of related debt and \$1,193,310 is restricted. The remaining unrestricted amount is \$3,542,689.

The City's net position increased \$5,180,541 or 9.9% 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, 2023

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

| | Net Position (In thousands of dollars) | | | | | |
|----------------------------------------------------|-------------------------------------------|-----------------------------|------------------|----------------------------|-----------------------------|------------------|
| | 2023 | | | 2022 | | |
| | Governmental Activities | Business-Type Activities | Total | Governmental Activities | Business-Type Activities | Total |
| Assets | | | | | | |
| Current and other assets | \$ 23,046 | \$ 8,382 | \$ 31,428 | \$ 15,089 | \$ 7,318 | \$ 22,407 |
| Capital assets | 29,520 | 34,615 | 64,135 | 27,263 | 35,130 | 62,393 |
| Total assets | <u>52,566</u> | <u>42,997</u> | <u>95,563</u> | <u>42,352</u> | <u>42,448</u> | <u>84,800</u> |
| Deferred outflows of resources | 5,125 | 1,479 | 6,604 | 5,414 | 663 | 6,077 |
| Liabilities | | | | | | |
| Current and other liabilities | 2,367 | 832 | 3,199 | 1,456 | 1,019 | 2,475 |
| Long-term liabilities outstanding | 23,094 | 3,842 | 26,936 | 22,659 | 4,329 | 26,988 |
| Total liabilities | <u>25,461</u> | <u>4,674</u> | <u>30,135</u> | <u>24,115</u> | <u>5,348</u> | <u>29,463</u> |
| Deferred inflows of resources | 13,355 | 1,768 | 15,123 | 9,097 | 588 | 9,685 |
| Net position | | | | | | |
| Invested in capital assets, net of related debt | 19,416 | 32,757 | 52,173 | 18,984 | 33,162 | 52,146 |
| Restricted | 1,034 | 160 | 1,194 | 1,005 | 160 | 1,165 |
| Unrestricted (deficit) | (1,575) | 5,117 | 3,542 | (5,435) | 3,853 | (1,582) |
| Total net position | <u>\$ 18,875</u> | <u>\$ 38,034</u> | <u>\$ 56,909</u> | <u>\$ 14,554</u> | <u>\$ 37,175</u> | <u>\$ 51,729</u> |

The City's total revenues were \$28,886,802. Of this amount, 28% comes from property taxes, 27% from grants and contributions, and 28% from fees charged for water, sewer, and marina services.

The City's expenses which totaled \$23,706,261 cover a range of services with 33% for public safety, 30% for water and sewer services, 18% for public works, and 6% for general government.

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

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) | | | | | |
|------------------------------------|------------------------------------------------------|-----------------------------|-----------------|----------------------------|-----------------------------|-----------------|
| | 2023 | | | 2022 | | |
| | Governmental Activities | Business-Type Activities | Total | Governmental Activities | Business-Type Activities | Total |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 2,353 | \$ 8,045 | \$ 10,398 | \$ 2,260 | \$ 7,862 | \$ 10,122 |
| Operating grants and contributions | 5,129 | 295 | 5,424 | 1,555 | 290 | 1,845 |
| Capital grants and contributions | 2,078 | 297 | 2,375 | 3,263 | 71 | 3,334 |
| General revenues | | | | | | |
| Property taxes | 8,053 | | 8,053 | 7,717 | | 7,717 |
| Shared taxes | 2,179 | | 2,179 | 1,883 | | 1,883 |
| Intergovernmental | 110 | | 110 | 137 | | 137 |
| Miscellaneous | 132 | | 132 | 121 | | 121 |
| Gain (loss) on disposal of assets | (12) | | (12) | (1,135) | | (1,135) |
| Unrestricted investment earnings | 187 | 41 | 228 | 65 | 29 | 94 |
| Total revenues | <u>20,209</u> | <u>8,678</u> | <u>28,887</u> | <u>15,866</u> | <u>8,252</u> | <u>24,118</u> |
| Expenses | | | | | | |
| General government | 1,448 | | 1,448 | 1,491 | | 1,491 |
| Public safety | 7,878 | | 7,878 | 6,226 | | 6,226 |
| Public works | 4,291 | | 4,291 | 3,613 | | 3,613 |
| Economic development | 2,122 | | 2,122 | 749 | | 749 |
| Interest on long-term debt | 149 | | 149 | 113 | | 113 |
| Water | | 2,110 | 2,110 | | 2,154 | 2,154 |
| Sewer | | 5,061 | 5,061 | | 5,026 | 5,026 |
| Marina | | 647 | 647 | | 655 | 655 |
| Total expenses | <u>15,888</u> | <u>7,818</u> | <u>23,706</u> | <u>12,192</u> | <u>7,835</u> | <u>20,027</u> |
| Transfers | | | | <u>(275)</u> | <u>275</u> | |
| Change in net position | <u>\$ 4,321</u> | <u>\$ 860</u> | <u>\$ 5,181</u> | <u>\$ 3,399</u> | <u>\$ 692</u> | <u>\$ 4,091</u> |

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund – For the year ended June 30, 2023, the general fund balance increased \$3,752,536 compared to an increase of \$2,155,535 in 2022.

Significant variances from the prior year include:

- Total revenues decreased \$2,507,185. The largest decrease was in intergovernmental revenues. This is due to the establishment of a Special Revenue fund in 2023. Intergovernmental revenues previously reported in the general fund are now reported in the Special Revenue fund.
- Total expenditures decreased \$541,860. Expenditures increased in general government, public safety, and debt service.
- Capital outlay expenditures of \$1,494,570 included new police and public works vehicles, a fence at the cemetery, and police equipment and subscriptions.

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

As of June 30, 2023, the general fund reported a fund balance of \$13,477,774. Of this amount, \$9,128,181 is unassigned and represents 8 months of average daily operating expenditures.

Special Revenue Fund – During the year, the City established a special revenue fund to account for Federal and state grants with specific compliance restrictions. These revenues were previously accounted for in the general fund. For the year ended June 30, 2023, revenues were \$5,564,435, expenditures were \$5,083,266, resulting in revenues over expenditures of \$481,169. ARPA funds of \$500,000 were transferred to the general fund for lost revenue.

Grant revenue recognized included American Rescue Plan Act funds (ARPA) of \$3,021,968, Community Development Block Grants of \$535,282, and Community Legacy grants of \$906,951. Additional grants were received from the Department of the Interior, Maryland Department of Health and Community Development, and the Maryland Department of Transportation.

As of June 30, 2023, unspent ARPA funds of \$7,103,653 are reported as deferred inflows of resources.

Municipal Utilities Commission – For the year ended June 30, 2023, the Municipal Utilities Commission has an operating income of \$306,563, net non-operating revenues of \$21,402, and a total increase in net position of \$327,965. This compares to an increase in net position of \$268,473 in the prior year.

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

As of June 30, 2023, the Municipal Utilities Commission reported a net position of \$3,441,789. Of this amount, \$2,132,216 is invested in capital assets, \$54,518 is restricted impact fees, and \$1,255,055 is unrestricted and available for use.

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2023

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

Sewer Fund – For the year ended June 30, 2023, the sewer fund had an operating income of \$272,449, net non-operating expenses of \$3,651, contributed capital of \$175,000, and a total increase in net position of \$443,798. This compares to an increase in net position of \$170,229 in the prior year.

Significant variances from the prior year include:

- Charges for services increased \$123,335.
- Expenses increased \$33,288 due to increases in distribution and operating expenses. Salaries and repairs and maintenance expenses decreased.
- Contributed capital with a value of \$175,000 was turned over to the City by the Hyatt.

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

As of June 30, 2023, the sewer fund reported a net position of \$31,062,728. Of this amount, \$26,763,754 is invested in capital assets, \$105,228 is restricted impact fees, and \$4,193,746 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. Major variances between the final budget and actual results are as follows:

- Taxes and utility fees were over-budget by \$942,227.
- Intergovernmental revenue was over-budget by \$644,772.
- Total expenditures were under the final budget by \$205,660.
- Capital outlay expenditures were over-budget due to the leasing of police and public works vehicles that were not budgeted.

The final budget included the use of prior year surplus funds of \$757,525. However, due to an increase in the fund balance, these surplus funds were not used during 2023.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets

The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2023 was \$64,135,252 (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, 2023

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 36 through 39 of this report.

| Capital Assets (net of depreciation) | | | | | | |
|--------------------------------------|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| (In thousands of dollars) | | | | | | |
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Land | \$ 5,208 | \$ 4,515 | \$ 217 | \$ 156 | \$ 5,425 | \$ 4,671 |
| Construction in progress | 1,113 | 521 | 193 | 305 | 1,306 | |
| Building and improvements | 16,105 | 15,745 | 7,841 | 7,724 | 23,946 | 23,469 |
| Distribution system | | | 3,639 | 3,639 | 3,639 | 3,639 |
| Machinery and equipment | 1,576 | 1,347 | 939 | 740 | 2,515 | 2,087 |
| Meter replacement program | | | 853 | 853 | 853 | 853 |
| Production ground storage | | | 2,149 | 2,149 | 2,149 | 2,149 |
| Leased equipment | 1,291 | 85 | | | 1,291 | 85 |
| Infrastructure | 12,806 | 12,650 | 63,165 | 62,536 | 75,971 | 75,186 |
| Vehicles | 6,101 | 5,909 | 1,290 | 1,230 | 7,391 | 7,139 |
| Less: accumulated depreciation | <u>(14,680)</u> | <u>(13,509)</u> | <u>(45,671)</u> | <u>(44,202)</u> | <u>(60,351)</u> | <u>(57,711)</u> |
| Net capital assets | <u>\$ 29,520</u> | <u>\$ 27,263</u> | <u>\$ 34,615</u> | <u>\$ 35,130</u> | <u>\$ 64,135</u> | <u>\$ 61,567</u> |

Major capital purchases this year included:

Governmental activities

- Police and public works vehicles purchased and leased,
- Public works shop solar array,
- Properties on Pine Street and 601 Chesapeake Court,
- Construction in progress at Cannery Park, Cornish Park, and Green Technology Park, and
- Cambridge Cemetery fencing.

