

POCOMOKE CITY, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023

POCOMOKE CITY, MARYLAND

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise Pocomoke City, Maryland's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pocomoke City, Maryland, as of June 30, 2023, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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Responsibilities of Management for the Financial Statements (continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 4 through 13 and pages 46 through 50 be presented to supplement the basic financial statements.

Required Supplementary Information (continued)

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2024 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 the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pocomoke City, Maryland's internal control over financial reporting and compliance.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 15, 2024

POCOMOKE CITY, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023

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, 2023. 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, 2023

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, 2023

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net position on June 30, 2023 was \$15,437,333. Of this total, \$15,455,027 is invested in capital assets leaving an unrestricted net deficit of \$17,694.

The City's net position increased \$2,729,692 from June 30, 2022 to June 30, 2023.

Of the total revenues of \$11,446,461, property taxes made up 32%, charges for services were 31%, and grants and contributions were 31%.

Total expenses were \$8,716,769, made up of 11% for general government, 25% for the water/sewer fund, 26% for public safety, 17% for public works, 14% for ambulance fund, and 7% for other departments.

The table below compares 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	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 2,518	\$ 2,088	\$ 3,968	\$ 2,162	\$ 6,486	\$ 4,250
Capital assets	5,802	5,677	15,043	13,588	20,845	19,265
Total assets	8,320	7,765	19,011	15,750	27,331	23,515
Deferred outflows of resources	1,948	1,221	285	225	2,233	1,446
Long-term liabilities	3,760	3,316	4,197	4,695	7,957	8,011
Other liabilities	249	307	1,515	501	1,764	808
Total liabilities	4,009	3,623	5,712	5,196	9,721	8,819
Deferred inflows of resources	2,391	2,397	2,015	1,037	4,406	3,434
Net position						
Net investment in capital assets	4,698	4,586	10,757	9,028	15,455	13,614
Unrestricted (deficit)	(830)	(1,620)	812	714	(18)	(906)
Total net position	\$ 3,868	\$ 2,966	\$ 11,569	\$ 9,742	\$ 15,437	\$ 12,708

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

Table 2 and the narrative that follows considers 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	
	2023	2022	2023	2022	2023	2022
Revenues						
Program services						
Charges for services	\$ 615	\$ 575	\$ 2,894	\$ 2,895	\$ 3,509	\$ 3,470
Operating grants and contributions	561	511	771	773	1,332	1,284
Capital grants and contributions	271	261	1,535	524	1,806	785
General revenues						
Property taxes	3,701	3,626			3,701	3,626
Other taxes and fees	533	449			533	449
Grants	465	465			465	465
Other	90	11	10		100	11
Total revenues	<u>6,236</u>	<u>5,898</u>	<u>5,210</u>	<u>4,192</u>	<u>11,446</u>	<u>10,090</u>
Expenses						
General government	928	904			928	904
Public safety	2,241	2,126			2,241	2,126
Public works	1,511	1,524			1,511	1,524
Parks, recreation and culture	216	174			216	174
Housing and urban development	266	291			266	291
Economic development	112	120			112	120
Interest on long-term debt	60	72			60	72
Water and sewer			2,141	2,218	2,141	2,218
Ambulance			1,242	1,315	1,242	1,315
Total expenses	<u>5,334</u>	<u>5,211</u>	<u>3,383</u>	<u>3,533</u>	<u>8,717</u>	<u>8,744</u>
Change in net position	<u>\$ 902</u>	<u>\$ 510</u>	<u>\$ 1,827</u>	<u>\$ 836</u>	<u>\$ 2,729</u>	<u>\$ 1,346</u>

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

Governmental activities

Net position for the City's governmental activities increased \$902,119 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 \$1,827,573. 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, 2023, the City's general fund reported an increase of \$691,517 resulting in a fund balance at year-end of \$1,509,299. This represents approximately 95 days of operating expenditures. This is an improvement over the prior year's fund balance of 53 days.

Total revenues for the year were \$6,332,263 which is an increase of \$328,790 or 5% over the prior year. Significant changes from the prior year include the following:

- Real and personal property taxes increased \$116,141 due to increases in the assessed value of properties.
- Local income taxes increased \$68,955 over the prior year.
- Licenses and permits increased \$68,713 due to increase in building permits.

Total expenditures were \$5,662,029, an increase of \$24,621 over the prior year. Significant changes from the prior year included:

- Capital outlay expenditures decreased \$102,743. Significant purchases this year included a trash truck and paving farmers' market and ambulance parking lots.
- Police department expenditures increased \$105,729 due to increase in salary expense.

