

POCOMOKE CITY, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

POCOMOKE CITY, MARYLAND

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 13
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements	
Statement of net position	14
Statement of activities	15
Fund financial statements	
Governmental funds	
Balance sheet	16
Reconciliation of the governmental funds balance sheet to the statement of net position	17
Statement of revenues, expenditures and changes in fund balances	18
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	19
Proprietary funds	
Statement of net position	20
Statement of revenues, expenses and changes in net position	21
Statement of cash flows	22
Notes to the basic financial statements	23 - 43
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule—general fund	44

POCOMOKE CITY, MARYLAND

**TABLE OF CONTENTS
(Continued)**

	<u>Page(s)</u>
REQUIRED SUPPLEMENTARY INFORMATION (Continued)	
Maryland State Retirement and Pension System	
Schedule of the City's proportionate share of the net pension liability	45
Schedule of the City's contributions	46
Schedule of changes in the City's total OPEB liability and related ratios	47
SUPPLEMENTARY INFORMATION	
Independent auditors' report on supplementary information	48
Schedules of revenues and expenditures—general fund	49
Schedules of revenues—general fund	50
Schedules of expenditures—general fund	51
Schedules of revenues, expenses, and changes in net position—water and sewer fund	52
Schedules of revenues, expenses, and changes in net position—ambulance fund	53
GOVERNMENT AUDITING STANDARDS REPORT	
Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	54 - 55

INDEPENDENT AUDITORS' REPORT

ANDREW M. HAYNIE, CPA

SUSAN P. KEEN, CPA

MICHAEL C. KLEGER, CPA

JAMES D. MAYBURY, CPA

E. LEE McCABE, CPA

JEFFREY A. MICHALIK, CPA

ROBERT L. MOORE, CPA

DANIEL M. O'CONNELL II, CPA

ASHLEY M. STERN, CPA

JOHN M. STERN, JR., CPA

PKScpa.com

Salisbury

1801 SWEETBAY DRIVE

P.O. Box 72

SALISBURY, MD 21803

TEL: 410.546.5600

FAX: 410.548.9576

Ocean City

12216 OCEAN GATEWAY

SUITE 800

OCEAN CITY, MD 21842

TEL: 410.213.7185

FAX: 410.213.7638

Lewes

1143 SAVANNAH ROAD

SUITE 1

P.O. Box 192

LEWES, DE 19958

TEL: 302.645.5757

FAX: 302.645.1757

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

To the Mayor and Council and City Manager
Pocomoke City, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pocomoke City, Maryland, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pocomoke City, Maryland, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 3 through 13 and pages 44 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2020, on our consideration of Pocomoke City, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pocomoke City, Maryland's internal control over financial reporting and compliance.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 22, 2020

POCOMOKE CITY, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

This section of Pocomoke City, Maryland’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, 2020. Please read it in conjunction with the City’s financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four financial parts – *management’s discussion and analysis* (this section), the *basic financial statements, required supplementary information*, and an optional section that presents schedules of revenues and expenses. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the City, reporting the City’s operations in more detail than the Government-wide financial statements.
 - The *governmental funds* statements tell how general government services like general government, public safety, public works, parks, recreation and culture, and urban development and housing were financed in the *short-term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer system and the ambulance service.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. In addition to these required elements, we have included schedules of general fund revenues and expenditures.

Government-wide financial statements

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

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

Government-wide financial statements (continued)

The two government-wide statements report the City's *net position* and how it has changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or position. Also, to assess the overall health of the City you need to consider additional non-financial factors such as changes in the property tax base and the condition of the City's roads and water and sewer systems.

The government-wide financial statements are divided into two categories:

- *Governmental activities* – Most of the City's basic services are included here, such as the legislative and executive government, finance administration, police, fire, public works, parks, golf course and urban development and housing. Property taxes, user fees, income taxes, and intergovernmental transfers finance most of these activities.
- *Business-type activities* – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer departments and ambulance department are included here.

Fund financial statements

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

The City has two kinds of funds:

- *Governmental funds* – Most of the City's basic services are included in governmental funds which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide financial statements, provide both long- and short-term financial information. In fact, the City's *proprietary funds* are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net position at June 30, 2020 was \$11,594,755. Of this total, \$13,120,595 is invested in capital assets leaving an unrestricted deficit in net position of \$1,525,840.

The City's net position decreased \$40,636 from June 30, 2019 to June 30, 2020.

Of the total revenues of \$9,227,918, property taxes made up 38%, charges for services were 36%, and grants and contributions were 21%.

Total expenses were \$9,268,554, made up of 27% for general government, 25% for the water/sewer fund, 16% for public safety, 12% for public works, and 20% for other departments.

The tables below compare key financial information in a condensed format for the current year and the prior year.

Table 1
Pocomoke City, Maryland's Net Position
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 833	\$ 585	\$ 971	\$ 892	\$ 1,804	\$ 1,477
Capital assets	5,482	5,728	13,715	13,389	19,197	19,117
Total assets	<u>6,315</u>	<u>6,313</u>	<u>14,686</u>	<u>14,281</u>	<u>21,001</u>	<u>20,594</u>
Deferred outflows of resources	422	338	50	150	472	488
Long-term liabilities	3,604	3,344	4,481	4,960	8,085	8,304
Other liabilities	294	319	1,041	545	1,335	864
Total liabilities	<u>3,898</u>	<u>3,663</u>	<u>5,522</u>	<u>5,505</u>	<u>9,420</u>	<u>9,168</u>
Deferred inflows of resources	381	215	78	64	459	279
Net position						
Net investment in capital assets	4,331	4,546	8,789	8,555	13,120	13,101
Unrestricted (deficit)	<u>(1,873)</u>	<u>(1,773)</u>	<u>347</u>	<u>307</u>	<u>(1,526)</u>	<u>(1,466)</u>
Total net position	<u>\$ 2,458</u>	<u>\$ 2,773</u>	<u>\$ 9,136</u>	<u>\$ 8,862</u>	<u>\$ 11,594</u>	<u>\$ 11,635</u>

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

Table 2 and the narrative that follows consider the operations of governmental and business-type activities separately.

Table 2
Change in Pocomoke City, Maryland's Net Position
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues						
Program services						
Charges for services	\$ 530	\$ 549	\$ 2,820	\$ 2,864	\$ 3,350	\$ 3,413
Operating grants and contributions	461	454	568	528	1,029	982
Capital grants and contributions	30	120	395	1,070	425	1,190
General revenues						
Property taxes	3,531	3,414			3,531	3,414
Other taxes and fees	426	431			426	431
Grants	465	465			465	465
Other	2	(6)			2	(6)
Total revenues	<u>5,445</u>	<u>5,427</u>	<u>3,783</u>	<u>4,462</u>	<u>9,228</u>	<u>9,889</u>
Expenses						
General government	2,485	1,003			2,485	1,003
Public safety	1,483	3,061			1,483	3,061
Public works	1,056	1,423			1,056	1,423
Parks, recreation and culture	254	434			254	434
Urban development & housing	271	372			271	372
Economic development	137	189			137	189
Interest on long-term debt	74	70			74	70
Water and sewer			2,301	2,210	2,301	2,210
Ambulance			1,208	897	1,208	897
Total expenses	<u>5,760</u>	<u>6,552</u>	<u>3,509</u>	<u>3,107</u>	<u>9,269</u>	<u>9,659</u>
Excess (deficiency) before transfers	(315)	(1,125)	274	1,355	(41)	230
Transfers		388		(388)		
Change in net position	<u>\$ (315)</u>	<u>\$ (737)</u>	<u>\$ 274</u>	<u>\$ 967</u>	<u>\$ (41)</u>	<u>\$ 230</u>

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

Governmental activities

Net position for the City's governmental activities decreased \$315,177 during the fiscal year. See the detailed discussion below regarding the general fund.

Business-type activities

During the fiscal year, the City's net position for business-type activities increased \$274,541. This increase was due in part to increases in water rates, water and sewer consumption, and sewer hauler fees. In addition, the City received the final MDE and USDA grants for the Clarke Avenue pumping station. See the detailed discussion below regarding the water and sewer and ambulance funds.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund

For the year ended June 30, 2020, the City's general fund reported an increase of \$255,014 resulting in a fund balance at year-end of \$533,495. This represents approximately 38 days of operating expenditures. This is an improvement over the prior year's fund balance of 18 days.

Total revenues for the year were \$5,416,640 which is an increase of \$49,624 or 1% over the prior year. Significant changes from the prior year include the following:

- Taxes increased \$93,772 due to increases in real estate, personal property, and state income taxes.
- Restaurant lease income increased \$23,327 due to new tenants being in the property for the entire year, compared to only part of the year in the previous year.
- The City received \$41,338 of insurance refunds for workers compensation dividends and experience refunds.
- Licenses and permits and other service charge revenue decreased during the year.