Business-type activities

- Floating finger piers, storage build, and wave screen at the Marina,
- Pumps and equipment replacement in the sewer fund,
- Design and planning costs for West End Area sewer and Trenton Street pump station projects, and
- Truck, equipment, and land parcel in the MUC.

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2023

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY (CONTINUED)

Long-term debt activity

| | Outstanding Debt (In thousands of dollars) | | | | | |
|--------------------------|-----------------------------------------------|-----------------|--------------------------|-----------------|------------------|------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| General obligation bonds | \$ 6,719 | \$ 7,305 | \$ 1,858 | \$ 1,968 | \$ 8,577 | \$ 9,273 |
| Bond premium | 473 | 525 | | | 473 | 525 |
| Leases payable | 996 | 58 | | | 996 | 58 |
| Notes payable | 1,916 | 391 | | | 1,916 | 391 |
| Total | \$ 10,104 | \$ 8,279 | \$ 1,858 | \$ 1,968 | \$ 11,962 | \$ 10,247 |

New debt incurred during 2023 included finance leases for police and public works vehicles and subscription liabilities for software in the police department. In addition, \$1,700,000 was borrowed for the purchase of a fire truck.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The City has issued bonds of \$2,500,000 for the West End Sewer replacement project which is planned for the next fiscal year.

The City was awarded two loans, one forgivable and one low-interest loan, for the replacement of the Trenton Street Pump Station. The bid process for this project is expected to start in the spring of 2024.

The City set aside \$900,000 for a shoreline resiliency project and has significant plans to prepare the waterfront for rising sea levels stemming from climate change. The City has applied for \$18,000,000 in funding to design and build a living shoreline embankment.

In 2024, the City adopted three reserve policies for rainy-day debt reserves, and Art in Public Places reserves. The fiscal year 2024 budget includes initial amounts to establish the reserves.

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@chooscambridge.com.

CITY OF CAMBRIDGE, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2023

| | Governmental Activities | Business-type Activities | Total |
|-------------------------------------------------|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 17,978,929 | \$ 6,551,835 | \$ 24,530,764 |
| Certificates of deposit | | 1,063,498 | 1,063,498 |
| Accounts receivable, net | 599,388 | 636,566 | 1,235,954 |
| Due from other governments | 1,674,848 | 977,143 | 2,651,991 |
| Internal balances | 1,265,380 | (1,265,380) | |
| Inventory | | 258,669 | 258,669 |
| Prepaid expenses and other assets | 113,552 | | 113,552 |
| Leases receivable | 238,594 | | 238,594 |
| Loan receivable | 122,788 | | 122,788 |
| Capital assets, net of accumulated depreciation | 29,520,051 | 34,615,201 | 64,135,252 |
| Restricted cash and cash equivalents | 1,052,395 | 159,746 | 1,212,141 |
| Total assets | <u>52,565,925</u> | <u>42,997,278</u> | <u>95,563,203</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension | 3,601,329 | 1,199,850 | 4,801,179 |
| LOSAP | 404,989 | | 404,989 |
| OPEB | 1,118,894 | 279,723 | 1,398,617 |
| Total deferred outflows of resources | <u>5,125,212</u> | <u>1,479,573</u> | <u>6,604,785</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 1,159,972 | 722,197 | 1,882,169 |
| Other liabilities | 193,838 | | 193,838 |
| Long-term liabilities | | | |
| Bonds, notes, leases, and subscriptions payable | | | |
| Due within one year | 1,012,991 | 112,583 | 1,125,574 |
| Due in more than one year | 9,091,150 | 1,745,369 | 10,836,519 |
| Compensated absences | 488,427 | 67,817 | 556,244 |
| Net pension liability | 7,114,642 | 702,145 | 7,816,787 |
| Net LOSAP obligation | 1,104,028 | | 1,104,028 |
| Net OPEB obligation | 5,296,186 | 1,324,047 | 6,620,233 |
| Total liabilities | <u>25,461,234</u> | <u>4,674,158</u> | <u>30,135,392</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension | 3,396,640 | 1,387,360 | 4,784,000 |
| LOSAP | 611,633 | | 611,633 |
| OPEB | 1,523,538 | 380,885 | 1,904,423 |
| Deferred grants | 7,582,792 | | 7,582,792 |
| Deferred lease revenue | 240,590 | | 240,590 |
| Total deferred inflows of resources | <u>13,355,193</u> | <u>1,768,245</u> | <u>15,123,438</u> |
| NET POSITION | | | |
| Invested in capital assets | 19,415,910 | 32,757,249 | 52,173,159 |
| Restricted | 1,033,564 | 159,746 | 1,193,310 |
| Unrestricted (deficit) | (1,574,764) | 5,117,453 | 3,542,689 |
| Total net position | <u>\$ 18,874,710</u> | <u>\$ 38,034,448</u> | <u>\$ 56,909,158</u> |

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

CITY OF CAMBRIDGE, MARYLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

| | Program Revenues | | | Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position | |
|---------------------------------|-------------------------|------------------------------------------|---------------------|----------------------------------------|------------------------------------------------------|-----------------------------|
| | Charges for Services | Operating Grants and Contributions | | | Governmental Activities | Business-Type Activities |
| FUNCTIONS/PROGRAMS | | | | | | |
| GOVERNMENTAL ACTIVITIES | | | | | | |
| General government | \$ 1,447,861 | \$ 500,001 | \$ 155,206 | \$ 497,782 | \$ | \$ 497,782 |
| Public safety | 7,877,701 | 1,107,440 | 220,840 | (6,527,114) | | (6,527,114) |
| Public works | 4,291,168 | 1,359,312 | 963,669 | (928,426) | | (928,426) |
| Economic development | 2,122,760 | 2,161,855 | 738,006 | 777,101 | | 777,101 |
| Interest on long-term debt | 148,704 | | | (148,704) | | (148,704) |
| Total governmental activities | <u>15,888,194</u> | <u>5,128,608</u> | <u>2,077,721</u> | <u>(6,329,361)</u> | | <u>(6,329,361)</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | | |
| Water | 2,109,830 | | | | 300,513 | 300,513 |
| Sewer | 5,061,430 | 294,839 | 175,000 | | 430,502 | 430,502 |
| Marina | 646,807 | | 121,925 | | 87,756 | 87,756 |
| Total business-type activities | <u>7,818,067</u> | <u>294,839</u> | <u>296,925</u> | | <u>818,771</u> | <u>818,771</u> |
| Total | <u>\$ 23,706,261</u> | <u>\$ 5,423,447</u> | <u>\$ 2,374,646</u> | <u>(6,329,361)</u> | | <u>(5,510,590)</u> |

GENERAL REVENUES

| | | | | | | |
|---------------------------------------------|--|--|--|----------------------|----------------------|----------------------|
| Taxes | | | | | | |
| Property taxes, levied for general purposes | | | | 8,053,324 | | 8,053,324 |
| Room tax | | | | 1,009,266 | | 1,009,266 |
| State income tax | | | | 1,170,269 | | 1,170,269 |
| Unrestricted grants and contributions | | | | 110,592 | | 110,592 |
| Miscellaneous | | | | 131,896 | | 131,896 |
| Loss on disposal of assets | | | | (12,337) | | (12,337) |
| Unrestricted investment earnings | | | | 187,373 | 40,748 | 228,121 |
| Total general revenues | | | | <u>10,650,383</u> | <u>40,748</u> | <u>10,691,131</u> |
| Change in net position | | | | 4,321,022 | 859,519 | 5,180,541 |
| NET POSITION, BEGINNING OF YEAR | | | | 14,553,688 | 37,174,929 | 51,728,617 |
| NET POSITION, END OF YEAR | | | | <u>\$ 18,874,710</u> | <u>\$ 38,034,448</u> | <u>\$ 56,909,158</u> |

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

CITY OF CAMBRIDGE, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2023

ASSETS

| | General Fund | Special Revenue Fund | Total |
|--------------------------------------|----------------------|-------------------------|----------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| ASSETS | | | |
| Cash and cash equivalents | \$ 10,920,850 | \$ 7,058,080 | \$ 17,978,930 |
| Taxes receivable, net | 437,342 | | 437,342 |
| Accounts receivable, net | 162,045 | | 162,045 |
| Leases receivable | 238,594 | | 238,594 |
| Due from other governments | 784,387 | 890,461 | 1,674,848 |
| Due from other funds | 1,265,380 | | 1,265,380 |
| Prepaid expenses | 113,552 | | 113,552 |
| Loan receivable | 122,788 | | 122,788 |
| Restricted cash and cash equivalents | 1,052,395 | | 1,052,395 |
| Total assets | <u>\$ 15,097,333</u> | <u>\$ 7,948,541</u> | <u>\$ 23,045,874</u> |

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES

LIABILITIES

| | | | |
|---------------------------------------|----------------|----------------|------------------|
| Accounts payable and accrued expenses | \$ 700,392 | \$ 459,580 | \$ 1,159,972 |
| Other liabilities | 193,838 | | 193,838 |
| Total liabilities | <u>894,230</u> | <u>459,580</u> | <u>1,353,810</u> |

DEFERRED INFLOWS OF RESOURCES

| | | | |
|-------------------------------------|----------------|------------------|------------------|
| Deferred property taxes | 409,739 | | 409,739 |
| Deferred grant revenue | 75,000 | 7,507,792 | 7,582,792 |
| Deferred lease revenue | 240,590 | | 240,590 |
| Total deferred inflows of resources | <u>725,329</u> | <u>7,507,792</u> | <u>8,233,121</u> |