Refer to pages 52 through 54 of the financial statements for a schedule of revenues and expenditures – general fund with comparable totals for the prior two fiscal years.

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

Water and sewer fund

For the year ended June 30, 2023, the water and sewer fund had operating income of \$422,286 compared to operating income of \$347,109 in 2022.

Operating revenues for the year ended June 30, 2023 were \$2,398,703, a decrease of \$16,070 from the prior year.

Operating expenses for the year ended June 30, 2023 were \$1,976,417, a decrease of \$91,247 from the prior year. Notable changes from the prior year were as follows:

- Heat, light, and power costs were \$292,979, which is a decrease of \$67,790 over the prior year. This can be attributed to solar rebates received.
- Contract labor costs were \$124,011, which is a decrease of \$43,549 over the prior year. This decrease is primarily due to non-recurring water tower service in the prior year.
- Recovery of bad debt was \$1,338, compared to bad debt expense of \$52,699 in the prior year.

Net position for the water and sewer fund increased \$1,671,185. Net position on June 30, 2023, was \$11,008,715. Of this amount, \$10,040,835 is invested in capital assets, net of related debt, and \$967,880 is unrestricted.

The City has begun the pump station upgrade project. The project is estimated to cost \$1,911,000 and is being financed through a USDA loan of \$1,056,000, American Rescue Plan Act funding of \$705,000, and a Maryland Rural Council grant of \$150,000. Costs incurred through June 30, 2023, were \$1,424,467.

The water tank mixer project is proceeding. This project is estimated to cost \$1,088,068 and is being financed through a Maryland Department of the Environment grant of \$1,010,068. The City plans to pay their share of the cost using ARPA monies or potentially a USDA loan. Costs incurred through June 30, 2023, were \$86,608.

The water line improvement project is in the planning and design phase and is estimated to cost \$2,256,650. Costs incurred through June 30, 2023 was \$58,044.

Lastly, the water meter replacement project has begun. The City is financing this project using ARPA funds of \$902,854. Costs incurred through June 30, 2023 were \$499,270.

Refer to page 55 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, 2023

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

Ambulance fund

For the year ended June 30, 2023, the Ambulance Fund had operating income of \$29,282.

Operating revenues were \$1,266,802 which is an increase from the prior year of \$13,704, or 1%.

Operating expenses were \$1,237,520 which is a decrease of \$70,326, or 5%, from the prior year due to decreases in employee benefits and bad debt recovery.

Net position at June 30, 2023 was \$560,704. Of this amount, \$716,167 is invested in capital assets net of related debt which leaves an unrestricted deficit of \$155,403.

Refer to page 56 of the financial statements for a three-year comparison of revenues, expenses, and changes in net position.

BUDGETARY HIGHLIGHTS – GENERAL FUND

General fund revenues were \$6,332,263, which exceeded the budgeted revenue by \$741,742.

General fund expenditures of \$5,662,029 exceeded the budgeted expenditures by \$164,042. Significant variances were as follows:

- Employee benefit costs were under the amount budgeted by \$207,579 due to a decrease in workers' compensation and health insurance costs.
- Capital outlay expenses were over the amount budgeted by \$466,148. See the detailed discussion below regarding capital assets purchased in the general fund.

See the Budgetary Comparison Schedule – General Fund on page 46 for more detailed information.

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets

At the end of the fiscal year, the City had \$20,844,788 (net of depreciation) invested in a broad range of capital assets. This represents an 8% increase from the prior year.

The following table represents the City's capital assets and accumulation depreciation.

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2023	2022	2023	2022	2023	2022	
Land	\$ 1,477	\$ 1,477	\$ 56	\$ 56	\$ 1,533	\$ 1,533	0%
Buildings and improvements	4,949	4,905	229	215	5,178	5,120	1%
Furniture and equipment	2,472	2,389	1,985	1,820	4,457	4,209	6%
Automobiles and vehicles	1,610	1,351	993	1,100	2,603	2,451	6%
Infrastructure	1,044	977	20,392	20,324	21,436	21,301	1%
Construction in progress			2,068	155	2,068	155	0%
Leased equipment	51				51		0%
Subscription assets	21				21		0%
Accumulated depreciation	(5,823)	(5,422)	(10,680)	(10,082)	(16,503)	(15,504)	6%
Total	<u>\$ 5,801</u>	<u>\$ 5,677</u>	<u>\$ 15,043</u>	<u>\$ 13,588</u>	<u>\$ 20,844</u>	<u>\$ 19,265</u>	8%

Major capital additions included:

Governmental activities

1. King Cobra trash truck (ARPA)
2. Computers for police vehicles
3. License plate readers
4. Paving at farmers' market and municipal parking lot and ambulance parking lot.