Total expenditures were \$5,161,626, a decrease of \$539,421 or 9.5% over the prior year.

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

General fund (continued)

Total general fund salaries expense for 2020 was \$2,256,884 compared to \$2,050,005 in 2019, an increase of \$206,879. Notable changes from the prior year are as follows:

- There were three new officers hired out of the police academy in the current year after being short staffed in the prior year.
- The human resources director and police chief had a full year of expenses after being hired near the end of the prior fiscal year, which led to an increase in salaries expense.
- Several other employees were hired in place of temporary workers that were used in the prior year, leading to an increase in salaries expense.
- Public works expenses decreased due to a reduction in paving expense from the prior year.
- Parks and recreation expenses decreased due to elimination of the recreation department head salary and reduced costs for marina fuel.

In 2019, a transfer of \$387,760 was made from the water and sewer fund to the general fund to reimburse the general fund for expenses for well repairs paid in prior years that were reimbursed by grant revenues and loan draws in 2019. No transfers were required in 2020.

Refer to pages 49 through 51 of the financial statements for a schedule of revenues and expenditures – general fund with comparable totals for the prior two fiscal years.

Special Revenue Fund

The City accounts for certain federal and state grants in a special revenue fund. In the year ended June 30, 2019, the Maryland Department of Housing and Community Development (MDHCD) examined several open grants from 2008 through 2012. The City was requested to repay \$26,734 of prior year grant funds.

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

Water and Sewer Fund

For the year ended June 30, 2020, the water and sewer fund had operating income of \$210,192. This is a slight decrease from the operating income of \$271,616 in 2019.

Operating revenues for the year ended June 30, 2020 were \$2,357,624, a decrease of \$15,318 from the prior year. Significant changes from the prior year were as follows:

- Water and sewer charges decreased \$39,848 or 3% from the prior year due to businesses being closed for several months due to the COVID-19 pandemic.
- Sewage hauler revenue increased \$37,422 or 5% over the prior year.

Operating expenses for the year ended June 30, 2020 were \$2,147,432, an increase of \$46,106 from the prior year. Actual expenses exceeded budgeted operating expenses of \$1,600,327.

Notable changes from the prior year were as follows:

- Salaries, wages, and employee benefit expenses were \$411,491. This is a \$66,546 decrease from the prior year. The decrease was due to a decrease in the benefit expenses mainly due to an adjustment to the net pension obligation.
- Contract labor costs were \$262,408 which is an increase of \$123,803 over prior year. This increase was due to several street repair projects that took place in 2020.
- Materials and supplies expense decreased \$33,053 from the prior year. Included in the prior year was a \$30,000 penalty assessed by the Maryland Department of the Environment in the prior year.

The Clark Avenue pumping station project was completed and placed in service in fiscal year 2020. The final grant funds of \$395,378 were received from the U.S. Department of Agriculture (USDA) and the Maryland Department of the Environment (MDE). The City received approval to use \$86,262 of the USDA funds to purchase a vacuum truck.

The City borrowed an additional \$177,167 on a line of credit for the water line upgrades in Pocomoke Heights. This project is being financed through a line of credit up to \$1,123,585. Water rates have been increased by \$1 per 1,000 gallons for ten years to pay the debt costs. During 2020, the City paid \$100,000 against the outstanding principal on the line. As of June 30, 2020, the balance outstanding was \$569,902. Work on the project was delayed due to COVID-19 and the bank approved an extension on the line of credit until February 2021.

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

Water and sewer fund (continued)

Net position for the water and sewer fund increased \$451,699. Net position at June 30, 2020 was \$8,987,020. Of this amount, \$8,582,946 is invested in capital assets, net of related debt, and \$404,074 is unrestricted.

Refer to page 52 of the financial statements for a three-year comparison of revenues, expenses, and changes in net position.

Ambulance Fund

For the year ended June 30, 2020, the Ambulance Fund net position decreased \$177,158.

Operating revenues were \$1,030,529 which is an increase from the prior year of \$11,328 or 1%. Charges for services decreased however, operating grants and donations increased. Federal stimulus funds of \$21,434 were received under the Provider Relief Fund. These funds are available to providers who receive Medicare fee-for-services reimbursements.

Operating expenses were \$1,199,533 which is an increase of \$310,050 or 35% from the prior year due to increases in salaries and wages and employee benefits. An additional shift was added during the year.

Net position at June 30, 2020 was \$149,568. Of this amount, \$206,575 is invested in capital assets net of related debt which leaves an unrestricted deficit of \$57,007.

Refer to page 53 of the financial statements for a three year comparison of revenues, expenses, and changes in net position.

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

BUDGETARY HIGHLIGHTS – GENERAL FUND

General fund revenues of \$5,416,640 which exceeded the budgeted revenue by \$365,112.

General fund expenditures of \$5,161,626 which exceeded the budgeted expenditures by \$110,098. Significant variance were as follows:

- Housing and urban development costs were over budget due primarily to unbudgeted demolition costs of \$104,045 and costs for Community Legacy grant expenses of \$85,239. The Community Legacy expenses were reimbursed by grant proceeds.
- Public safety costs were over budget due to an increase in pass through funds paid out to the fire department of \$28,000, and an increase in salaries expense in the police department.
- Employee benefit costs were less than the amount budgeted by \$131,177 due to a reduction in health insurance costs.
- Public works costs were over budget due primarily to a small increase in salaries from hiring several new employees in 2020.

See the Budgetary Comparison Schedule – General Fund on page 44 for more detailed information.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets

At the end of the fiscal year, the City had \$19,196,982 (net of depreciation) invested in a broad range of capital assets. This represents a less than 1% increase from the prior year.

Construction in progress includes cost incurred to date for the Pocomoke Heights project.

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY (Continued)

Table 3
Pocomoke City, Maryland's Capital Assets
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2020	2019	2020	2019	2020	2019	
Land	\$ 1,498	\$ 1,498	\$ 56	\$ 56	\$ 1,554	\$ 1,554	0%
Buildings and improvements	4,664	4,650	206	195	4,870	4,845	1%
Furniture and equipment	2,053	2,006	1,457	1,216	3,510	3,222	9%
Automobiles and vehicles	1,203	1,182	691	448	1,894	1,630	16%
Infrastructure	982	982	19,389	16,705	20,371	17,687	15%
Construction in progress			616	2,831	616	2,831	-78%
Accumulated depreciation	(4,918)	(4,590)	(8,700)	(8,063)	(13,618)	(12,653)	8%
Total	<u>\$ 5,482</u>	<u>\$ 5,728</u>	<u>\$ 13,715</u>	<u>\$ 13,388</u>	<u>\$ 19,197</u>	<u>\$ 19,116</u>	0%

Major capital additions included:

Governmental activities

1. Conveyor for the street sweeper
2. Two lawn mowers
3. Two used trailers
4. Office furniture for the police department

Business-type activities

1. Ambulance
2. Stretchers
3. Two trucks for the water and sewer department

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY (Continued)

Long-term debt

At the end of the fiscal year, the City had \$6,076,000 in long-term loans and capital leases payable. This represents a 1% increase over last year.

There was no new debt in 2020 in the governmental activities.

New debt in 2020 in the business-type activities included draws on the line of credit of \$177,167 to finance the replacement of water lines at Pocomoke Heights, and a bank loan of \$243,561 for the purchase of the new ambulance.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The City has been awarded a grant from the Maryland Department of Natural Resources of \$73,472 to convert the tennis courts to pickleball courts.

In March 2020, a federal emergency was declared due to the novel coronavirus outbreak (COVID-19). Federal, state, and local authorities mandated closings for schools, businesses, and other facilities. As a result of those mandates, the City closed City Hall to the general public and staggered work schedules for social distancing. The public health emergency is still ongoing and the financial effect cannot be estimated.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, Pocomoke City, Maryland, PO Box 29, Pocomoke City, Maryland 21851.