FUND BALANCES

| | | | |
|-------------------------------------|----------------------|---------------------|----------------------|
| Nonspendable | 113,552 | | 113,552 |
| Restricted | 1,052,395 | (18,831) | 1,033,564 |
| Committed | 1,750,760 | | 1,750,760 |
| Assigned | 1,432,886 | | 1,432,886 |
| Unassigned | 9,128,181 | | 9,128,181 |
| Total fund balances | <u>13,477,774</u> | <u>(18,831)</u> | <u>13,458,943</u> |
| Total liabilities and fund balances | <u>\$ 15,097,333</u> | <u>\$ 7,948,541</u> | <u>\$ 23,045,874</u> |

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, 2023

| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|--------------|
| Total fund balances, governmental funds | \$ | 13,458,943 |
| <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> | | 29,520,051 |
| <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 | | 3,601,329 |
| Deferred outflows of resources - LOSAP | | 404,989 |
| Deferred outflows of resources - OPEB | | 1,118,894 |
| <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> | | 409,739 |
| <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, notes, lease, and subscriptions payable | | (10,104,141) |
| Compensated absences | | (488,427) |
| Net pension liability | | (7,114,642) |
| Net LOSAP liability | | (1,104,028) |
| Net OPEB liability | | (5,296,186) |
| <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 | | (3,396,640) |
| Deferred inflows of resources - LOSAP | | (611,633) |
| Deferred inflows of resources - OPEB | | (1,523,538) |
| | | (1,523,538) |
| Net assets, governmental activities in the Statement of Net Position | \$ | 18,874,710 |

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, 2023

| | General Fund | Special Revenue Fund | Governmental Funds |
|----------------------------------------|-----------------|-------------------------|-----------------------|
| REVENUES | | | |
| Taxes and utility fees | \$ 10,243,349 | \$ | \$ 10,243,349 |
| Licenses and permits | 1,175,164 | | 1,175,164 |
| Intergovernmental | 1,652,144 | 5,564,435 | 7,216,579 |
| Charges for services | 1,154,310 | | 1,154,310 |
| Fines and forfeitures | 10,282 | | 10,282 |
| Miscellaneous | 313,893 | | 313,893 |
| Total revenues | 14,549,142 | 5,564,435 | 20,113,577 |
| EXPENDITURES | | | |
| Current | | | |
| General government | 1,169,973 | | 1,169,973 |
| Public safety | 6,396,146 | 440,923 | 6,837,069 |
| Public works | 3,627,978 | 578,889 | 4,206,867 |
| Economic development | 198,942 | 2,060,108 | 2,259,050 |
| Debt service | 1,312,843 | | 1,312,843 |
| Capital outlay | 1,494,570 | 2,003,346 | 3,497,916 |
| Total expenditures | 14,200,452 | 5,083,266 | 19,283,718 |
| Revenues over expenditures | 348,690 | 481,169 | 829,859 |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from asset disposal | 3,535 | | 3,535 |
| Transfers, net | 500,000 | (500,000) | |
| Proceeds from long-term debt | 2,900,311 | | 2,900,311 |
| Net other financing sources (uses) | 3,403,846 | (500,000) | 2,903,846 |
| Net change in fund balance | 3,752,536 | (18,831) | 3,733,705 |
| FUND BALANCE, BEGINNING OF YEAR | 9,725,238 | | 9,725,238 |
| FUND BALANCE, END OF YEAR | \$ 13,477,774 | \$ (18,831) | \$ 13,458,943 |

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, 2023

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|-------------|
| Net change in fund balances, governmental funds | \$ | 3,733,705 |
| <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 | | 3,497,916 |
| Depreciation expense | | (1,227,943) |
| Book value of capital assets disposed | | (15,872) |
| Fair value of donated assets reported as contributions in the Statement of Activities. | | 2,500 |
| <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 | | (2,900,311) |
| Principal payments on long-term liabilities | | 1,075,391 |
| <p>Property tax revenues in the government-wide Statement of Activities include economic resources that are not reported as revenues in the governmental fund statement. Change in deferred property taxes.</p> | | |
| | | 100,101 |
| <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 | | (59,065) |
| Change in deferred outflows of resources - pension | | (50,489) |
| Change in deferred inflows of resources - pensions | | 816,230 |
| Change in net pension liability | | (654,238) |
| Change in deferred outflows of resources - LOSAP | | (45,461) |
| Change in deferred inflows of resources - LOSAP | | (494,362) |
| Change in net LOSAP obligation | | 482,327 |
| Change in deferred outflows of resources - OPEB | | (192,992) |
| Change in deferred inflows of resources - OPEB | | (1,078,843) |
| Change in net OPEB obligation | | 1,332,428 |
| Change in net position, governmental activities | \$ | 4,321,022 |

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

CITY OF CAMBRIDGE, MARYLAND

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2023

| | Municipal Utilities Commission | Sewer Fund | Marina Fund | Total |
|-------------------------------------------------|--------------------------------------|----------------------|---------------------|----------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,840,206 | \$ 541,733 | \$ 658,990 | \$ 3,040,929 |
| Equity in pooled cash | | 3,510,906 | | 3,510,906 |
| Certificates of deposit | 1,063,498 | | | 1,063,498 |
| Accounts receivable, net | 259,031 | 377,535 | | 636,566 |
| Due from other governments | | 976,843 | 300 | 977,143 |
| Due from other funds | | 157,061 | | 157,061 |
| Inventory | 258,669 | | | 258,669 |
| Capital assets, net of accumulated depreciation | 2,132,216 | 28,621,706 | 3,861,279 | 34,615,201 |
| Cash - restricted impact fees | 54,518 | 105,228 | | 159,746 |
| Total assets | <u>5,608,138</u> | <u>34,291,012</u> | <u>4,520,569</u> | <u>44,419,719</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension | 661,986 | 537,864 | | 1,199,850 |
| OPEB | 167,834 | 111,889 | | 279,723 |
| Total deferred outflows of resources | <u>829,820</u> | <u>649,753</u> | | <u>1,479,573</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued expenses | 319,360 | 398,013 | 4,824 | 722,197 |
| Due to other funds | 282,571 | | 985,814 | 1,268,385 |
| Bonds and notes payable, current portion | | 112,583 | | 112,583 |
| Non-current liabilities | | | | |
| Compensated absences | 64,393 | 3,424 | | 67,817 |
| Due to other funds | 154,056 | | | 154,056 |
| Bonds and notes payable, less current portion | | 1,745,369 | | 1,745,369 |
| Net pension liability | 387,390 | 314,755 | | 702,145 |
| Net OPEB obligation | 794,428 | 529,619 | | 1,324,047 |
| Total liabilities | <u>2,002,198</u> | <u>3,103,763</u> | <u>990,638</u> | <u>6,096,599</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension | 765,440 | 621,920 | | 1,387,360 |
| OPEB | 228,531 | 152,354 | | 380,885 |
| Total deferred inflows of resources | <u>993,971</u> | <u>774,274</u> | | <u>1,768,245</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 2,132,216 | 26,763,754 | 3,861,279 | 32,757,249 |
| Restricted, impact fees | 54,518 | 105,228 | | 159,746 |
| Unrestricted (deficit) | 1,255,055 | 4,193,746 | (331,348) | 5,117,453 |
| Total net position | <u>\$ 3,441,789</u> | <u>\$ 31,062,728</u> | <u>\$ 3,529,931</u> | <u>\$ 38,034,448</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, 2023

| | Municipal Utilities Commission | Sewer Fund | Marina Fund | Total |
|------------------------------------------|--------------------------------------|----------------------|---------------------|----------------------|
| OPERATING REVENUES | | | | |
| Charges for services | \$ 2,410,343 | \$ 5,022,093 | \$ 612,638 | \$ 8,045,074 |
| Operational grants | | 294,839 | | 294,839 |
| Total operating revenues | <u>2,410,343</u> | <u>5,316,932</u> | <u>612,638</u> | <u>8,339,913</u> |
| OPERATING EXPENSES | | | | |
| Salaries and related costs | 1,244,229 | 1,418,707 | | 2,662,936 |
| Repairs and maintenance | 290,154 | 37,237 | 14,041 | 341,432 |
| Distribution and operating expenses | 255,110 | 2,334,234 | 176,030 | 2,765,374 |
| Professional services | | | 270,480 | 270,480 |
| Depreciation | 156,008 | 1,178,149 | 161,441 | 1,495,598 |
| General and administrative | 158,279 | 76,156 | 24,815 | 259,250 |
| Total operating expenses | <u>2,103,780</u> | <u>5,044,483</u> | <u>646,807</u> | <u>7,795,070</u> |
| Operating income (loss) | <u>306,563</u> | <u>272,449</u> | <u>(34,169)</u> | <u>544,843</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | | |
| Capital grants | | | 121,925 | 121,925 |
| Interest income | 27,452 | 13,296 | | 40,748 |
| Interest expense | (6,050) | (16,947) | | (22,997) |
| Total non-operating revenues (expenses) | <u>21,402</u> | <u>(3,651)</u> | <u>121,925</u> | <u>139,676</u> |
| Income before contributions | 327,965 | 268,798 | 87,756 | 684,519 |
| CONTRIBUTED CAPITAL | | 175,000 | | 175,000 |
| Change in net position | 327,965 | 443,798 | 87,756 | 859,519 |
| NET POSITION, BEGINNING OF YEAR | <u>3,113,824</u> | <u>30,618,930</u> | <u>3,442,175</u> | <u>37,174,929</u> |
| NET POSITION, END OF YEAR | <u>\$ 3,441,789</u> | <u>\$ 31,062,728</u> | <u>\$ 3,529,931</u> | <u>\$ 38,034,448</u> |