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY (Continued)

Capital assets (continued)

Business-type activities

1. Chevrolet Tahoe (ARPA)
2. Cardiac monitors
3. John Deere lawn mowers
4. Baffle curtain biolac basin

Long-term debt

At the end of the fiscal year, the City had \$5,389,761 in long-term loans and leases payable. This represents a 4.6% decrease over last year.

The City obtained a line of credit of \$1,056,000 for use during the construction of the pump station upgrade. Draws of \$50,301 have been made through June 30, 2023. The line of credit will be repaid using the USDA loan at the end of the project.

Additional information on the City's debt can be found on pages 32 – 36 of the notes to the financial statements.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The City has been awarded a grant from the American Rescue Plan Act of 2020 Coronavirus Local Fiscal Recovery Fund of \$4,029,248. As of June 30, 2023, the City has used \$1,987,872 and obligated the remaining funds. The City plans to use these funds to replace the radio read meters, repairs to the water system infrastructure, and for rescue gear in the ambulance department.

The City is in the planning stage of a multi-phased water line improvement project. The estimated cost of the project is \$2,256,650. Phase I of the project will be funded using Community Development Block Grants of \$635,727 and a Maryland Department of the Environment grant of \$843,923, and other funding in the amount of \$777,000. Additional grant applications are in process to cover the cost of phase II of the project.

POCOMOKE CITY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023

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, 2023

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and equivalents	\$ 1,828,963	\$ 3,560,091	\$ 5,389,054
Accounts receivable, net	506,566	252,694	759,260
Lease receivable	40,272		40,272
Due from other governments	65,619	154,936	220,555
Note receivable	19,345		19,345
Total current assets	<u>2,460,765</u>	<u>3,967,721</u>	<u>6,428,486</u>
Noncurrent assets			
Lease receivable, noncurrent portion	57,303		57,303
Net capital assets	5,801,449	15,043,339	20,844,788
Total noncurrent asset	<u>5,858,752</u>	<u>15,043,339</u>	<u>20,902,091</u>
Total assets	<u>8,319,517</u>	<u>19,011,060</u>	<u>27,330,577</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred financing outflows - retirement & OPEB	1,948,020	285,396	2,233,416
LIABILITIES			
Accounts payable and accrued expenses	57,953	1,118,447	1,176,400
Long-term liabilities			
Due within one year			
Notes and leases payable	42,083	366,445	408,528
Compensated absences	149,228	29,917	179,145
Due in more than one year			
Notes and leases payable	1,061,341	3,919,892	4,981,233
Compensated absences	60,439	17,029	77,468
Net pension liability	2,441,897	223,994	2,665,891
Net other post-employment benefit liability	196,298	36,007	232,305
Total liabilities	<u>4,009,239</u>	<u>5,711,731</u>	<u>9,720,970</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred financing inflows - retirement & OPEB	1,610,436	360,923	1,971,359
Deferred leases	92,954		92,954
Unearned revenue	687,054	1,654,323	2,341,377
Total deferred inflows of resources	<u>2,390,444</u>	<u>2,015,246</u>	<u>4,405,690</u>
NET POSITION			
Net investment in capital assets	4,698,025	10,757,002	15,455,027
Unrestricted (deficit)	<u>(830,171)</u>	<u>812,477</u>	<u>(17,694)</u>
Total net position	<u>\$ 3,867,854</u>	<u>\$ 11,569,479</u>	<u>\$ 15,437,333</u>