POCOMOKE CITY, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2020

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and equivalents	\$ 172,728	\$ 566,044	\$ 738,772
Accounts receivable, net	518,307	325,284	843,591
Due from other governments	122,615	80,262	202,877
Notes receivable	19,345		19,345
Net capital assets	<u>5,482,345</u>	<u>13,714,637</u>	<u>19,196,982</u>
Total assets	<u>6,315,340</u>	<u>14,686,227</u>	<u>21,001,567</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred financing outflows - retirement & OPEB	<u>421,721</u>	<u>49,848</u>	<u>471,569</u>
LIABILITIES			
Accounts payable and accrued expenses	142,286	175,186	317,472
Long-term liabilities			
Due within one year			
Notes and capital leases payable	32,461	826,307	858,768
Compensated absences	119,915	38,542	158,457
Due in more than one year			
Notes and capital leases payable	1,118,810	4,098,809	5,217,619
Compensated absences	53,561	16,135	69,696
Net pension liability	2,210,282	326,052	2,536,334
Net other post-employment benefit liability	<u>220,335</u>	<u>40,416</u>	<u>260,751</u>
Total liabilities	<u>3,897,650</u>	<u>5,521,447</u>	<u>9,419,097</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred financing inflows - retirement & OPEB	<u>381,244</u>	<u>78,040</u>	<u>459,284</u>
NET POSITION			
Net investment in capital assets	4,331,074	8,789,521	13,120,595
Unrestricted (deficit)	<u>(1,872,907)</u>	<u>347,067</u>	<u>(1,525,840)</u>
Total net position	<u>\$ 2,458,167</u>	<u>\$ 9,136,588</u>	<u>\$ 11,594,755</u>

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

POCOMOKE CITY, MARYLAND

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

FUNCTION/PROGRAMS	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
GOVERNMENTAL ACTIVITIES							
General government	\$ 2,485,141	\$ 114,477	\$ 26	\$	\$ (2,370,638)	\$	\$ (2,370,638)
Public safety	1,483,414	1,823	128,607	28,234	(1,324,750)		(1,324,750)
Public works	1,055,257	328,374	163,467		(563,416)		(563,416)
Parks, recreation and culture	254,099	7,034	68,758	1,350	(176,957)		(176,957)
Housing and urban development	271,225	28,841	86,940		(155,444)		(155,444)
Economic development	136,937	49,535	13,220		(74,182)		(74,182)
Interest on long-term debt	73,491				(73,491)		(73,491)
Total governmental activities	<u>5,759,564</u>	<u>530,084</u>	<u>461,018</u>	<u>29,584</u>	<u>(4,738,878)</u>		<u>(4,738,878)</u>
BUSINESS-TYPE ACTIVITIES							
Water and sewer	2,301,303	2,313,524	44,100	395,378		451,699	451,699
Ambulance	1,207,687	506,438	524,091			(177,158)	(177,158)
Total business-type activities	<u>3,508,990</u>	<u>2,819,962</u>	<u>568,191</u>	<u>395,378</u>		<u>274,541</u>	<u>274,541</u>
Total	<u>\$ 9,268,554</u>	<u>\$ 3,350,046</u>	<u>\$ 1,029,209</u>	<u>\$ 424,962</u>	<u>(4,738,878)</u>	<u>274,541</u>	<u>(4,464,337)</u>
GENERAL REVENUES							
Taxes							
Property taxes, levied for general purposes					3,530,538		3,530,538
State income taxes					249,329		249,329
Public service taxes					126,331		126,331
Franchise fees					50,715		50,715
Grants and contributions not restricted to specific programs					465,000		465,000
Unrestricted investment earnings					1,788		1,788
Total general revenues					<u>4,423,701</u>		<u>4,423,701</u>
Change in net position					(315,177)	274,541	(40,636)
NET POSITION, BEGINNING OF YEAR					<u>2,773,344</u>	<u>8,862,047</u>	<u>11,635,391</u>
NET POSITION, END OF YEAR					<u>\$ 2,458,167</u>	<u>\$ 9,136,588</u>	<u>\$ 11,594,755</u>

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

POCOMOKE CITY, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2020

ASSETS

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Cash and equivalents	\$ 151,689	\$ 21,038	\$ 172,727
Taxes receivable, net	341,458		341,458
Accounts and notes receivable, other, net	196,193		196,193
Due from other funds	42,199		42,199
Due from other governments	122,615		122,615
Total assets	<u>\$ 854,154</u>	<u>\$ 21,038</u>	<u>\$ 875,192</u>

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

LIABILITIES

Accounts payable	\$ 57,008	\$	\$ 57,008
Accrued expenses	204,853		204,853
Due to other funds		42,199	42,199
Total liabilities	<u>261,861</u>	<u>42,199</u>	<u>304,060</u>

DEFERRED INFLOWS OF RESOURCES

Deferred taxes	<u>58,798</u>		<u>58,798</u>
----------------	---------------	--	---------------

FUND BALANCES

Unassigned (deficit)	<u>533,495</u>	<u>(21,161)</u>	<u>512,334</u>
Total fund balances (deficit)	<u>533,495</u>	<u>(21,161)</u>	<u>512,334</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 854,154</u>	<u>\$ 21,038</u>	<u>\$ 875,192</u>

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

POCOMOKE CITY, MARYLAND

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

JUNE 30, 2020

Total fund balance, governmental funds	\$	512,334
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		5,482,345
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.		421,721
Certain revenues that do not provide current financial resources are reported as deferred inflows of resources in the fund financial statements, but are reported as revenue in the governmental activities of the Statement of Net Position:		
Deferred taxes		58,798
Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position:		
Notes and capital leases payable	(1,151,271)	
Accrued interest payable	(338)	
Compensated absences	(53,561)	
Deferred financing inflows - retirement	(381,244)	
Net pension liability	(2,210,282)	
Net other post-employment benefit liability	(220,335)	
Net position, governmental activities	\$	<u>2,458,167</u>

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

POCOMOKE CITY, MARYLAND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2020

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 3,754,736	\$	\$ 3,754,736
Licenses and permits	109,551		109,551
Intergovernmental	1,105,777		1,105,777
Charges for services	345,015		345,015
Investment earnings	1,788		1,788
Miscellaneous	99,773	955	100,728
Total revenues	<u>5,416,640</u>	<u>955</u>	<u>5,417,595</u>
EXPENDITURES			
Current			
General government	668,655		668,655
Public safety	1,575,639		1,575,639
Public works	1,083,915		1,083,915
Parks, recreation and culture	78,901		78,901
Housing and urban development	374,655	5,325	379,980
Economic development	118,464		118,464
Employee benefits	979,129		979,129
Miscellaneous	95,304		95,304
Debt service	104,056		104,056
Capital outlay	82,908		82,908
Total expenditures	<u>5,161,626</u>	<u>5,325</u>	<u>5,166,951</u>
Net change in fund balances	255,014	(4,370)	250,644
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>278,481</u>	<u>(16,791)</u>	<u>261,690</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 533,495</u>	<u>\$ (21,161)</u>	<u>\$ 512,334</u>

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

POCOMOKE CITY, MARYLAND

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

FOR THE YEAR ENDED JUNE 30, 2020

Net change in fund balances, total governmental funds:	\$ 250,644
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. However, in the statement of activities, the cost of these assets is allocated over their estimated lives and reported as depreciation expense: This is the amount by which capital outlay (\$82,908) was less than depreciation expense (\$328,389) in the current period.	(245,481)
Some expenditures reported in the governmental funds require the use of current financial resources and these are not reported as expenses in the Statement of Activities: Change in deferred financing outflows - retirement	83,301
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned: Change in deferred taxes and grants	26,792
Governmental funds report repayment of bond, debt and capital lease principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.	30,713
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds: Change in accrued interest payable	3
Change in long-term compensated absences	(6,617)
Change in deferred financing inflows - retirement	(159,539)
Change in net pension liability	(317,697)
Change in net other post-employment benefit liability	108,738
Change in net position, governmental activities	<u>\$ (229,143)</u>

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

POCOMOKE CITY, MARYLAND

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2020

	Enterprise Funds		
	Water and Sewer Fund	Ambulance Fund	Total
ASSETS			
Current assets			
Cash and equivalents	\$ 371,798	\$ 194,246	\$ 566,044
Accounts receivable, net	263,295	61,989	325,284
Due from other governments	80,262		80,262
Total current assets	<u>715,355</u>	<u>256,235</u>	<u>971,590</u>
Non-current assets			
Capital assets, at cost	21,385,096	1,029,363	22,414,459
Less accumulated depreciation	<u>(8,205,027)</u>	<u>(494,795)</u>	<u>(8,699,822)</u>
Total non-current assets	<u>13,180,069</u>	<u>534,568</u>	<u>13,714,637</u>
Total assets	<u>13,895,424</u>	<u>790,803</u>	<u>14,686,227</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred financing outflows - retirement & OPEB	<u>18,265</u>	<u>31,583</u>	<u>49,848</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	123,128	36,935	160,063
Compensated absences	20,582	17,960	38,542
Accrued interest payable	15,123		15,123
Current portion of non-current liabilities	746,523	79,784	826,307
Total current liabilities	<u>905,356</u>	<u>134,679</u>	<u>1,040,035</u>
Non-current liabilities			
Compensated absences	6,823	9,312	16,135
Notes and bonds payable	3,850,600	200,117	4,050,717
Capital lease payable		48,092	48,092
Net pension liability	119,058	206,994	326,052
Net other post-employment benefit liability	15,645	24,771	40,416
Total non-current liabilities	<u>3,992,126</u>	<u>489,286</u>	<u>4,481,412</u>
Total liabilities	<u>4,897,482</u>	<u>623,965</u>	<u>5,521,447</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred financing inflows - retirement & OPEB	<u>29,187</u>	<u>48,853</u>	<u>78,040</u>
NET POSITION			
Net investment in capital assets	8,582,946	206,575	8,789,521
Unrestricted	<u>404,074</u>	<u>(57,007)</u>	<u>347,067</u>
Total net position	<u>\$ 8,987,020</u>	<u>\$ 149,568</u>	<u>\$ 9,136,588</u>