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, 2023

| | Municipal Utilities Commission | Sewer Fund | Marina Fund | Total |
|----------------------------------------------------------------------|--------------------------------------|---------------------|-------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash received from customers | \$ 2,333,655 | \$ 5,067,930 | \$ 612,638 | \$ 8,014,223 |
| Cash received for operating grants | (633,044) | 294,839 | | 294,839 |
| Cash paid to vendors | (1,258,739) | (2,704,659) | (499,057) | (3,836,760) |
| Cash paid to or on behalf of employees | 441,872 | (1,417,440) | | (2,676,179) |
| Net cash provided by operating activities | <u>1,240,670</u> | <u>1,240,670</u> | <u>113,581</u> | <u>1,796,123</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Interfund borrowings (repayments) | 21,774 | 2,967 | 83,448 | 108,189 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Purchase of capital assets | (317,251) | (326,221) | (162,480) | (805,952) |
| Capital grant income | | 35,299 | 150,625 | 185,924 |
| Principal paid on long-term obligations | | (109,946) | | (109,946) |
| Interest paid on long-term obligations | (6,050) | (16,947) | | (22,997) |
| Net cash used by capital and related financing activities | <u>(323,301)</u> | <u>(417,815)</u> | <u>(11,855)</u> | <u>(752,971)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Investment in certificates of deposit | (26,319) | | | (26,319) |
| Interest income | 27,452 | 13,296 | | 40,748 |
| Net cash provided by investing activities | <u>1,133</u> | <u>13,296</u> | | <u>14,429</u> |
| Net increase in cash | 141,478 | 839,118 | 185,174 | 1,165,770 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR, AS RESTATED | 1,753,246 | 3,318,749 | 473,816 | 5,545,811 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 1,894,724</u> | <u>\$ 4,157,867</u> | <u>\$ 658,990</u> | <u>\$ 6,711,581</u> |
| CASH AND CASH EQUIVALENTS CONSISTS OF: | | | | |
| Unrestricted cash | \$ 1,840,206 | \$ 541,733 | \$ 658,990 | \$ 3,040,929 |
| Equity in pooled cash | | 3,510,906 | | 3,510,906 |
| Restricted cash | 54,518 | 105,228 | | 159,746 |
| | <u>\$ 1,894,724</u> | <u>\$ 4,157,867</u> | <u>\$ 658,990</u> | <u>\$ 6,711,581</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, 2023

| | Municipal Utilities Commission | Sewer Fund | Marina Fund | Total |
|---------------------------------------------------------------------------------------------------------|--------------------------------------|---------------|----------------|--------------|
| INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | | |
| Operating income (loss) | \$ 306,563 | \$ 272,449 | \$ (34,169) | \$ 544,843 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | | | |
| Depreciation | 156,008 | 1,178,149 | 161,441 | 1,495,598 |
| Deferred financing outflows - pension | (476,841) | (387,433) | | (864,274) |
| Deferred financing outflows - OPEB | 28,949 | 19,300 | | 48,249 |
| Deferred financing inflows - pension | 502,237 | 408,067 | | 910,304 |
| Deferred financing inflows - OPEB | 161,827 | 107,884 | | 269,711 |
| (Increase) decrease in assets | | | | |
| Accounts and other receivables | (76,688) | 45,837 | | (30,851) |
| Inventory | (13,354) | | | (13,354) |
| Increase (decrease) in liabilities | | | | |
| Accounts payable and accrued expenses | 83,853 | (257,032) | (13,691) | (186,870) |
| Compensated absences | (14,588) | (122) | | (14,710) |
| Net pension liability | (16,230) | (13,187) | | (29,417) |
| Net OPEB obligation | (199,864) | (133,242) | | (333,106) |
| Net cash provided by operating activities | \$ 441,872 | \$ 1,240,670 | \$ 113,581 | \$ 1,796,123 |

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

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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, 2023

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, deferred outflows of resources, liabilities and deferred inflows of resources is reported as fund balance. The following are the City's governmental funds:

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, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund accounting (continued)

Special Revenue fund: This fund is used to account for all Federal and state grants with specific compliance restrictions.

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

Enterprise fund: Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

The 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 revenues, expenses and changes in 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, 2023

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, 2023

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.
- (3) 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.

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 2023, the City of Cambridge real property tax rate was \$.8096 per \$100 of assessed value and the business personal property tax rate was \$1.69 per \$100 of assessed value.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2023, the allowance in the General Fund was \$63,597 and the Proprietary Funds was \$9,799.

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.

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.

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.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated capital 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.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets (continued)

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. Leased equipment and subscription assets are amortized over the life of the agreement:

| <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 |
| Leased equipment and subscriptions | Life of lease |

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 one type of item that qualifies for reporting in this category: deferred financing outflows related to retirement and other employee benefit programs.

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 the following 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), (b) deferred grants which are not recognized until available and all eligibility requirements have been met, (c) deferred lease revenue which is recognized over the life of the lease, and (d) deferred financing outflows related to retirement and other employee benefit programs.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

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.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.
- *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.

Adoption of GASB Statement No. 96, *Subscription Based Information Technology Arrangements*

Effective July 1, 2022, the City adopted the new lease accounting guidance in GASB Statement No. 96, *Subscription Based Information Technology Arrangements*. The new guidance requires recognition of a subscription asset and corresponding liability to be recognized for any subscription-based information technology arrangements with software vendors with a term longer than 12 months.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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, 2023, \$22,511,280 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 City's name.

Restricted cash and cash equivalents

Restricted cash and cash equivalents in the general fund consists of monies restricted for the Choptank Lighthouse of \$66,343, police forfeited and confiscated funds of \$63,169, unspent state grant monies of \$34,751, and LOSAP plan assets of \$888,132.

Restricted cash in the sewer fund and Municipal Utilities Commission is impact fees reserved for capital projects and debt service costs of \$105,228 and \$54,518, 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, 2023, 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 \$395,733 and are included in cash equivalents.

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.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

DEPOSITS AND INVESTMENTS (Continued)

Investments (continued)

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, 2023, 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 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, 2023 is \$888,132 and is included in restricted cash and cash equivalents on the general fund balance sheet.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

DEPOSITS AND INVESTMENTS (Continued)

LOSAP funds (continued)

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 | Special projects | Municipal Utilities Commission | Sewer Fund | Marina Fund |
| Net receivable (payable) | \$ 1,265,380 | \$ | \$ (436,627) | \$ 157,061 | \$ (985,814) |

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, 2023

CAPITAL ASSETS

Capital assets of the Governmental Activities are summarized as follows:

| | Balance June 30, 2022 | Additions & Transfers | Deletions & Transfers | Balance June 30, 2023 |
|----------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 4,515,049 | \$ 694,476 | \$ (1,789) | \$ 5,207,736 |
| Construction in progress | 521,489 | 591,043 | | 1,112,532 |
| Total capital assets not being depreciated | <u>5,036,538</u> | <u>1,285,519</u> | <u>(1,789)</u> | <u>6,320,268</u> |
| Capital assets being depreciated | | | | |
| Building and improvements | 15,745,432 | 367,097 | (7,571) | 16,104,958 |
| Furniture and equipment | 1,347,002 | 292,909 | (63,672) | 1,576,239 |
| Infrastructure | 12,649,815 | 156,514 | | 12,806,329 |
| Vehicles | 5,908,629 | 192,855 | | 6,101,484 |
| Leased equipment and subscriptions | 85,061 | 1,205,522 | | 1,290,583 |
| Total capital assets being depreciated | <u>35,735,939</u> | <u>2,214,897</u> | <u>(71,243)</u> | <u>37,879,593</u> |
| Less accumulated depreciation for | | | | |
| Building and improvements | (6,004,190) | (389,832) | 363 | (6,393,659) |
| Furniture and equipment | (1,086,793) | (68,412) | 56,797 | (1,098,408) |
| Infrastructure | (2,763,246) | (321,807) | | (3,085,053) |
| Vehicles | (3,635,505) | (324,082) | | (3,959,587) |
| Leased equipment | (19,293) | (123,810) | | (143,103) |
| Total accumulated depreciation | <u>(13,509,027)</u> | <u>(1,227,943)</u> | <u>57,160</u> | <u>(14,679,810)</u> |
| Governmental activities, capital assets, net | <u>\$ 27,263,450</u> | <u>\$ 2,272,473</u> | <u>\$ (15,872)</u> | <u>\$ 29,520,051</u> |

Construction in progress in the governmental activities includes costs incurred for Cannery Park, Cornish Park, and Cambridge Green Technology Park.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

CAPITAL ASSETS (Continued)

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

| | <u>Balance June 30, 2022</u> | <u>Additions & Transfers</u> | <u>Deletions & Transfers</u> | <u>Balance June 30, 2023</u> |
|--------------------------------------------------------|----------------------------------|--------------------------------------|--------------------------------------|----------------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 90,189 | \$ 61,373 | \$ | \$ 151,562 |
| Total capital assets not being depreciated | <u>90,189</u> | <u>61,373</u> | | <u>151,562</u> |
| Capital assets being depreciated | | | | |
| Building and improvements | 155,152 | | | 155,152 |
| Distribution system | 3,639,420 | | | 3,639,420 |
| Machinery and equipment | 497,414 | 204,860 | (7,162) | 695,112 |
| Meter replacement program | 851,999 | | | 851,999 |
| Office and lab equipment | 86,849 | | | 86,849 |
| Production ground storage | 2,148,879 | | | 2,148,879 |
| Transportation equipment | 365,492 | 51,018 | (18,763) | 397,747 |
| Total capital assets being depreciated | <u>7,745,205</u> | <u>255,878</u> | <u>(25,925)</u> | <u>7,975,158</u> |
| Less accumulated depreciation for | | | | |
| Building and improvements | (111,343) | (3,657) | | (115,000) |
| Distribution system | (2,257,607) | (59,780) | | (2,317,387) |
| Machinery and equipment | (371,785) | (29,619) | 7,162 | (394,242) |
| Meter replacement program | (700,645) | (22,189) | | (722,834) |
| Office and lab equipment | (86,849) | | | (86,849) |
| Production ground storage | (2,066,113) | (13,621) | | (2,079,734) |
| Transportation equipment | (270,079) | (27,142) | 18,763 | (278,458) |
| Total accumulated depreciation | <u>(5,864,421)</u> | <u>(156,008)</u> | <u>25,925</u> | <u>(5,994,504)</u> |
| Municipal Utilities Commission, capital assets, net | <u>\$ 1,970,973</u> | <u>\$ 161,243</u> | <u>\$</u> | <u>\$ 2,132,216</u> |