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

POCOMOKE CITY, MARYLAND

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2023

	Program Revenue			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
FUNCTION/PROGRAMS					
GOVERNMENTAL ACTIVITIES					
General government	\$ 928,210	\$ 176,707	\$ 10,000	6,967	\$ (734,536)
Public safety	2,240,850	19,225	210,265		(1,981,469)
Public works	1,510,892	345,792	239,269	257,280	(668,551)
Parks, recreation and culture	215,638	2,244	29,048	6,926	(177,420)
Housing and urban development	266,429	27	42,644		(223,758)
Economic development	112,357	70,921			(41,436)
Interest on long-term debt	59,743				(59,743)
Total governmental activities	5,334,119	614,916	531,226	301,064	(3,886,913)
BUSINESS-TYPE ACTIVITIES					
Water and sewer	2,140,713	2,349,854	48,849	1,413,195	1,671,185
Ambulance	1,241,937	544,346	722,456	121,523	146,388
Total business-type activities	3,382,650	2,894,200	771,305	1,534,718	1,817,573
Total	\$ 8,716,769	\$ 3,509,116	\$ 1,302,531	\$ 1,835,782	(2,069,340)
GENERAL REVENUES					
Taxes					
Property taxes, levied for general purposes					3,701,255
State income taxes					302,292
Public service taxes					169,157
Franchise fees					61,336
Grants and contributions not restricted to specific programs					465,000
Unrestricted investment earnings					10,475
Gain on sale of property					79,517
Total general revenues					4,789,032
Change in net position					902,119
NET POSITION, BEGINNING OF YEAR					2,729,692
NET POSITION, END OF YEAR					9,741,906
					\$ 3,867,854
					\$ 11,569,479
					\$ 15,437,333

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

POCOMOKE CITY, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2023

ASSETS

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Cash and equivalents	\$ 1,807,866	\$ 21,097	\$ 1,828,963
Taxes receivable, net	291,884		291,884
Leases receivable, net	97,575		97,575
Accounts and notes receivable, other, net	234,027		234,027
Due from other governments	65,619		65,619
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,496,971</u>	<u>\$ 21,097</u>	<u>\$ 2,518,068</u>

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

LIABILITIES

Accounts payable	\$ 37,505	\$	\$ 37,505
Accrued expenses	169,402		169,402
Due to other funds	(42,209)	42,209	
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>164,698</u>	<u>42,209</u>	<u>206,907</u>

DEFERRED INFLOWS OF RESOURCES

Deferred grants	687,054		687,054
Deferred taxes	42,966		42,966
Deferred leases	92,954		92,954
	<u> </u>	<u> </u>	<u> </u>
Total deferred inflows of resources	<u>822,974</u>	<u> </u>	<u>822,974</u>

FUND BALANCES

Unassigned (deficit)	<u>1,509,299</u>	<u>(21,112)</u>	<u>1,488,187</u>
Total fund balances (deficit)	<u>1,509,299</u>	<u>(21,112)</u>	<u>1,488,187</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,496,971</u>	<u>\$ 21,097</u>	<u>\$ 2,518,068</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, 2023

Total fund balance, governmental funds	\$ 1,488,187
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 statements, but are reported in the governmental activities of the Statement of Net Position.	5,801,449
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.	1,948,020
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	42,966
Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position:	
Notes and leases payable	(1,103,424)
Accrued interest payable	(274)
Compensated absences	(60,439)
Deferred financing inflows - retirement	(1,610,436)
Net pension liability	(2,441,897)
Net other post-employment benefit liability	(196,298)
Net position, governmental activities	<u>\$ 3,867,854</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, 2023

	General Fund	Special Revenue	Total Governmental Funds
REVENUES			
Taxes	\$ 4,031,981	\$	\$ 4,031,981
Licenses and permits	169,969		169,969
Intergovernmental	1,452,419		1,452,419
Charges for services	356,837		356,837
Fines and forfeitures	20,025		20,025
Investment earnings	10,475		10,475
Miscellaneous	290,557	27	290,584
Total revenues	6,332,263	27	6,332,290
EXPENDITURES			
Current			
General government	647,781		647,781
Public safety	1,657,033		1,657,033
Public works	1,188,771		1,188,771
Parks, recreation and culture	78,996		78,996
Housing and urban development	237,734		237,734
Economic development	100,432		100,432
Employee benefits	1,068,714		1,068,714
Miscellaneous	116,099		116,099
Debt service	82,440		82,440
Capital outlay	484,029		484,029
Total expenditures	5,662,029		5,662,029
Revenues over expenditures	670,234	27	670,261
OTHER FINANCING SOURCES (USES)			
Loan proceeds	21,283		21,283
Net change in fund balances	691,517	27	691,544
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	817,782	(21,139)	796,643
FUND BALANCES (DEFICIT), END OF YEAR	\$ 1,509,299	\$ (21,112)	\$ 1,488,187