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

POCOMOKE CITY, MARYLAND

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

FOR THE YEAR ENDED JUNE 30, 2020

	Enterprise Funds		Total
	Water and Sewer Fund	Ambulance Fund	
OPERATING REVENUES			
Charges for services	\$ 1,500,988	\$ 506,438	\$ 2,007,426
Sewage haulers	758,356		758,356
Operating grants and donations	44,100	524,091	568,191
Miscellaneous and late charges	54,180		54,180
Total operating revenues	<u>2,357,624</u>	<u>1,030,529</u>	<u>3,388,153</u>
OPERATING EXPENSES			
Salaries and wages	294,289	701,137	995,426
Employee benefits	117,202	270,550	387,752
Contract labor	262,408	2,835	265,243
Insurance	21,194	13,776	34,970
Materials and supplies	220,423	87,716	308,139
Heat, light and power	232,806	7,460	240,266
Facility maintenance	407,047	5,897	412,944
Vehicle operating expenses	18,382	38,881	57,263
Telephone	6,583	3,545	10,128
Bad debt expense (recovery)	1,857	(4,322)	(2,465)
Depreciation	565,241	72,058	637,299
Total operating expenses	<u>2,147,432</u>	<u>1,199,533</u>	<u>3,346,965</u>
Operating income (loss)	<u>210,192</u>	<u>(169,004)</u>	<u>41,188</u>
NON-OPERATING REVENUES (EXPENSES)			
Capital grants	395,378		395,378
Interest expense	(153,871)	(8,154)	(162,025)
Net non-operating revenues (expenses)	<u>241,507</u>	<u>(8,154)</u>	<u>233,353</u>
Change in net position	451,699	(177,158)	274,541
NET POSITION, BEGINNING OF YEAR	<u>8,535,321</u>	<u>326,726</u>	<u>8,862,047</u>
NET POSITION, END OF YEAR	<u>\$ 8,987,020</u>	<u>\$ 149,568</u>	<u>\$ 9,136,588</u>

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

POCOMOKE CITY, MARYLAND

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2020

	Enterprise Funds		
	Water and Sewer Fund	Ambulance Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,282,290	\$ 490,235	\$ 2,772,525
Other operating receipts	98,280	524,091	622,371
Payments to suppliers	(1,208,138)	(374,096)	(1,582,234)
Payments to employees	(469,461)	(622,752)	(1,092,213)
Net cash provided by operating activities	<u>702,971</u>	<u>17,478</u>	<u>720,449</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments for acquisition of capital assets	(674,848)	(44,921)	(719,769)
Proceeds from capital grants	315,116		315,116
Principal paid on long-term debt	(104,494)	(47,830)	(152,324)
Interest paid on long-term debt	(153,871)	(8,154)	(162,025)
Net cash used by capital and related financing activities	<u>(618,097)</u>	<u>(100,905)</u>	<u>(719,002)</u>
Net increase (decrease) in cash	84,874	(83,427)	1,447
CASH, BEGINNING OF YEAR	<u>286,924</u>	<u>277,673</u>	<u>564,597</u>
CASH, END OF YEAR	<u>\$ 371,798</u>	<u>\$ 194,246</u>	<u>\$ 566,044</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 210,192	\$ (169,004)	\$ 41,188
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	565,241	72,058	637,299
Change in allowance for bad debts	1,857	(4,321)	(2,464)
Deferred financing outflows - retirement	80,935	18,859	99,794
Deferred financing inflows - retirement & OPEB	(14,216)	27,786	13,570
(Increase) decrease in assets:			
Accounts receivable	21,089	(16,203)	4,886
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	(162,127)	88,303	(73,824)
Net cash provided by operating activities	<u>\$ 702,971</u>	<u>\$ 17,478</u>	<u>\$ 720,449</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Purchase of capital asset and issuance of debt	<u>\$</u>	<u>\$ 243,561</u>	<u>\$ 243,561</u>

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

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Pocomoke City, Maryland (the “City”) conform to generally accepted accounting principles applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting standards. The following is a summary of the City's significant accounting policies.

Reporting entity

The basic criteria for including component units in the City’s financial statements are the exercise of oversight responsibility over such units by the City’s elected officials. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. Based upon criteria set forth by the Governmental Accounting Standards Board, Pocomoke City has no component units.

Basis of presentation

Government-wide statements: The statement of net position and the statement of activities display information about the City. These statements include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the City. For the most part, the effect on interfund activity has been removed from these statements. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

Fund financial statements: The fund financial statements provide information about the City’s funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. Any remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (Continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grants and investment earnings, result from nonexchange transactions.

The City reports the following major funds:

General Fund (Governmental fund)—This is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Water and Sewer Fund (Proprietary fund)—This fund accounts for the operation and management of the water and sewer departments.

Ambulance Fund (Proprietary fund)—This fund accounts for the operation and management of the ambulance service.

The City reports the following non-major funds:

Special Revenue Fund (Governmental fund)—This fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Measurement focus, basis of accounting

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

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

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and budgetary accounting

The City Council adopts an annual budget as set forth in the City Charter. The annual budget for the general fund is prepared in accordance with the basis of accounting utilized by those funds. No budget is prepared for the special revenue fund. The budgets for all other funds are adopted under a basis consistent with GAAP, except that depreciation is not considered. All budget transfers must be approved by the Council before becoming effective. All appropriations lapse at the end of the budget year.

Cash and cash equivalents

The City considers cash and cash equivalents in proprietary funds to be all investments with a maturity of three months or less.

Allowance for uncollectible accounts

Provision is made for estimated uncollectible personal property and ordinary business corporation property taxes, water and sewer charges, ambulance services and other receivables based upon the City's determination of individual accounts not likely to be collected. Allowances for uncollectible accounts as of June 30, 2020 are as follows:

Taxes	\$	12,990
Water and sewer charges	\$	40,859
Ambulance services	\$	53,262
Other receivables	\$	354,078

Deferred inflows of resources

The City may report a separate section for deferred inflows of resources. This separate financial element reflects an increase in net assets that applies to a future period. The City has four types of items that qualify for reporting in this category: deferred property taxes which are not recognized until available (collected not later than 60 days after the end of the City's fiscal year), deferred inflows retirement, deferred inflows OPEB, and deferred grants which are not recognized until a future event occurs.

Deferred outflows of resources

The City may report decreases in net assets that relate to a future period as deferred outflows of resources in a separate section of its government-wide and proprietary statements of net position or the governmental funds balance sheet. The City has two items that qualify for reporting in this category: deferred outflows retirement contributions and deferred outflows OPEB.

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

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions (Continued)

from MSRPS's fiduciary net position have been determined on the same basis as they are reported by MSRPS.

Accounting for compensated absences

The City has recorded its liability for amounts due to employees in the future for unused vacation pay in the government-wide and proprietary fund statements. Sick pay days are not included because the right to collect these unused paydays does not vest with the employees of the City.

Property taxes

Property taxes are levied on July 1 and attach an enforceable lien on the property immediately. Taxes are payable upon receipt of bill. Worcester County, Maryland bills and collects the City's property taxes, which it then remits to the City on a monthly basis. After accumulation of two years taxes in arrears, the County will force collection by tax sales.

Government-wide and proprietary net position

Government-wide and proprietary net position are divided into three major categories:

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

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

Governmental fund balances

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

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of the 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 ordinance or resolution.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund balances (Continued)

- *Assigned fund balance*—amounts that are designated by the Mayor and Council for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval by the City Council.
- *Unassigned fund balance*—all amounts not included in other spendable classifications.

In governmental funds, 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.