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

CAPITAL ASSETS (Continued)

Capital assets of the Sewer Fund are summarized as follows:

| | <u>Balance</u> <u>June 30, 2022</u> | <u>Additions</u> <u>& Transfers</u> | <u>Deletions</u> <u>& Transfers</u> | <u>Balance</u> <u>June 30, 2023</u> |
|--------------------------------------------|----------------------------------------|--------------------------------------------|--------------------------------------------|----------------------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 65,950 | \$ | \$ | \$ 65,950 |
| Construction in progress | <u>276,366</u> | <u>146,825</u> | <u>(276,366)</u> | <u>146,825</u> |
| Total capital assets not being depreciated | <u>342,316</u> | <u>146,825</u> | <u>(276,366)</u> | <u>212,775</u> |
| Capital assets being depreciated | | | | |
| Building and improvements | 1,336,900 | | | 1,336,900 |
| Computer and equipment | 3,885 | | | 3,885 |
| Wastewater systems | 62,534,721 | 630,762 | | 63,165,483 |
| Furniture and equipment | 103,232 | | | 103,232 |
| Vehicles | 854,554 | | | 854,554 |
| Total capital assets being depreciated | <u>64,833,292</u> | <u>630,762</u> | <u></u> | <u>65,464,054</u> |
| Less accumulated depreciation for | | | | |
| Building and improvements | (1,327,392) | (700) | | (1,328,092) |
| Computer and equipment | (3,885) | | | (3,885) |
| Wastewater systems | (33,750,816) | (1,147,081) | | (34,897,897) |
| Furniture and equipment | (103,236) | | | (103,236) |
| Vehicles | (691,645) | (30,368) | | (722,013) |
| Total accumulated depreciation | <u>(35,876,974)</u> | <u>(1,178,149)</u> | <u></u> | <u>(37,055,123)</u> |
| Sewer activities, capital assets, net | <u>\$ 29,298,634</u> | <u>\$ (400,562)</u> | <u>\$ (276,366)</u> | <u>\$ 28,621,706</u> |

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

CAPITAL ASSETS (Continued)

Capital assets of the Marina Fund are summarized as follows:

| | <u>Balance June 30, 2022</u> | <u>Additions & Transfers</u> | <u>Deletions & Transfers</u> | <u>Balance June 30, 2023</u> |
|-----------------------------------------------|----------------------------------|--------------------------------------|--------------------------------------|----------------------------------|
| Capital assets not being depreciated | | | | |
| Construction in progress | \$ 29,000 | \$ 17,370 | \$ | \$ 46,370 |
| Total capital assets not being depreciated | <u>29,000</u> | <u>17,370</u> | | <u>46,370</u> |
| Capital assets being depreciated | | | | |
| Building and improvements | 6,232,348 | 116,160 | | 6,348,508 |
| Furniture and fixtures | 49,239 | | | 49,239 |
| Vehicles | 10,290 | 28,950 | | 39,240 |
| Total capital assets being depreciated | <u>6,291,877</u> | <u>145,110</u> | | <u>6,436,987</u> |
| Less accumulated depreciation for | | | | |
| Building and improvements | (2,432,188) | (155,069) | | (2,587,257) |
| Furniture and fixtures | (18,158) | (4,924) | | (23,082) |
| Vehicles | (10,291) | (1,448) | | (11,739) |
| Total accumulated depreciation | <u>(2,460,637)</u> | <u>(161,441)</u> | | <u>(2,622,078)</u> |
| Marina activities, capital assets, net | <u>\$ 3,860,240</u> | <u>\$ 1,039</u> | <u>\$</u> | <u>\$ 3,861,279</u> |
| Business-type activities, capital assets, net | <u>\$ 35,129,847</u> | <u>\$ (238,280)</u> | <u>\$ (276,366)</u> | <u>\$ 34,615,201</u> |

Depreciation expense in the governmental activities is recorded as follows:

| | |
|-------------------------------|---------------------|
| General government | \$ 103,192 |
| Public safety | 376,077 |
| Public works | <u>748,674</u> |
| Total governmental activities | <u>\$ 1,227,943</u> |

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

LINE OF CREDIT

The City has a \$2,500,000 line of credit with Bay Vanguard with interest assessed at the prime rate which was 6.25% at June 30, 2023. For the year ending June 30, 2023, the City of Cambridge, Maryland has not drawn on this line of credit.

LONG-TERM DEBT

Changes in long-term debt for the year June 30, 2023 are as follows:

| | Beginning Balance | Additions | Principal Repayments | Ending Balance |
|----------------------------------|----------------------|---------------------|-------------------------|----------------------|
| Governmental activities: | | | | |
| General obligation bonds | \$ 7,304,500 | \$ | \$ 586,000 | \$ 6,718,500 |
| Bond premiums | 525,055 | | 52,125 | 472,930 |
| Leases and subscriptions payable | 58,127 | 1,200,311 | 262,019 | 996,419 |
| Notes payable | 391,539 | 1,700,000 | 175,247 | 1,916,292 |
| Total | <u>\$ 8,279,221</u> | <u>\$ 2,900,311</u> | <u>\$ 1,075,391</u> | <u>\$ 10,104,141</u> |
| Business-type activities: | | | | |
| General obligation bonds | <u>\$ 1,967,898</u> | <u>\$</u> | <u>\$ 109,946</u> | <u>\$ 1,857,952</u> |

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%. | \$ 5,170,000 |
| Bond premiums | 390,680 |
| 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%. | 1,548,500 |
| Bond premiums | <u>82,250</u> |
| Total general obligation bonds and bond premiums | <u>7,191,430</u> |

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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 | \$ 67,338 |
| Hebron Savings Bank mortgage: \$200,000, secured by property, maturing February 2028, monthly principal and interest payments of \$1,448, interest at 3.68% | 74,243 |
| Queenstown Bank loan of \$1,700,000 secured by fire engine with principal payments in monthly installments of \$11,700 beginning August 2022. Interest is payable monthly at 2.95%. | 1,623,945 |
| 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%. | 150,766 |
| Total notes payable | \$ 1,916,292 |

Leases and subscriptions payable

The City leases various equipment under operating leases. The assets and liabilities are recorded at the present value of the future lease payments. The assets are amortized over the life of the lease using the straight-line method. Amortization of the assets under operating leases is included in depreciation expense.

The City entered into an agreement with Enterprise Fleet Management for the lease of public works and police vehicles under operating leases. During 2023, the City leased twenty-three vehicles expiring through 2028. The assets are recorded at \$1,004,500. Accumulated amortization as of June 30, 2023 is \$127,698.

In addition, the City is leasing copiers under operating leases expiring in 2027. The assets are recorded at \$22,360. Accumulated amortization as of June 30, 2023 was \$15,405.

The City has a subscription agreement with Spot.ai to lease software related to bullet cameras used by the police department for \$263,723. The agreement is for a five-year period ending October 2027. The asset and liability are recorded at the future value of the lease payments. The asset is amortized over the life of the lease using the straight-line method.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

LONG-TERM DEBT (Continued)

Business-type activities

General obligation bonds consist of the following:

| | <u>Sewer Fund</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| 2011 Water Quality Bonds: \$1,214,000 maturing February 2032 annual principal payments ranging from \$57,752 to \$70,321 interest at 1.1% | \$ 578,824 |
| \$1,718,895 - USDA. 120 quarterly installments beginning November 18, 2011. Quarterly payments of \$25,045 including principal and interest of 4.125% | 1,279,128 |
| Totals general obligation bonds | \$ 1,857,952 |

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 |
| 2024 | \$ 609,000 | \$ 218,665 | \$ 196,338 | \$ 48,602 |
| 2025 | 634,500 | 139,901 | 198,842 | 46,097 |
| 2026 | 660,000 | 168,303 | 126,754 | 42,252 |
| 2027 | 689,000 | 141,778 | 130,330 | 38,676 |
| 2028 | 709,500 | 120,882 | 126,578 | 35,036 |
| 2029 – 2033 | 2,322,000 | 374,953 | 587,940 | 125,338 |
| 2034 – 2038 | 297,000 | 240,681 | 549,510 | 35,113 |
| 2039 – 2043 | 359,000 | 174,166 | | |
| 2044 – 2048 | 438,500 | 81,369 | | |
| | \$ 6,718,500 | \$ 1,714,698 | \$ 1,916,292 | \$ 371,115 |

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

LONG-TERM DEBT (Continued)

| <u>Year Ending June 30,</u> | Governmental Activities | |
|-----------------------------|----------------------------------|------------|
| | Leases and Subscriptions Payable | |
| | Principal | Interest |
| 2024 | \$ 207,653 | \$ 74,174 |
| 2025 | 220,571 | 45,916 |
| 2026 | 234,944 | 31,544 |
| 2027 | 243,862 | 22,885 |
| 2028 | 89,389 | 2,585 |
| | \$ 996,419 | \$ 177,644 |

| <u>Year Ending June 30,</u> | Business-Type Activities | |
|-----------------------------|--------------------------|------------|
| | Principal | Interest |
| 2024 | \$ 112,583 | \$ 61,709 |
| 2025 | 115,309 | 58,983 |
| 2026 | 118,127 | 56,164 |
| 2027 | 121,041 | 53,250 |
| 2028 | 124,056 | 50,236 |
| 2029 – 2033 | 570,954 | 199,180 |
| 2034 – 2038 | 394,651 | 106,249 |
| 2039 – 2043 | 301,230 | 22,052 |
| | \$ 1,857,952 | \$ 607,823 |

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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, 2023, this loan has a balance of \$1,279,128 with \$972,119 due from the County and \$157,061 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, 2023, the outstanding loan balance was \$578,824.