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, 2023

Net change in fund balances, total governmental funds:	\$ 691,544
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 (\$484,029) was greater than depreciation expense (\$397,318) in the current period.	86,711
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	
	727,110
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	(24,203)
Proceeds from the issuance of long-term debt is reported in the governmental funds as a source of financing. On the other hand, loan proceeds are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.	
	(21,283)
Governmental funds report repayment of note principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.	
	46,213
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	23
Change in long-term compensated absences	(7,162)
Change in deferred financing inflows - retirement	(161,624)
Change in net pension liability	(497,533)
Change in net other post-employment benefit liability	62,323
	<hr/>
Change in net position, governmental activities	<u>\$ 902,119</u>

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

POCOMOKE CITY, MARYLAND

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2023

	Enterprise Funds		
	Water and Sewer Fund	Ambulance Fund	Total
ASSETS			
Current assets			
Cash and equivalents	\$ 3,470,707	\$ 89,384	\$ 3,560,091
Accounts receivable, net	192,444	60,250	252,694
Due from other governments	154,936		154,936
Total current assets	<u>3,818,087</u>	<u>149,634</u>	<u>3,967,721</u>
Non-current assets			
Capital assets, at cost	24,199,031	1,524,367	25,723,398
Less accumulated depreciation	(9,998,070)	(681,989)	(10,680,059)
Total non-current assets	<u>14,200,961</u>	<u>842,378</u>	<u>15,043,339</u>
Total assets	<u>18,019,048</u>	<u>992,012</u>	<u>19,011,060</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred financing outflows - retirement & OPEB	<u>92,715</u>	<u>192,681</u>	<u>285,396</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	1,092,911	8,652	1,101,563
Compensated absences	8,185	21,732	29,917
Accrued interest payable	16,884		16,884
Notes and bonds payable	315,542	50,903	366,445
Total current liabilities	<u>1,433,522</u>	<u>81,287</u>	<u>1,514,809</u>
Non-current liabilities			
Compensated absences	4,532	12,497	17,029
Notes and bonds payable, less current portion	3,844,584	75,308	3,919,892
Net pension liability	72,263	151,731	223,994
Net other post-employment benefit liability	13,938	22,069	36,007
Total non-current liabilities	<u>3,935,317</u>	<u>261,605</u>	<u>4,196,922</u>
Total liabilities	<u>5,368,839</u>	<u>342,892</u>	<u>5,711,731</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred financing inflows - retirement & OPEB	120,251	240,672	360,923
Deferred grants	1,613,958	40,365	1,654,323
Total deferred inflows of resources	<u>1,734,209</u>	<u>281,037</u>	<u>2,015,246</u>
NET POSITION			
Net investment in capital assets	10,040,835	716,167	10,757,002
Unrestricted (deficit)	967,880	(155,403)	812,477
Total net position	<u>\$ 11,008,715</u>	<u>\$ 560,764</u>	<u>\$ 11,569,479</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, 2023

	Enterprise Funds		
	Water and Sewer Fund	Ambulance Fund	Total
OPERATING REVENUES			
Charges for services	\$ 1,632,129	\$ 544,346	\$ 2,176,475
Sewage haulers	656,535		656,535
Operating grants and donations	48,849	722,456	771,305
Miscellaneous and late charges	61,190		61,190
Total operating revenues	<u>2,398,703</u>	<u>1,266,802</u>	<u>3,665,505</u>
OPERATING EXPENSES			
Salaries and wages	305,166	884,459	1,189,625
Employee benefits	222,946	45,212	268,158
Contract labor	124,011	3,734	127,745
Insurance	28,454	21,318	49,772
Materials and supplies	230,489	80,478	310,967
Heat, light and power (net of rebates)	292,979	(3,997)	288,982
Facility maintenance	128,814	12,109	140,923
Vehicle operating expenses	26,535	47,105	73,640
Telephone	7,383	4,359	11,742
Bad debt expense (recovery)	(1,338)	(16,203)	(17,541)
Depreciation	610,978	158,946	769,924
Total operating expenses	<u>1,976,417</u>	<u>1,237,520</u>	<u>3,213,937</u>
Operating income	<u>422,286</u>	<u>29,282</u>	<u>451,568</u>
NON-OPERATING REVENUES (EXPENSES)			
Capital grants	1,413,195	121,523	1,534,718
Interest expense	(164,296)	(4,417)	(168,713)
Gain on disposal of assets		10,000	10,000
Net non-operating revenues	<u>1,248,899</u>	<u>127,106</u>	<u>1,376,005</u>
Change in net position	1,671,185	156,388	1,827,573
NET POSITION, BEGINNING OF YEAR	<u>9,337,530</u>	<u>404,376</u>	<u>9,741,906</u>
NET POSITION, END OF YEAR	<u>\$ 11,008,715</u>	<u>\$ 560,764</u>	<u>\$ 11,569,479</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, 2023