CASH AND CASH EQUIVALENTS

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, 2020, a portion of the City’s deposits were exposed to custodial credit risk as follows:

Uninsured with collateral held by pledging bank's trust department but not in the City's name:	<u>\$ 525,756</u>
---	-------------------

CAPITAL ASSETS

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at acquisition value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ useful lives are not capitalized. General infrastructure assets, such as streets, curbs, gutters, storm drains, traffic lighting systems and similar assets, acquired after June 30, 2003 are capitalized in the government-wide financial statements.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

CAPITAL ASSETS (Continued)

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

Asset Class	Estimated Useful Lives
Buildings	40
Equipment and vehicles	5 – 20
Improvements and infrastructure	8 – 60

Capital asset activity for the year ended June 30, 2020 was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated</i>				
Land	\$ 1,497,832	\$	\$	\$ 1,497,832
<i>Capital assets being depreciated</i>				
Buildings and improvements	4,649,729	14,300		4,664,029
Furniture and equipment	2,005,536	47,238		2,052,774
Automobiles and vehicles	1,182,061	21,370		1,203,431
Infrastructure	982,088			982,088
Total capital assets being depreciated	8,819,414	82,908		8,902,322
Less accumulated depreciation for:				
Buildings and improvements	1,597,119	111,439		1,708,558
Furniture and equipment	1,461,562	109,083		1,570,645
Automobiles and vehicles	901,916	91,052		992,968
Infrastructure	628,823	16,815		645,638
Total accumulated depreciation	4,589,420	328,389		4,917,809
Total capital assets being depreciated, net	4,229,994	(245,481)		3,984,513
Governmental activities, capital assets, net	\$ 5,727,826	\$ (245,481)	\$	\$ 5,482,345

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

CAPITAL ASSETS (Continued)

Business-type activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water and Sewer:				
<i>Capital assets not being depreciated</i>				
Land	\$ 56,517	\$	\$	\$ 56,517
Construction in progress	<u>2,831,031</u>	<u>468,729</u>	<u>2,684,194</u>	<u>615,566</u>
Total capital assets not being depreciated	<u>2,887,548</u>	<u>468,729</u>	<u>2,684,194</u>	<u>672,083</u>
<i>Capital assets being depreciated</i>				
Buildings	74,701	11,050		85,751
Infrastructure	16,704,651	2,684,194		19,388,845
Equipment	<u>1,043,348</u>	<u>195,069</u>		<u>1,238,417</u>
Total capital assets being depreciated	<u>17,822,700</u>	<u>2,890,313</u>		<u>20,713,013</u>
Less accumulated depreciation for:				
Buildings	20,492	1,777		22,269
Infrastructure	6,957,558	475,289		7,432,847
Equipment	<u>661,736</u>	<u>88,175</u>		<u>749,911</u>
Total accumulated depreciation	<u>7,639,786</u>	<u>565,241</u>		<u>8,205,027</u>
Total capital assets being depreciated, net	<u>10,182,914</u>	<u>2,325,072</u>		<u>12,507,986</u>
Water and sewer, capital assets, net	<u>13,070,462</u>	<u>2,793,801</u>	<u>2,684,194</u>	<u>13,180,069</u>
Ambulance:				
<i>Capital assets being depreciated</i>				
Buildings	120,004			120,004
Equipment	173,112	44,922		218,034
Automobiles and vehicles	<u>447,763</u>	<u>243,561</u>		<u>691,324</u>
Total capital assets being depreciated	<u>740,879</u>	<u>288,483</u>		<u>1,029,362</u>
Less accumulated depreciation for:				
Buildings	24,013	3,002		27,015
Equipment	135,908	12,981		148,889
Automobiles and vehicles	<u>262,815</u>	<u>56,075</u>		<u>318,890</u>
Total accumulated depreciation	<u>422,736</u>	<u>72,058</u>		<u>494,794</u>
Total capital assets being depreciated, net	<u>318,143</u>	<u>216,425</u>		<u>534,568</u>
Ambulance, capital assets, net	<u>318,143</u>	<u>216,425</u>		<u>534,568</u>
Business-type activities, capital assets, net	<u>\$ 13,388,605</u>	<u>\$ 3,010,226</u>	<u>\$ 2,684,194</u>	<u>\$ 13,714,637</u>

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

CAPITAL ASSETS (Continued)

Depreciation expense of governmental activities was charged to functions as follows:

General government	\$ 22,637
Public safety	130,248
Public works	73,690
Parks, recreation and culture	68,530
Housing and urban development	3,765
Economic development	29,519
	<u>\$ 328,389</u>

Construction in progress

Included in construction in progress are costs of \$615,566 for water line replacements in Pocomoke Heights. The project is being funded by a line of credit of up to \$1,100,000. The line of credit had an original due date of February 2, 2020 which has been extended until February 2, 2021.

Water rates have been increased by \$1 per 1,000 gallons for ten years beginning in 2019 to pay off the debt. Due to COVID-19, the project was delayed.

LINE OF CREDIT

The City has an available line of credit of \$300,000. Interest is due in quarterly payments at a variable interest rate. The City did not borrow on the line of credit during the year ended June 30, 2020.

INTERNAL BALANCES/TRANSFERS

Balances due to/from other funds at June 30, 2020, consist of the following:

Due to the general fund from the special revenue fund	<u>\$ 42,199</u>
---	------------------

The balance due to the general fund from the special revenue fund is not expected to be repaid within one year.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

LONG-TERM DEBT

Changes in long-term liabilities for the year ended June 30, 2020 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Notes payable	\$ 1,181,984	\$	\$ (30,713)	\$ 1,151,271
	<u>\$ 1,181,984</u>	<u>\$</u>	<u>\$ (30,713)</u>	<u>\$ 1,151,271</u>
Business-type activities:				
Water and Sewer				
Notes payable	\$ 4,701,618	\$ 177,167	\$ (281,661)	\$ 4,597,124
Ambulance				
Notes payable	11,901	243,561	(12,316)	243,146
Capital leases	<u>120,360</u>	<u></u>	<u>(35,514)</u>	<u>84,846</u>
	<u>\$ 4,833,879</u>	<u>\$ 420,728</u>	<u>\$ (329,491)</u>	<u>\$ 4,925,116</u>

Notes payable consist of the following:

Governmental activities

United States Department of Agriculture. For refinance of mortgage on police building and improvements to the building. Original obligation is dated March 25, 2016 for \$1,110,000 and is secured by a lien on the property. Payable in 160 quarterly installments of \$12,668 including interest at 3.375% through March 26, 2053. \$ 995,870

Calvin B. Taylor Bank. For purchase of restaurant equipment secured by the equipment purchased. Original obligation of \$200,000 is dated February 22, 2013 and is payable in monthly installments of \$1,209 with interest at 3.125%. Maturity date is March 9, 2031. 143,496

Ally Financial. For purchase of 2017 GMC Terrain secured by the vehicle purchased. Original obligation of \$19,277 is dated October 31, 2018 and is payable in monthly installments of \$463 with interest at 6.99%. Maturity date is October 15, 2022. 11,905

\$ 1,151,271

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

LONG-TERM DEBT (Continued)

Business-type activities

<p>Rural Economic and Community Development. For reconstruction of the City's water system. Original obligation is dated May 23, 1996 for \$3,605,800. Payable in 160 equal installments of principal and interest at 4.5% beginning August 2, 1996. Maturity date is May 23, 2036.</p>	<p>\$ 2,207,796</p>
<p>Maryland Department of the Environment. For biological nutrient removal at the wastewater treatment plant. Original obligation is dated September 3, 2003 in the amount of \$495,446. Interest rate at .4%. Annual principal and interest payments beginning February 1, 2005 through February 1, 2024.</p>	<p>102,279</p>
<p>Maryland Department of the Environment. For construction of a new pumping station to provide public sewer service for the Maryland Visitors Center. Original obligation is dated April 1, 2005 for \$275,000. Payable in semi-annual interest payments at .4% and annual principal payments with a maturity date of February 1, 2025.</p>	<p>57,072</p>
<p>Maryland Department of the Environment. For ultraviolet disinfection improvement project at the wastewater treatment plant. The amount advanced was \$94,833. Payable in semi-annual payments of interest only and annual payments of principal totaling \$5,895 at an interest rate of 1.1% with a maturity date of February 1, 2031.</p>	<p>51,699</p>
<p>Laurel Mountain Leasing and Financial Services, Inc. For purchase of a new ambulance and is secured by a lien on the ambulance. Original obligation is dated January 8, 2020 for \$243,561. Payments are due in 59 monthly installments of \$4,563 including interest of 3.5% with a maturity date of May 1, 2025.</p>	<p>243,146</p>

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

LONG-TERM DEBT (Continued)

Business-type activities (Continued)