LEASES RECEIVABLE

The City entered into lease agreements expiring in 2032 and 2033 with Verizon and WBOC for the use of the City's water tower for wireless antennas and transmission lines. The leases receivable and deferred inflows of resources are recorded at the present value of the lease payments. The deferred inflow of resources is being amortized over the life of the lease. Amortization is included in rental income in the general fund.

As of June 30, 2023, the balance of the leases receivable were \$238,594.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

LEASES RECEIVABLE (Continued)

A maturity analysis of all future lease payments for the term of the leases is as follows:

| Year Ending June 30, | Principal | Interest |
|----------------------|------------|-----------|
| 2024 | \$ 23,396 | \$ 8,558 |
| 2025 | 24,288 | 7,665 |
| 2026 | 25,215 | 6,739 |
| 2027 | 21,293 | 5,861 |
| 2028 | 23,656 | 5,035 |
| 2029 – 2033 | 120,746 | 10,489 |
| | \$ 238,594 | \$ 44,347 |

GENERAL FUND BALANCES

Nonspendable fund balances are expenses prepaid for the subsequent year.

Restricted fund balances of \$1,052,395 are the amounts restricted for the Choptank River Lighthouse, forfeited and confiscated police funds, 508 Savings, and LOSAP plan assets.

Committed fund balances are amounts encumbered of \$1,750,760 for projects to be completed in the subsequent year and includes the Bayly Road project and loan proceeds received for Fire and Rescue equipment still to be purchased.

Assigned fund balance includes the use of budget surplus of \$1,064,886 included in the 2024 approved budget and \$368,000 for rebidding of paving work.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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, 2023

RETIREMENT AND PENSION PLANS (Continued)

General information about the pension plan (continued)

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, 2023

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 \$891,634.

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

At June 30, 2023, the City reported a liability of \$7,816,787 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2022, the City's proportion was .0121% for the general employees' plan and .0270% for the police officers' plan.

For the year ended June 30, 2023 the City recognized pension expense of \$1,114,106. At June 30, 2023, 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 |
|----------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|
| Changes of assumptions | \$ 1,087,073 | \$ 98,288 |
| Net difference between projected and actual earnings on pension plan investments | 1,973,206 | 625,937 |
| Changes in proportion | 781,462 | 1,088,667 |
| Difference between actual and expected experience | | 2,971,108 |
| Contributions subsequent to measurement date | 959,438 | |
| | \$ 4,801,179 | \$ 4,784,000 |

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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 \$959,438, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

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 | Net Deferred Inflows and Outflows |
|------------------------|--------------------------------------|
| 2024 | \$ (213,351) |
| 2025 | (208,897) |
| 2026 | (359,073) |
| 2027 | (8,997) |
| 2028 | (151,941) |
| Total | <u>\$ (942,259)</u> |

Actuarial assumptions. The actuarial assumption for the Pension Plan as a whole and based on the June 30, 2022, annual actuarial valuation report for Maryland Municipal Corporation are as follows:

| | |
|---------------------------|-------------------------------------------|
| Inflation | 2.25% general, 2.75% wage |
| Salary increases | 2.75% to 11.25%, including wage inflation |
| Investment rate of return | 6.8% |

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, 2023

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, 2022, these best estimates are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--------------------|----------------------|----------------------------------------------|
| Public Equity | 34% | 6.0% |
| Private Equity | 16% | 8.4% |
| Rate Sensitive | 21% | 1.2% |
| Credit Opportunity | 8% | 4.9% |
| Real Assets | 15% | 5.2% |
| Absolute Return | 6% | 3.5% |
| Total | 100% | |

For the years ended June 30, 2022 and 2021, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was (2.79)% and 26.69%, 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, 2023

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 6.80%. 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 6.80%, 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 (5.80%) or 1-percentage higher (7.8%).

| | |
|-------------------------------|---------------|
| 1% Decrease (5.80%) | \$ 11,993,438 |
| Current discount rate (6.80%) | \$ 7,816,787 |
| 1% Increase (7.8%) | \$ 4,351,135 |

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.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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.

Employees covered by benefit terms. As of July 1, 2021, a total of 117 employees were covered by the benefit terms as follows:

| | |
|----------------------------------------|----|
| Retirees in pay status (pre-Medicare) | 15 |
| Retirees in pay status (post-Medicare) | 24 |
| Active employees | 78 |

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, 2023 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, 2022 |
| Measurement Date | June 30, 2022 |
| Measurement Period | June 30, 2022 to June 30, 2023 |

Actuarial assumptions. The total OPEB liability in the June 30, 2023 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 | 1.4% |
| Excess medical cost growth | 1.0% |
| Health share of GDP in 2029 | 19.0% |
| Health share of GDP resistance point | 20.0% |
| 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, 2022) is 1.92%. The rate as of June 30, 2023 is 3.69%.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Changes in the total OPEB liability.

| | Total OPEB Liability |
|--------------------------------------|-------------------------|
| Balance as of June 30, 2021 for FY22 | \$ 8,285,768 |
| Changes for the year: | |
| Service cost | 271,472 |
| Interest | 156,177 |
| Experience losses | 72,186 |
| Changes in assumptions | (1,790,051) |
| Benefit payouts | (375,319) |
| Net changes | (1,665,535) |
| Balance as of June 30, 2022 for FY23 | \$ 6,620,233 |

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 (2.69%) | \$ 7,549,767 |
| Current discount rate (3.69%) | \$ 6,620,233 |
| 1% Increase (4.69%) | \$ 5,856,723 |

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 (2.94%) | \$ 5,717,961 |
| Current discount rate (3.94%) | \$ 6,620,232 |
| 1% Increase (4.94%) | \$ 7,748,157 |

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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, 2023, the City recognized an OPEB expense of \$299,576. At June 30, 2023, the City reported deferred outflows of resources or deferred inflows of resources related to the OPEB plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|----------------------------------------------------|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 426,001 | \$ 269,811 |
| Changes of assumptions | 972,616 | 1,634,612 |
| Total | \$ 1,398,617 | \$ 1,904,423 |

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 Ending June 30 | Measurement Date | |
|-------------------------------|---------------------|--------------|
| 2024 | 6/30/2023 | \$ (128,074) |
| 2025 | 6/30/2024 | (36,683) |
| 2026 | 6/30/2025 | (32,223) |
| 2027 | 6/30/2026 | 14,640 |
| 2028 | 6/30/2027 | (78,060) |
| Thereafter | 6/30/28 and after | (245,406) |
| Total | | \$ (505,806) |

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, 2023

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, 2021 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, 2021 |
| Measurement Date: | September 30, 2022 |
| Measurement Period: | October 1, 2021 to September 30, 2022 |

Actuarial assumptions. The total LOSAP liability was determined by an actuarial valuation as of October 1, 2021 rolled forward to September 30, 2022 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 | 4.40%, 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, 2023

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, 2021 actuarial report.

Discount rate. The 4.40% discount rate is based on a 20 year AA general obligation bond rate as of September 30, 2022.

Changes in LOSAP liability.

| | Net LOSAP Liability |
|----------------------------------------------------|---------------------------|
| Balances, October 1, 2021 | \$ 1,586,355 |
| Changes for the year | |
| Service cost | 26,835 |
| Interest | 69,707 |
| Differences between expected and actual experience | 667 |
| Changes of assumptions | (573,586) |
| Benefit payments and expenses | (5,950) |
| Net changes | (482,327) |
| Balances, September 30, 2022 | \$ 1,104,028 |

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 (3.40%) | \$ 1,322,396 |
| Current discount rate (4.40%) | \$ 1,104,028 |
| 1% Increase (5.40%) | \$ 931,781 |

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, 2023, the City recognized a LOSAP expense of \$57,496. At June 30, 2023, 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, 2023

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|----------------------------------------------------|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 76,389 | \$ 27,893 |
| Changes of assumptions | 260,256 | 583,740 |
| Contributions subsequent to measurement date | 68,344 | |
| Total | \$ 404,989 | \$ 611,633 |

The \$68,344 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, 2024. Amounts reported as deferred outflows and deferred inflows will be amortized as follows:

| Year Ending June 30 | |
|------------------------|--------------|
| 2023 | \$ (28,341) |
| 2024 | (28,341) |
| 2025 | (28,341) |
| 2026 | (28,339) |
| 2027 | (14,423) |
| Thereafter | (147,203) |
| Total | \$ (274,988) |

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.

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.

CITY OF CAMBRIDGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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.