	Enterprise Funds		
	Water and Sewer Fund	Ambulance Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,330,568	\$ 567,154	\$ 2,897,722
Other operating receipts	110,039	722,456	832,495
Payments to suppliers	(101,363)	(200,004)	(301,367)
Payments to employees	(345,140)	(999,130)	(1,344,270)
Net cash provided by operating activities	<u>1,994,104</u>	<u>90,476</u>	<u>2,084,580</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments for acquisition of capital assets	(2,062,488)	(163,048)	(2,225,536)
Proceeds from capital grants	2,157,316	183,322	2,340,638
Principal paid on long-term debt	(246,427)	(27,024)	(273,451)
Proceeds from sale of fixed asset		10,000	10,000
Interest paid on long-term debt	(161,971)	(4,417)	(166,388)
Net cash used by capital and related financing activities	<u>(313,570)</u>	<u>(1,167)</u>	<u>(314,737)</u>
Net increase in cash	1,680,534	89,309	1,769,843
CASH, BEGINNING OF YEAR	<u>1,790,173</u>	<u>75</u>	<u>1,790,248</u>
CASH, END OF YEAR	<u>\$ 3,470,707</u>	<u>\$ 89,384</u>	<u>\$ 3,560,091</u>
RECONCILIATION OF OPERATING INCOME TO NET			
CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 422,286	\$ 29,282	\$ 451,568
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	610,978	158,946	769,924
Change in allowance for bad debts	(24,052)	(16,203)	(40,225)
Deferred financing outflows - retirement	(28,083)	(32,169)	(60,252)
Deferred financing inflows - retirement & OPEB	39,984	48,245	88,229
(Increase) decrease in assets:			
Accounts receivable	65,956	22,808	88,764
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	<u>907,035</u>	<u>(120,433)</u>	<u>786,602</u>
Net cash provided by operating activities	<u>\$ 1,994,104</u>	<u>\$ 90,476</u>	<u>\$ 2,124,835</u>

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

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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, 2023

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.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting (continued)

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.

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, 2023 are as follows:

Taxes	\$	84,912
Water and sewer charges	\$	71,931
Sewage haulers	\$	22,714
Ambulance services	\$	58,115
Other receivables	\$	58,356

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 following types of items 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 operating leases which are recognized over the life of the lease, deferred inflows retirement, deferred inflows OPEB, deferred grants, and unearned revenue which is 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.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

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

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.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund balances (continued)

- *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.
- *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.

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

Effective July 1, 2022, the City adopted the new guidance in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. The new guidance requires a subscription asset and corresponding liability to be recognized for any subscription-based information technology arrangement a government has with software vendors with a remaining term longer than 12 months. Right-of-use subscription assets are recorded at the present value of the total subscription payments. They are amortized using the straight-line method over the life of the subscription arrangement.

As a result of the adoption of the guidance, the City recognized as of June 30, 2023 (a) subscription liability of \$14,976 which represents the present value of the remaining subscription payments discounted using the City’s incremental borrowing rates of 4.76%, and (b) right-of-use subscription asset of \$21,283 with corresponding accumulated amortization of \$4,257.

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.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

CASH AND CASH EQUIVALENTS (Continued)

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As of June 30, 2023, 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	\$	1,918,438
Uninsured but collateralized by irrevocable standby line of credit up to \$5,000,000		3,408,021
	\$	<u>5,326,459</u>

LEASES RECEIVABLE

The City entered into lease agreement with Dockside, LLC for restaurant property owned by the City expiring in 2026. The leases receivable and deferred inflows of resources are recorded at the present value of the lease payments. The deferred inflows of resources are being amortized over the life of the lease. Amortization is included in rental income in the general fund.

As of June 30, 2023, the balance of the lease receivable was \$97,575.

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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives. Leased equipment is amortized over the life of the lease and subscription assets are amortized over the life of the subscription arrangement.