<p>Maryland Department of the Environment. For water meter upgrades. Original obligation is dated March 22, 2013 with an amount available of \$17,688. Payable in semi-annual payments of interest only and annual payments of principal totaling \$1,009 at an interest rate of 0.8% with a maturity date of February 2, 2033.</p>	11,341
<p>Hebron Savings Bank. For water line upgrades in the Pocomoke Heights area. Original obligation is dated May 2, 2018 with an amount available of \$1,123,585. Interest payments are payable monthly for the first 12 months at 3.25% while the water lines are constructed. The line of credit then converts to a note, payable in monthly installments of principal and interest for 120 months including interest at 4.25%.</p>	569,902
<p>Hebron Savings Bank. For upgrades to the Water Treatment Plant. Original obligation is dated February 5, 2019 for \$298,450. Payments are due in 240 monthly installments of \$1,923 including interest of 4.712% with a maturity date of February 25, 2039.</p>	287,162
<p>United States Department of Agriculture. For water line upgrades in the Pocomoke Heights area. Original obligations are dated May 28, 2019 for \$966,000 and \$368,000. Payments are due in 160 equal quarterly installments of principal and interest at 1.375% and 2.125%, respectively, with a maturity date of May 28, 2059.</p>	<u>1,309,873</u>
<p>Total notes payable</p>	<p><u>\$ 4,840,270</u></p>

Capital leases

The City leases property under a capital lease expiring in 2022. The asset and liability under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over their estimated useful lives. Depreciation of the asset under a capital lease is included in the depreciation expense. Following is a summary of the cost of property held under a capital lease:

Ambulance	\$ <u>178,650</u>
-----------	-------------------

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

LONG-TERM DEBT (Continued)

Interest expense

Interest incurred in the general fund was \$64,603 and in the enterprise funds was \$162,025 during the year. The full amount was charged to expense.

Debt service requirements

Debt service requirements on long-term debt at June 30, 2020 are as follows:

Year(s) ending June 30,	Governmental Activities	
	Notes payable	
	Principal	Interest
2021	\$ 32,461	\$ 38,272
2022	33,737	36,995
2023	31,290	35,741
2024	30,445	34,735
2025	31,456	33,722
2026-2030	173,683	152,216
2031-2035	149,738	125,601
2036-2040	151,305	102,065
2041-2045	173,591	74,379
2046-2050	211,744	41,626
2051-2054	131,821	6,804
	\$ 1,151,271	\$ 682,156

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

LONG-TERM DEBT (Continued)

Debt service requirements (Continued)

Year(s) ending June 30,	Business-type Activities			
	Notes payable		Capital leases	
	Principal	Interest	Principal	Interest
2021	\$ 789,553	\$ 140,347	\$ 36,754	\$ 2,590
2022	230,669	133,919	38,115	1,230
2023	238,137	126,452	9,977	99
2024	245,910	118,678		
2025	209,821	110,586		
2026-2030	899,528	432,708		
2031-2035	1,067,333	265,053		
2036-2040	421,751	75,753		
2041-2045	173,474	52,265		
2046-2050	187,763	37,977		
2051-2055	203,285	22,455		
2056-2059	173,046	6,836		
	<u>\$ 4,840,270</u>	<u>\$ 1,523,029</u>	<u>\$ 84,846</u>	<u>\$ 3,919</u>

OPERATING LEASE

In 2019, the City entered into a lease with James and Caitlin Evans to lease a restaurant building. (Mrs. Evans is the daughter of the Mayor.) The initial term of the lease is from April 1, 2019 through March 31, 2022, with an option to renew for two additional three year terms. The first payment of the initial term was due May 15, 2019. The lease calls for monthly rent of \$2,500 for the first 18 months and \$3,000 for the second 18 months. Total lease payments received in fiscal year 2020 were \$36,220.

Future minimum basic lease payments to be received are:

Year ending June 30:	
2021	\$ 34,500
2022	<u>27,000</u>
	<u>\$ 61,500</u>

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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.

Benefits provided. The MSRPS provides retirement, disability and death benefits. Retirement allowances for members of the City are based on the highest five consecutive years average Annual Compensation (AFC) and the actual years of accumulated credited services. Employees of the City may retire with reduced benefits after attaining age 60 with at least 15 years of eligible service. Permanent disability benefits are available after five years of service and approximate 25% of AFC. Death benefits are equal to employee salary at the time of death plus all member contributions and interest.

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 for the past three years were as follows:

Fiscal Year Ended	Pension Cost	Percentage Funded
6/30/2017	\$ 160,472	100%
6/30/2018	\$ 212,037	100%
6/30/2019	\$ 252,518	100%

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

RETIREMENT AND PENSION PLANS (Continued)

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

At June 30, 2020, the City reported a liability of \$2,536,334 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the City's proportion was .0061% for the general employees' plan and .0062% for the police officers' plan.

For the year ended June 30, 2020, the City recognized pension expense of \$234,046. At June 30, 2020, 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	\$ 33,575	\$ 69,028
Net difference between projected and actual earnings on pension plan investments	133,840	50,921
Difference between actual and expected experience		136,348
Contributions subsequent to measurement date	285,776	
	\$ 453,191	\$ 256,297

The City's contribution subsequent to the measurement date of \$285,776, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

RETIREMENT AND PENSION PLANS (Continued)

Deferred financial inflows and outflows are made up of changes in actuarial assumptions, differences in actual and expected experience, and net difference in the projected and actual investment earnings. The deferred outflows and inflows related to non-investment activity are being amortized over the remaining service life ranging from 5.68 to 5.87 years. The net difference in investment earnings are being amortized over a closed five-year period. The following table shows the amortization of these balances:

Year Ending June 30	Deferred Outflows	Deferred Inflows
2021	\$ 79,536	\$ 84,812
2022	55,605	76,782
2023	17,327	51,761
2024	14,947	29,171
2025		13,771
Total	<u>\$ 167,415</u>	<u>\$ 256,297</u>

Actuarial assumptions. The actuarial assumption for the Pension Plan as a whole and based on the June 30, 2019 annual actuarial valuation report for Maryland Municipal Corporation are as follows:

Inflation	2.65% general
Salary increases	3.15% including inflation
Investment rate of return	7.40%

Mortality rates were based on the RP-2014 Combined Healthy Mortality table projected to the year 2025.

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).

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

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

RETIREMENT AND PENSION PLANS (Continued)

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

1% Decrease (6.40%)	\$ 3,671,086
Current discount rate (7.40%)	\$ 2,536,334
1% Increase (8.40%)	\$ 1,591,224

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 BENEFITS

Plan description

The City administers a single-employer defined benefit healthcare plan (the "Plan"). The Plan provides group hospitalization insurance and group life insurance premiums for eligible retirees through the City's group insurance plans, which cover both active and retired members. General employees or police officers are eligible for benefit if they retire at age 62 ½ with 25 years of service. Elected officials are eligible for benefit if they retire at age 62 ½ with 12 years of service. The Plan does not issue a publicly available financial report.

Benefits provided

Health Insurance Benefit. Pre Medicare retirees can buy insurance on the market and the City will pay a percent of the premium into an HRA account to be used towards the premium. Percent of premium paid is determined by when the person retires and how many years of service they have at retirement. Anyone retiring after July 1, 2014 will have the amount paid into the HRA capped at \$5,500 for retiree and \$4,200 for spouses. In order for the spouse to be eligible for the HRA, the spouse has to be 57 ½ years old and have been enrolled for five years in the City's health plan. Spouse benefit is only until age 65.

When a retiree turns age 65, they are eligible to re-join the City's health plan with Medicare being primary and the City's plan being secondary. The Prescription Drug Reimbursements are capped at \$6,000.

Other Benefits. The City pays for Long Term Care insurance for the retirees. The benefit is \$1,000 a month, capped at three years. The amount paid by the City for this insurance is \$6 a month for life of the retiree.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

OTHER POST-EMPLOYMENT BENEFITS (Continued)

Employees covered by benefit terms

As of June 30, 2019, a total of 60 employees were covered by the benefit terms as follows:

Retirees in pay status (pre-Medicare)	3
Retirees in pay status (post-Medicare)	9
Active employees	48

Contributions

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

Total OPEB liability

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

Valuation Date	July 1, 2019
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

Actuarial assumptions

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

Inflation	2.5%
Rate of growth in real income/GDP per year	1.5%
Excess medical cost growth	1.1%
Health share of GDP in 2029	20%
Health share of GDP resistance point	25%
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, 2018) is 3.62%. The rate as of June 30, 2019 is 3.13%.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

OTHER POST-EMPLOYMENT BENEFITS (Continued)

Changes in the total OPEB liability

	Total OPEB Liability
Balance as of June 30, 2018	\$ 389,435
Changes for the year:	
Service cost	18,546
Interest	13,918
Experience gains	(174,363)
Changes in assumptions	20,049
Benefit payouts	(6,834)
Net changes	(128,684)
Balance as of June 30, 2019	\$ 260,751

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the City, as well as what the net 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 (2.13%)	\$ 314,176
Current discount rate (3.13%)	\$ 260,751
1% Increase (4.13%)	\$ 218,763

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate

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

1% Decrease (3.0%)	\$ 213,362
Current discount rate (4.0%)	\$ 260,751
1% Increase (5.0%)	\$ 324,378

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

OTHER POST-EMPLOYMENT 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, 2020, the City recognized an OPEB expense of \$14,838. At June 30, 2020, 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	\$	\$ 160,074
Changes of assumptions	18,378	42,913
Total	\$ 18,378	\$ 202,987

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:

Year Ending June 30	Deferred Inflows
2021	\$ 17,626
2022	17,626
2023	17,626
2024	17,626
2025	17,626
Thereafter	96,479
Total	\$ 184,609

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

CONTINGENT LIABILITIES

The City is the recipient of various federal and State grants. The City may be under obligation to repay these grant funds if, upon final review by the respective granting agencies, the funds expended did not meet the established program objectives.