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.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2023, that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the new standards may have on the financial statements. GASB Statement No. 101, *Compensated Absences*, will be effective for the City beginning with the year ending June 30, 2025. This statement updates the recognition and measurement guidance for compensated absences.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CAMBRIDGE, MARYLAND

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

YEAR ENDED JUNE 30, 2023

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Favorable (Unfavorable) |
|-------------------------------------------|--------------------|--------------------|---------------------|-------------------------------------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes and utility fees | \$ 9,301,122 | \$ 9,301,122 | \$ 10,243,349 | \$ 942,227 |
| Licenses and permits | 1,169,763 | 1,169,763 | 1,175,164 | 5,401 |
| Intergovernmental | 1,007,372 | 1,007,372 | 1,652,144 | 644,772 |
| Charges for services | 908,858 | 908,858 | 1,154,310 | 245,452 |
| Fines and forfeitures | 21,000 | 21,000 | 10,282 | (10,718) |
| Miscellaneous | 374,152 | 374,152 | 313,893 | (60,259) |
| Total revenues | <u>12,782,267</u> | <u>12,782,267</u> | <u>14,549,142</u> | <u>1,766,875</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 1,334,127 | 1,405,127 | 1,169,973 | 235,154 |
| Public safety | 6,927,128 | 6,927,128 | 6,396,146 | 530,982 |
| Public works | 3,951,334 | 3,951,334 | 3,627,978 | 323,356 |
| Economic development | 246,918 | 246,918 | 198,942 | 47,976 |
| Debt service | 1,254,285 | 1,254,285 | 1,312,843 | (58,558) |
| Capital outlay | 210,000 | 210,000 | 1,494,570 | (1,284,570) |
| Total expenditures | <u>13,923,792</u> | <u>13,994,792</u> | <u>14,200,452</u> | <u>(205,660)</u> |
| Revenues over (under) expenditures | <u>(1,141,525)</u> | <u>(1,212,525)</u> | <u>348,690</u> | <u>1,561,215</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Prior year surplus | 686,525 | 757,525 | | (757,525) |
| Transfers, net | 455,000 | 455,000 | 500,000 | 45,000 |
| Gain on disposal of assets | | | 3,535 | 3,535 |
| Proceeds from long-term debt | | | 2,900,311 | 2,900,311 |
| Total other financing sources | <u>1,141,525</u> | <u>1,212,525</u> | <u>3,403,846</u> | <u>2,191,321</u> |
| Net change in fund balance | <u>\$</u> | <u>\$</u> | <u>\$ 3,752,536</u> | <u>\$ 3,752,536</u> |

CITY OF CAMBRIDGE, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE CITY'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 | | 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 |
|-------------------------------------|---------------------------------------------------------|-----------------------------------------------------------|----|---------------------------------------|------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| | | proportionate share of the net 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% |
| 2022/2021 | 0.0479390% | 7,191,966 | | 4,812,343 | 149% | 82% |
| 2023/2022 | 0.0390673% | 7,816,787 | | 4,527,875 | 173% | 76% |

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 CITY'S CONTRIBUTIONS

MARYLAND STATE RETIREMENT AND PENSION SYSTEM
(UNAUDITED)

| Fiscal Year | Contractually required contribution | Actual contribution | Contribution deficiency (excess) | Town's covered payroll | Actual contribution as a percentage of covered payroll |
|----------------|-------------------------------------------|------------------------|----------------------------------------|---------------------------|-----------------------------------------------------------------|
| 2015 | \$ 800,608 | \$ 800,608 | \$ | \$ 4,683,287 | 18% |
| 2016 | 828,640 | 828,640 | | 4,487,284 | 18% |
| 2017 | 904,924 | 904,924 | | 4,563,208 | 18% |
| 2018 | 870,293 | 870,293 | | 5,031,681 | 18% |
| 2019 | 916,319 | 916,319 | | 4,715,375 | 19% |
| 2020 | 911,570 | 911,570 | | 4,834,060 | 20% |
| 2021 | 1,056,350 | 1,056,350 | | 4,629,988 | 22% |
| 2022 | 891,634 | 891,634 | | 4,812,343 | 20% |
| 2023 | 959,438 | 959,438 | | 4,527,875 | 21% |

CITY OF CAMBRIDGE, MARYLAND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
(UNAUDITED)

JUNE 30, 2023

Changes in benefit terms:

There were no benefit changes during the year.

Changes in assumptions:

The range of salary increases changed in 2022.

Method and assumptions used in calculations of actuarially determined contributions for the plan years ended June 30, 2022 and 2021:

| | |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Actuarial | Entry age normal. |
| Amortization method | Level percentage of payroll. Closed. |
| Remaining amortization period | 25 year closed amortization period ending June 30, 2039; 16 years remaining. |
| Asset valuation model | Five year smoothed market (maximum 120% and minimum 80% of market value.) |
| Inflation | 2022 2.25% general; 2.75% wage 2021 2.25% general; 2.75% wage |
| Salary increases | 2022 2.75% to 11.25%, including wage inflation 2021 2.75% to 9.25%, including wage inflation |
| Investment rate of return | 2022 6.80% 2021 6.80% |
| 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 | 2023/2022 | 2022/2021 | 2021/2020 | 2020/2019 | 2019/2018 | 2018/2017 |
|-------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total OPEB liability | | | | | | |
| Service cost | \$ 271,472 | \$ 221,680 | \$ 177,736 | \$ 175,330 | \$ 171,033 | \$ 164,596 |
| Interest cost | 156,177 | 168,607 | 192,757 | 230,519 | 225,125 | 194,935 |
| Difference between expected and actual experience | 72,186 | 8,531 | 8,531 | (629,514) | (81) | (639,683) |
| Changes of assumptions | (1,790,051) | 668,497 | 640,363 | 301,456 | (31,147) | (271,269) |
| Benefit payments | (375,319) | (301,585) | (295,740) | (293,603) | (271,188) | (271,269) |
| Net change in total OPEB liability | (1,665,535) | 1,260,152 | 723,647 | (215,812) | 93,742 | (551,421) |
| Total OPEB liability, beginning of year | 8,285,768 | 7,025,616 | 6,301,969 | 6,517,781 | 6,424,039 | 6,975,460 |
| Total OPEB liability, end of year | <u>\$ 6,620,233</u> | <u>\$ 8,285,768</u> | <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 | \$ 375,319 | \$ 301,585 | \$ 295,740 | \$ 293,603 | \$ 271,188 | \$ 271,269 |
| Benefit payments | (375,319) | (301,585) | (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> | <u>\$</u> | <u>\$</u> |
| City's total OPEB liability, end of year | <u>\$ 6,620,233</u> | <u>\$ 8,285,768</u> | <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> | <u>0.0%</u> | <u>0.0%</u> |

Notes to schedule

No benefit changes.

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

| | |
|-----------|-------|
| 6/30/2021 | 2.45% |
| 6/30/2022 | 1.92% |
| 6/30/2023 | 3.69% |

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 | 2023/2022 | 2022/2021 | 2021/2020 | 2020/2019 | 2019/2018 | 2018/2017 |
|--------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|---------------------|
| Total LOSAP liability ("TLL") | | | | | | |
| Service cost | \$ 26,835 | \$ 53,026 | \$ 53,251 | \$ 46,515 | \$ 33,144 | \$ 40,272 |
| Interest cost | 69,707 | 31,021 | 29,093 | 23,780 | 37,453 | 37,496 |
| Difference between expected and actual experience | 667 | 18,902 | 41,940 | 52,180 | (62,758) | |
| Changes of assumptions | (573,586) | 68,614 | 94,463 | 232,067 | (62,511) | (87,408) |
| Benefit payments and administrative expenses | (5,950) | (1,670) | (9,468) | (14,112) | (102,887) | (63,564) |
| Net change in total OPEB liability | (482,327) | 169,893 | 209,279 | 340,430 | (157,559) | (73,204) |
| TLL, beginning of year | 1,586,355 | 1,416,462 | 1,207,183 | 866,753 | 1,024,312 | 1,097,515 |
| TLL, end of year | <u>\$ 1,104,028</u> | <u>\$ 1,586,355</u> | <u>\$ 1,416,462</u> | <u>\$ 1,207,183</u> | <u>\$ 866,753</u> | <u>\$ 1,024,311</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> | <u>\$</u> | <u>\$</u> |
| City's total LOSAP liability, end of year | <u>\$ 1,104,028</u> | <u>\$ 1,586,355</u> | <u>\$ 1,416,462</u> | <u>\$ 1,207,183</u> | <u>\$ 866,753</u> | <u>\$ 1,024,311</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> | <u>0.0%</u> | <u>0.0%</u> |

Notes to schedule

No benefit changes.

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

| | |
|-----------|-------|
| 6/30/2021 | 2.41% |
| 6/30/2022 | 2.19% |
| 6/30/2023 | 4.40% |

Because this LOSAP plan does not depend on salary, no salary information is presented. Information for fiscal year 2017 and earlier is not available.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

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

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, 2023, appears on pages one through three. 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 2022 and 2021 financial statements. In our reports dated January 5, 2023, and February 10, 2022, we expressed an unmodified opinions on the 2022 and 2021 respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 5, 2024

PKSca.com

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MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

CITY OF CAMBRIDGE, MARYLAND
SCHEDULES OF REVENUES AND EXPENDITURES
GENERAL FUND
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022 AND 2021)

| | 2023 | 2022 | 2021 |
|--------------------------------------|---------------|--------------|--------------|
| REVENUES | | | |
| Taxes and utility fees | \$ 10,243,349 | \$ 9,787,986 | \$ 9,774,910 |
| Licenses and permits | 1,175,164 | 1,308,065 | 872,960 |
| Intergovernmental | 1,652,144 | 4,778,751 | 825,391 |
| Charges for services | 1,154,310 | 955,774 | 899,947 |
| Fines and forfeitures | 10,282 | 41,118 | 22,831 |
| Miscellaneous | 313,893 | 184,633 | 227,295 |
| Total revenues | 14,549,142 | 17,056,327 | 12,623,334 |
| EXPENDITURES | | | |
| Current | | | |
| General government | 1,169,973 | 971,136 | 949,731 |
| Public safety | 6,396,146 | 5,599,409 | 5,219,020 |
| Public works | 3,627,978 | 3,430,388 | 2,950,175 |
| Economic development | 198,942 | 1,354,194 | 368,635 |
| Debt service | 1,312,843 | 1,023,881 | 921,823 |
| Capital outlay | 1,494,570 | 2,363,304 | 599,887 |
| Total expenditures | 14,200,452 | 14,742,312 | 11,009,271 |
| Revenues over expenditures | 348,690 | 2,314,015 | 1,614,063 |
| OTHER FINANCING | | | |
| SOURCES (USES) | | | |
| Proceeds from asset disposal | 3,535 | | |
| Transfers, net | 500,000 | (229,132) | (125,000) |
| Net other financing sources (uses) | 2,900,311 | 70,652 | 300,552 |
| Total other financing sources (uses) | 3,403,846 | (158,480) | 175,552 |
| Net change in fund balance | \$ 3,752,536 | \$ 2,155,535 | \$ 1,789,615 |

See independent auditors' report on supplementary information.