Asset Class	Estimated Useful Lives
Buildings	40
Equipment and vehicles	5 – 20
Improvements and infrastructure	8 – 60
Leased equipment	Life of the lease
Subscription assets	Life of agreement

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

CAPITAL ASSETS (Continued)

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

Governmental activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Capital assets not being depreciated</i>				
Land	\$ 1,476,491	\$	\$	\$ 1,476,491
<i>Capital assets being depreciated</i>				
Buildings and improvements	4,905,096	44,025		4,949,121
Furniture and equipment	2,380,253	92,148		2,472,401
Automobiles and vehicles	1,351,022	259,241		1,610,263
Infrastructure	977,034	67,332		1,044,366
Leased equipment	50,658 *			50,658
Subscription assets		21,283		21,283
Total capital assets being depreciated	<u>9,664,063</u>	<u>484,029</u>		<u>10,148,092</u>
Less accumulated depreciation for:				
Buildings and improvements	1,929,310	124,291		2,053,601
Furniture and equipment	1,784,747	141,569		1,926,316
Automobiles and vehicles	1,025,477	101,283		1,126,760
Infrastructure	679,055	15,787		694,842
Leased equipment	7,227 *	10,131		17,358
Subscription assets		4,257		4,257
Total accumulated depreciation	<u>5,425,816</u>	<u>397,318</u>		<u>5,823,134</u>
Total capital assets being depreciated, net	<u>4,238,247</u>	<u>86,711</u>		<u>4,324,958</u>
Governmental activities, capital assets, net	<u>\$ 5,714,738</u>	<u>\$ 86,711</u>	<u>\$</u>	<u>\$ 5,801,449</u>

*Adjusted beginning balances for leased equipment and related liability for lease that began in fiscal year 2022 but was not recorded.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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	155,295	1,913,094		2,068,389
Total capital assets not being depreciated	<u>211,812</u>	<u>1,913,094</u>		<u>2,124,906</u>
<i>Capital assets being depreciated</i>				
Buildings	89,001			89,001
Infrastructure	20,322,459	69,206		20,391,665
Equipment	1,513,271	80,188		1,593,459
Total capital assets being depreciated	<u>21,924,731</u>	<u>149,394</u>		<u>22,074,125</u>
Less accumulated depreciation for:				
Buildings	27,335	2,669		30,004
Infrastructure	8,400,228	487,640		8,887,868
Equipment	959,529	120,669		1,080,198
Total accumulated depreciation	<u>9,387,092</u>	<u>610,978</u>		<u>9,998,070</u>
Total capital assets being depreciated, net	<u>12,537,639</u>	<u>(461,584)</u>		<u>12,076,055</u>
Water and sewer, capital assets, net	<u>12,749,451</u>	<u>1,451,510</u>		<u>14,200,961</u>
Ambulance:				
<i>Capital assets being depreciated</i>				
Buildings	125,754	13,980		139,734
Equipment	307,255	84,348		391,603
Automobiles and vehicles	1,100,216	64,722	171,908	993,030
Total capital assets being depreciated	<u>1,533,225</u>	<u>163,050</u>	<u>171,908</u>	<u>1,524,367</u>
Less accumulated depreciation for:				
Buildings	33,723	4,102		37,825
Equipment	186,576	25,167		211,743
Automobiles and vehicles	474,652	129,677	171,908	432,421
Total accumulated depreciation	<u>694,951</u>	<u>158,946</u>	<u>171,908</u>	<u>681,989</u>
Total capital assets being depreciated, net	<u>838,274</u>	<u>4,104</u>		<u>842,378</u>
Ambulance, capital assets, net	<u>838,274</u>	<u>4,104</u>		<u>842,378</u>
Business-type activities, capital assets, net	<u>\$ 13,587,725</u>	<u>\$ 1,455,614</u>	<u>\$</u>	<u>\$ 15,043,339</u>

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

CAPITAL ASSETS (Continued)

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

General government	\$	38,776
Public safety		160,475
Public works		98,779
Parks, recreation and culture		66,895
Housing and urban development		3,074
Economic development		29,319
		\$ 397,318

Construction in progress

The following projects are included in construction in progress as of June 30, 2023:

The pump station project is estimated to cost \$1,911,000. The City plans to finance the project with a USDA loan of \$1,056,000, ARPA funding of \$705,000, and a Maryland Rural Council grant of \$150,000. The City has obtained a bridge loan with Taylor Bank to use during the construction period. The balance in construction in progress for this project is \$1,424,467. As of June 30, 2023, \$50,301 has been drawn on the line of credit. Additional draws on the line were made in fiscal year 2024 to cover expenses incurred during fiscal year 2023.

The water tank mixer project is currently in the design phase. The project will be funded with a MDE grant of \$867,000 and ARPA funding. Cost incurred through June 30, 2023 were \$86,608.

The water line improvements project is estimated to cost \$2,256,700. Phase I of the project will be funded through a CDBG grant of \$635,727 and MDE funding of \$843,923, and other funding of \$777,000. Costs incurred for this project are \$58,044 through June 30, 2023.