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 joined with other municipalities in the State to form the Local Government Insurance Trust (LGIT), a public entity risk pool currently operating as a common risk management and insurance program for member municipalities. The City pays an annual premium to LGIT for its general insurance coverage. The Agreement for Formation of the LGIT provides that it will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for liability claims. The City continues to carry commercial insurance for its workers' compensation and some vehicle liability coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage since formation of LGIT.

IMPACT OF COVID-19

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. There have been mandates from federal, state, and local authorities requiring forced closures of schools, businesses, and other facilities. As a result of those mandates, the City closed City Hall to the general public and practiced social distancing. Utility and tax payments could be made using the drop box, mail, phone, or online. Late fees on utilities were waived from April through June 2020 and water shut-offs were not done during this time.

The Ambulance fund received grants of \$21,454 from the Federal Provider Relief Fund for providers who receive Medicare fee-for-service reimbursements.

Although most state and local governments have begun to ease restrictions, it is possible that a resurgence in COVID-19 cases could prompt a return to tighter restrictions. Therefore, significant uncertainty remains regarding the financial impact on the City's financial condition and future results of operations.

NEW GASB PRONOUNCEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

POCOMOKE CITY, MARYLAND

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

FOR THE YEAR ENDED JUNE 30, 2020

	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes	\$ 3,613,654	\$ 3,613,654	\$ 3,754,736	\$ 141,082
Licenses and permits	111,900	111,900	109,551	(2,349)
Intergovernmental	962,174	962,174	1,105,777	143,603
Charges for services	309,900	309,900	345,015	35,115
Investment earnings	1,200	1,200	1,788	588
Miscellaneous	52,700	52,700	99,773	47,073
Total revenues	<u>5,051,528</u>	<u>5,051,528</u>	<u>5,416,640</u>	<u>365,112</u>
EXPENDITURES				
Current				
General government	677,155	677,155	668,655	8,500
Public safety	1,517,631	1,517,631	1,575,639	(58,008)
Public works	1,064,586	1,064,586	1,083,915	(19,329)
Parks, recreation and culture	84,100	84,100	78,901	5,199
Urban housing and development	199,660	199,660	374,655	(174,995)
Economic development	118,260	118,260	118,464	(204)
Employee benefits	1,110,306	1,110,306	979,129	131,177
Miscellaneous	93,514	93,514	95,304	(1,790)
Debt service	95,316	95,316	104,056	(8,740)
Capital outlay	91,000	91,000	82,908	8,092
Total expenditures	<u>5,051,528</u>	<u>5,051,528</u>	<u>5,161,626</u>	<u>(110,098)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ 255,014</u>	<u>\$ 255,014</u>

POCOMOKE CITY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

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

<u>Fiscal year/ measurement date</u>	<u>City's proportion of the net pension liability</u>	<u>City's proportionate share of the net pension liability (asset)</u>	<u>City's covered payroll</u>	<u>City's proportionate share as a percentage of covered payroll</u>	<u>Plan's fiduciary net position as a percentage of total pension</u>
General Employees' Plan					
2015/2013	0.008815%	\$ 1,564,326	\$ 2,174,057	71.95%	71.95%
2016/2014	0.009698%	2,015,345	2,307,186	87.35%	68.78%
2017/2015	0.009107%	2,148,635	2,271,272	94.60%	65.79%
2018/2016	0.007884%	1,704,880	2,313,992	73.68%	69.38%
2019/2017	0.005832%	1,223,672	1,656,878	73.85%	71.18%
2020/2018	0.006117%	1,261,593	1,871,611	67.41%	72.34%
Law Enforcement Officers' Plan (LEOPS)					
2019/2017	0.004801%	\$ 1,007,372	\$ 732,779	137.47%	71.18%
2020/2018	0.006180%	1,274,741	739,620	172.35%	72.34%

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.

POCOMOKE CITY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S CONTRIBUTIONS

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

<u>Fiscal Year</u>	<u>Contractually required contribution</u>	<u>Actual contribution</u>	<u>Contribution deficiency (excess)</u>	<u>City's covered payroll</u>	<u>Actual contribution as a percentage of covered payroll</u>
General Employees' Plan					
2015	\$ 204,401	\$ 204,401	\$	\$ 2,174,057	9.40%
2016	177,212	177,212		2,307,186	7.68%
2017	160,472	160,472		2,271,272	7.07%
2018	212,037	212,037		2,313,992	9.16%
2019	125,604	125,604		1,656,878	7.58%
2020	150,868	150,868		1,871,611	8.06%
Law Enforcement Officers' Plan (LEOPS)					
2019	\$ 126,914	\$ 126,914	\$	\$ 732,779	17.32%
2020	134,908	134,908		739,620	18.24%

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.

POCOMOKE CITY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN THE CITY'S TOTAL
OPEB LIABILITY AND RELATED RATIOS
(UNAUDITED)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service cost	\$ 18,546	\$ 18,085	\$ 21,764
Interest cost	13,918	13,105	11,313
Changes in benefit terms			(12,137)
Experience losses (gains)	(174,363)	(289)	
Changes of assumptions	20,049	(2,828)	(54,078)
Benefit payments	<u>(6,834)</u>	<u>(9,711)</u>	<u>(9,711)</u>
Net change in total OPEB liability	(128,684)	18,362	(42,849)
Total OPEB liability, beginning of year	<u>389,435</u>	<u>371,073</u>	<u>413,922</u>
Total OPEB liability, end of year	<u><u>\$ 260,751</u></u>	<u><u>\$ 389,435</u></u>	<u><u>\$ 371,073</u></u>
Plan fiduciary net position			
Contributions employer	\$ 6,834	\$ 9,711	\$ 9,711
Benefit payments	<u>(6,834)</u>	<u>(9,711)</u>	<u>(9,711)</u>
Net change in fiduciary net position			
Fiduciary net position, beginning of year	<u>\$</u>	<u>\$</u>	<u>\$</u>
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><u>\$ 260,751</u></u>	<u><u>\$ 389,435</u></u>	<u><u>\$ 371,073</u></u>
Fiduciary net position as a % of total OPEB liability	<u><u>0.0%</u></u>	<u><u>0.0%</u></u>	<u><u>0.0%</u></u>

Notes to schedule

No benefit changes.

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

6/30/2018	3.58%
6/30/2019	3.62%
6/30/2020	3.13%

Because this OPEB 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

To the Mayor and Council and City Manager
Pocomoke City, Maryland

Report on Supplementary Information

Our report on our audit of the financial statements that collectively comprise Pocomoke City, Maryland's basic financial statements as of June 30, 2020, appears on pages one and two. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pocomoke City, Maryland's basic financial statements. The supplementary information presented on pages 49 through 53 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 2019 and 2018 financial statements and, in our reports dated September 20, 2019 and September 15, 2018, respectively, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

PKScpa.com

Salisbury

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

Ocean City

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

Lewes

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

MEMBERS OF:

*AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS*

*MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS*

*DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS*

ALLINIAL GLOBAL

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 22, 2020

POCOMOKE CITY, MARYLAND

**SCHEDULES OF REVENUES AND EXPENDITURES
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
REVENUES			
Taxes	\$ 3,754,736	\$ 3,660,964	\$ 3,599,744
Licenses and permits	109,551	140,917	113,101
Intergovernmental	1,105,777	1,123,896	1,161,957
Charges for services	345,015	395,829	344,763
Investment earnings	1,788	1,457	1,289
Miscellaneous	99,773	43,868	72,531
Total revenues	<u>5,416,640</u>	<u>5,366,931</u>	<u>5,293,385</u>
EXPENDITURES			
Current			
General government	668,655	714,159	535,306
Public safety	1,575,639	1,569,631	1,646,335
Public works	1,083,915	1,222,772	903,606
Parks, recreation and culture	78,901	235,218	176,958
Urban housing and development	374,655	392,682	196,536
Economic development	118,464	154,213	133,085
Employee benefits	979,129	1,010,906	1,169,255
Miscellaneous	95,304	93,679	95,207
Debt service	104,056	97,833	85,384
Capital outlay	82,908	209,954	340,814
Total expenditures	<u>5,161,626</u>	<u>5,701,047</u>	<u>5,282,486</u>
Revenues over (under) expenditures	<u>255,014</u>	<u>(334,116)</u>	<u>10,899</u>
OTHER FINANCING SOURCES (USES)			
Loan proceeds		19,277	
Proceeds from sale of assets and timber		13,729	226,845
Transfers in (out)		387,760	(122,500)
Net other financing sources (uses)		<u>420,766</u>	<u>104,345</u>
Net change in fund balance	<u>\$ 255,014</u>	<u>\$ 86,650</u>	<u>\$ 115,244</u>

POCOMOKE CITY, MARYLAND

**SCHEDULES OF REVENUES
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
REVENUES			
Taxes			
Real property	\$ 2,558,872	\$ 2,506,134	\$ 2,495,546
Personal property	926,339	873,893	874,367
Interest, discounts and credits	18,534	33,212	30,564
Local taxes	<u>250,991</u>	<u>247,725</u>	<u>199,267</u>
Total taxes	<u>3,754,736</u>	<u>3,660,964</u>	<u>3,599,744</u>
Other revenues			
Licenses and permits	109,551	140,917	113,101
Intergovernmental			
Federal Government	41,454	41,875	77,085
State of Maryland	418,654	457,102	425,588
Worcester County	645,669	624,919	659,284
Service charges for current services			
Trash removal fees	247,931	245,907	243,065
Recreation user fees	7,034	7,128	36,369
Other service charges	90,050	142,794	65,329
Investment earnings	1,788	1,457	1,289
Miscellaneous			
Rental income	49,535	26,208	50,402
Other	<u>50,238</u>	<u>17,660</u>	<u>22,129</u>
Total other revenues	<u>1,661,904</u>	<u>1,705,967</u>	<u>1,693,641</u>
Total revenues	<u>5,416,640</u>	<u>5,366,931</u>	<u>5,293,385</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)		387,760	(122,500)
Proceeds from sale of assets and timber		13,729	226,845
Loan proceeds		<u>19,277</u>	
Net other financing sources		<u>420,766</u>	<u>104,345</u>
Total revenues and other financing sources	<u>\$ 5,416,640</u>	<u>\$ 5,787,697</u>	<u>\$ 5,397,730</u>

POCOMOKE CITY, MARYLAND

**SCHEDULES OF EXPENDITURES
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)**

EXPENDITURES	<u>2020</u>	<u>2019</u>	<u>2018</u>
General government			
Legislative	\$ 83,793	\$ 95,469	\$ 91,097
Executive	156,299	141,477	149,159
Human resources	59,213	80,034	
Financial administration	205,257	208,316	143,053
Law	47,698	47,573	30,730
General services	115,326	139,106	116,535
Other general government	1,069	2,184	4,732
Total general government	<u>668,655</u>	<u>714,159</u>	<u>535,306</u>
Public safety			
Police department	1,398,609	1,390,790	1,441,466
Fire department	177,030	178,841	204,869
Total public safety	<u>1,575,639</u>	<u>1,569,631</u>	<u>1,646,335</u>
Public works			
General services	91,472	94,239	67,110
Sanitation and waste removal	375,558	322,925	297,144
Mechanic	51,635	39,581	35,548
Highways and streets	565,250	766,027	503,804
Total public works	<u>1,083,915</u>	<u>1,222,772</u>	<u>903,606</u>
Parks, recreation and culture			
Golf course	1,293	9,533	98,925
Parks and docks	62,551	219,962	65,859
Other	15,057	5,723	12,174
Total parks, recreation and culture	<u>78,901</u>	<u>235,218</u>	<u>176,958</u>
Housing and urban development	<u>374,655</u>	<u>392,682</u>	<u>196,536</u>
Economic Development	<u>118,464</u>	<u>154,213</u>	<u>133,085</u>
Miscellaneous			
Employee benefits	979,129	1,010,906	1,169,255
General insurance	77,778	65,417	53,967
Other	17,526	28,262	41,240
Total miscellaneous	<u>1,074,433</u>	<u>1,104,585</u>	<u>1,264,462</u>
Debt service	<u>104,056</u>	<u>97,833</u>	<u>85,384</u>
Capital outlay	<u>82,908</u>	<u>209,954</u>	<u>340,814</u>
Total expenditures	<u>\$ 5,161,626</u>	<u>\$ 5,701,047</u>	<u>\$ 5,282,486</u>

POCOMOKE CITY, MARYLAND

**SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER AND SEWER FUND**

**FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
OPERATING REVENUES			
Charges for services	\$ 1,500,988	\$ 1,540,846	\$ 1,370,060
Sewage haulers	758,356	720,934	526,609
Operating grants	44,100	44,100	
Miscellaneous and late charges	54,180	67,062	315,202
Total operating revenues	<u>2,357,624</u>	<u>2,372,942</u>	<u>2,211,871</u>
OPERATING EXPENSES			
Salaries and wages (1)	294,289	281,178	404,399
Employee benefits (1)	117,202	196,859	238,535
Contract labor	262,408	138,605	220,137
Insurance	21,194	17,721	17,223
Materials and supplies	220,423	253,476	212,673
Heat, light and power	232,806	225,350	253,958
Facility maintenance	407,047	416,281	589,220
Vehicle operating expenses	18,382	23,792	26,801
Telephone	6,583	6,565	6,712
Bad debt expense	1,857	24,725	
Depreciation	565,241	516,774	503,343
Total operating expenses	<u>2,147,432</u>	<u>2,101,326</u>	<u>2,473,001</u>
Operating income (loss)	<u>210,192</u>	<u>271,616</u>	<u>(261,130)</u>
NON-OPERATING REVENUES (EXPENSES)			
Capital grants	395,378	1,069,697	38,982
Interest expense	(153,871)	(109,122)	(107,480)
Gain on disposal of assets			1,071
Net non-operating revenues (expenses)	<u>241,507</u>	<u>960,575</u>	<u>(67,427)</u>
Income (loss) before transfers	451,699	1,232,191	(328,557)
Transfers in (out)		<u>(387,760)</u>	<u>122,500</u>
Change in net position	<u>\$ 451,699</u>	<u>\$ 844,431</u>	<u>\$ (206,057)</u>

(1) In prior years, the City Manager, finance director, and other administrative salaries and benefits were allocated between the general fund and the enterprise funds. In 2019, the City changed their policy and charged the full amount of these salaries to the general fund.

POCOMOKE CITY, MARYLAND

**SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
AMBULANCE FUND**

**FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
OPERATING REVENUES			
Charges for services	\$ 506,438	\$ 535,057	\$ 455,154
Operating grants and donations	524,091	484,144	501,175
Total operating revenues	<u>1,030,529</u>	<u>1,019,201</u>	<u>956,329</u>
OPERATING EXPENSES			
Salaries and wages	701,137	594,352	561,670
Employee benefits	270,550	59,176	151,121
Contract labor	2,835	3,610	4,351
Insurance	13,776	11,519	11,195
Materials and supplies	87,716	73,420	69,285
Heat, light and power	7,460	11,682	9,251
Maintenance - facility	5,897	9,634	5,842
Vehicle operating expenses	38,881	33,347	34,068
Telephone	3,545	3,486	3,320
Bad debt expense (recovery)	(4,322)	12,075	(3,225)
Depreciation	72,058	77,182	69,293
Total operating expenses	<u>1,199,533</u>	<u>889,483</u>	<u>916,171</u>
Operating income (loss)	<u>(169,004)</u>	<u>129,718</u>	<u>40,158</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest expense	(8,154)	(7,070)	(7,086)
Gain on disposal of assets			10,700
Net non-operating revenues (expenses)	<u>(8,154)</u>	<u>(7,070)</u>	<u>3,614</u>
Change in net position	<u>\$ (177,158)</u>	<u>\$ 122,648</u>	<u>\$ 43,772</u>

GOVERNMENT AUDITING STANDARDS REPORT

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

PKScpa.com

Salisbury

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

Ocean City

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

Lewes

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

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

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

To the Mayor and Council and City Manager
Pocomoke City, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pocomoke City, Maryland (the "City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Pocomoke City, Maryland's basic financial statements and have issued our report thereon dated October 22, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Internal Control over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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 determination of financial statement amounts. However, providing an opinion on compliance with these 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.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 22, 2020