CITY OF CAMBRIDGE, MARYLAND
SCHEDULES OF REVENUES AND EXPENSES
MUNICIPAL UTILITIES COMMISSION
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022 AND 2021)

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|------------------------------------------|---------------------|---------------------|---------------------|
| OPERATING REVENUES | | | |
| Charges for services | <u>\$ 2,410,343</u> | <u>\$ 2,402,330</u> | <u>\$ 2,076,709</u> |
| OPERATING EXPENSES | | | |
| Salaries and related costs | 1,244,229 | 1,224,319 | 1,067,958 |
| Repairs and maintenance | 290,154 | 349,874 | 215,837 |
| Distribution and operating expenses | 255,110 | 255,783 | 229,326 |
| Depreciation | 156,008 | 139,074 | 121,007 |
| General and administrative | 158,279 | 177,908 | 163,443 |
| Total operating expenses | <u>2,103,780</u> | <u>2,146,958</u> | <u>1,797,571</u> |
| Operating income | <u>306,563</u> | <u>255,372</u> | <u>279,138</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Impact fees | | 1,850 | |
| Interest income | 27,452 | 18,267 | 22,567 |
| Interest expense | (6,050) | (6,883) | (7,123) |
| Loss on disposal of assets | | (133) | |
| Total non-operating revenues | <u>21,402</u> | <u>13,101</u> | <u>15,444</u> |
| Change in net position | <u>\$ 327,965</u> | <u>\$ 268,473</u> | <u>\$ 294,582</u> |

See independent auditors' report on supplementary information.

CITY OF CAMBRIDGE, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
SEWER FUND**

**YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022 AND 2021)**

| | 2023 | 2022 | 2021 |
|------------------------------------------|--------------|--------------|--------------|
| OPERATING REVENUES | | | |
| Charges for services | \$ 5,022,093 | \$ 4,898,758 | \$ 4,507,246 |
| Operating grants | 294,839 | 290,676 | 243,000 |
| Total operating income | 5,316,932 | 5,189,434 | 4,750,246 |
| OPERATING EXPENSES | | | |
| Salaries and related costs | 1,418,707 | 1,512,490 | 1,312,065 |
| Repairs and maintenance | 37,237 | 192,655 | 45,653 |
| Distribution and operating expenses | 2,334,234 | 2,031,312 | 1,957,443 |
| Depreciation | 1,178,149 | 1,176,672 | 1,181,920 |
| Other general and administrative | 76,156 | 98,066 | 60,284 |
| Total operating expenses | 5,044,483 | 5,011,195 | 4,557,365 |
| Operating income | 272,449 | 178,239 | 192,881 |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Impact fees | | 5,739 | 10,350 |
| Interest income | 13,296 | 533 | 740 |
| Interest expense | (16,947) | (14,282) | (53,607) |
| Total non-operating expenses | (3,651) | (8,010) | (42,517) |
| Income before contributions | 268,798 | 170,229 | 150,364 |
| CONTRIBUTED CAPITAL | 175,000 | | |
| Change in net position | \$ 443,798 | \$ 170,229 | \$ 150,364 |

See independent auditors' report on supplementary information.

CITY OF CAMBRIDGE, MARYLAND

**SCHEDULES OF REVENUES AND EXPENSES
MARINA FUND**

**YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022 AND 2021)**

| | 2023 | 2022 | 2021 |
|------------------------------------------|------------|------------|------------|
| OPERATING REVENUES | | | |
| Charges for services | \$ 612,638 | \$ 560,453 | \$ 548,634 |
| OPERATING EXPENSES | | | |
| Repairs and maintenance | 14,041 | 50,145 | 164,441 |
| Operating expenses | 176,030 | 156,258 | 145,613 |
| Professional services | 270,480 | 270,480 | 256,146 |
| Depreciation | 161,441 | 158,963 | 155,550 |
| General and administrative | 24,815 | 19,543 | 33,250 |
| Total operating expenses | 646,807 | 655,389 | 755,000 |
| Operating loss | (34,169) | (94,936) | (206,366) |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest income | | 10,229 | 87 |
| Capital grants | 121,925 | 63,314 | 220,445 |
| Total non-operating revenues | 121,925 | 73,543 | 220,532 |
| Income (loss) before transfers | 87,756 | (21,393) | 14,166 |
| TRANSFERS IN | | 254,834 | |
| Change in net position | \$ 87,756 | \$ 233,441 | \$ 14,166 |

See independent auditors' report on supplementary information.

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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 SUSAN P. KEEN, CPA
 MICHAEL C. KLEGER, CPA
 JAMES D. MAYBURY, CPA
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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, and each major fund, of the City of Cambridge, Maryland, as of and for the year ended June 30, 2023, 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 January 5, 2024.

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) as a basis for designing 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.

As part of obtaining reasonable assurance about whether the City’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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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*.

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
January 5, 2024

UNIFORM GUIDANCE REPORTS

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**INDEPENDENT AUDITORS' REPORT
ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To the Mayor and Commissioners
City of Cambridge, Maryland

**Report on Schedule of Expenditures of Federal Awards Required by the
Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Cambridge, Maryland as of and for the year ended June 30, 2023, and the related notes to the financial statements that collectively comprise the City of Cambridge, Maryland's basic financial statements. We have issued our report thereon dated January 5, 2024 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 5, 2024

CITY OF CAMBRIDGE, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2023

| Federal Grantor/Pass-through Grantor/ Program Title | Federal Assistance Listing Number | Pass-through Entity Identifying Number | Total Award | Federal Expenditures |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------|
| <u>U.S. Department of the Treasury</u> Coronavirus State and Local Fiscal Recovery Funds | COVID-19 21.027 | | \$ 12,079,281 | \$ 3,021,568 |
| <u>U.S. Department of Justice</u> Pass through Governor's Office of Crime Control and Prevention Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | 16.738 | BJAG 2020-0021 | 12,103 | 10,936 |
| <u>U.S. Department of Housing and Urban Development</u> Pass through Maryland Department of Housing and Community Development <i>Entitlement Grants Cluster</i> Community Development Block Grants/Entitlement Grants Community Development Block Grants/Entitlement Grants Community Development Block Grants/Entitlement Grants Community Development Block Grants/Entitlement Grants Total U.S. Department of Housing and Urban Development | 14.218 14.218 14.218 14.218 | MD-20-CD-2 MD-18-CD-31 MD-22-CD-3 MD-22-CD-9 | 885,000 1,187,953 1,600,000 3,000,000 6,672,953 | 125,999 72,682 323,878 12,723 535,282 |
| <u>U.S. Department of the Interior</u> Chesapeake Bay Gateways Network | 15.930 | | 494,000 | 113,111 |
| <u>U.S. Department of Homeland Security</u> Pass through Maryland Emergency Management Agency Flood Mitigation Project | 97.029 | FMA-FL-03 MD 2019 3 | 187,000 | 6,533 |
| Total expenditures of federal awards | | | \$ 18,951,337 | \$ 3,687,430 |

See accompanying notes to schedule of expenditures of federal awards.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2023

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the City of Cambridge, Maryland under programs of the federal government for the year ended June 30, 2023. The information presented in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in assets, or cash flows of the City.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

The City provided no federal funds to subrecipients during the year.

The City has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

LOANS

For purposes of the schedule of expenditures of Federal awards, the value of Federal expenditures in the form of loans is calculated as the sum of the balance of loans from previous years for which the Federal Government imposes continuing compliance requirements plus the value of new loans received during the fiscal year. There were no Federal expenditures in the form of loans during the fiscal year ended June 30, 2023.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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To the Mayor and Commissioners
City of Cambridge, Maryland

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Cambridge, Maryland's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Cambridge, Maryland's major federal programs for the year ended June 30, 2023. City of Cambridge, Maryland's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Cambridge, Maryland complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Cambridge, Maryland and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Cambridge, Maryland's compliance with the compliance requirements referred to above.

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City of Cambridge, Maryland's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Cambridge, Maryland's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Cambridge, Maryland's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Cambridge, Maryland's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Cambridge, Maryland's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Cambridge, Maryland's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 5, 2024

CITY OF CAMBRIDGE, MARYLAND
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2023

SECTION B. FINDINGS – FINANCIAL STATEMENTS AUDIT

Audit finding reference - 2022-001: Accounts receivable balances did not reconcile with the subsidiary ledgers.

Status of prior finding: Resolved. The City implemented a process for monthly reconciliation for all balance sheet accounts.

Audit finding reference - 2022-002: Interfund receivables and payables did not reconcile.

Status of prior finding: Resolved. The City implemented a process for monthly reconciliation for all balance sheet accounts.

SECTION C. FINDINGS AND QUESTIONED COSTS – MAJOR AWARDS PROGRAMS AUDIT

There were no findings or questioned costs reported for the year ended June 30, 2022.

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes x No
- Significant deficiency(ies) identified? Yes x None reported

Noncompliance material to the financial statements noted? Yes x No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes x No
- Significant deficiency(ies) identified? Yes x None reported

Type of auditors' reported issued on compliance for major federal programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes x No

Identification of major federal programs:

| <u>Assistance Listing No.</u> | <u>Name of Federal Program or Cluster</u> |
|-------------------------------|---------------------------------------------------|
| 21.027 | Coronavirus State and Local Fiscal Recovery Funds |

Dollar threshold used to distinguish between type A and type B Programs \$750,000

Auditee qualified as a low-risk auditee? Yes x No

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR AWARD PROGRAMS AUDIT

None