The water meter replacement project began during the year. The City is financing the project with ARPA funding of \$902,854. The balance in construction in progress for this project as of June 30, 2023 is \$499,270.

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.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

INTERNAL BALANCES/TRANSFERS

Balances due to/from other funds at June 30, 2023, consist of the following:

Due to the general fund from the special revenue fund \$ 42,209

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

LONG-TERM DEBT

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Notes payable	\$ 1,084,829	\$	\$ (28,648)	\$ 1,056,181
Operating leases	43,525		(11,258)	32,267
Subscription payable	<u> </u>	<u>21,283</u>	<u>(6,307)</u>	<u>14,976</u>
	<u>\$ 1,128,354</u>	<u>\$ 21,283</u>	<u>\$ (46,213)</u>	<u>\$ 1,103,424</u>
Business-type activities:				
Water and sewer				
Notes payable	\$ 4,406,552	\$	\$ (246,426)	\$ 4,160,126
Ambulance				
Notes payable	143,457	33,150	(50,396)	126,211
Financing leases	<u>9,777</u>	<u> </u>	<u>(9,777)</u>	<u> </u>
	<u>\$ 4,559,786</u>	<u>\$ 33,150</u>	<u>\$ (306,599)</u>	<u>\$ 4,286,337</u>

Notes payable consists 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. \$ 940,664

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

LONG-TERM DEBT (Continued)

Governmental activities (continued)

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.

115,517

\$ 1,056,181

Business-type activities

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.

\$ 1,903,568

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.

25,723

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.

14,749

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.

36,333

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.

93,062

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

LONG-TERM DEBT (Continued)

Business-type activities (continued)

Stryker. For cardiac monitors. Original obligation is dated January 1, 2022 with an amount available of \$76,013. Payable in one installment of \$42,863 on date of obligation and four annual installments with imputed interest at 3.5% with a maturity date of July 9, 2026. 33,150

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. 8,722

Hebron Savings Bank. For water line upgrades in the Pocomoke Heights area. Amended obligation is dated February 2, 2021 with an amount available of \$781,871. Payments are due in 40 quarterly installments including interest at 4.5% with a maturity date of February 2, 2031. 634,099

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. 251,612

Calvin B. Taylor Bank. Draw down line of credit for pump station construction. Amount available \$1,056,000. Monthly interest only payments at 2.93%. Final payment of principal and interest due September 2023. 50,301

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. 1,235,018

Total notes payable \$ 4,286,337

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

LONG-TERM DEBT (Continued)

Operating leases payable

The City is leasing various copiers, printers, and police tasers and body-cameras under operating leases with a balance of \$32,267 expiring in 2027. The asset and liability are recorded at the present value of the future lease payments of \$50,658. The assets are amortized over the life of the lease. Amortization of the assets under operating leases is included in depreciation expense.

Subscriptions payable

The City is leasing software in the police department with a balance of \$14,976 expiring in 2027. The asset and liability are recorded at the present value of the future lease payments of \$21,283. The assets are amortized over the life of the lease. Amortization of the assets is included in depreciation expense.

Interest expense

Interest incurred in the general fund was \$36,230 and in the enterprise funds was \$168,713 during the year. The full amount was charged to expense.

Debt service requirements

Debt service requirements on long-term debt at June 30, 2023 are as follows:

	Governmental Activities					
	Notes payable		Operating leases		Subscriptions	
	Principal	Interest	Principal	Interest	Principal	Interest
Year(s) ending June 30,						
2024	\$ 30,195	\$ 34,985	\$ 8,401	\$ 1,502	\$ 3,487	\$ 713
2025	31,199	33,980	8,786	1,117	3,653	547
2026	32,237	32,942	7,635	714	3,827	373
2027	33,310	31,869	7,445	354	4,009	191
2028	34,419	30,761				
2029-2033	177,865	135,982				
2034-2038	143,414	109,955				
2039-2043	169,656	83,713				
2044-2048	200,701	52,668				
2049-2053	203,185	16,144				
	<u>\$ 1,056,181</u>	<u>\$ 562,999</u>	<u>\$ 32,267</u>	<u>\$ 3,687</u>	<u>\$ 14,976</u>	<u>\$ 1,824</u>

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

LONG-TERM DEBT (Continued)

Debt service requirements (continued)

Year(s) ending June 30,	Business-type Activities	
	Notes payable	
	Principal	Interest
2024	\$ 366,445	\$ 145,496
2025	292,878	132,523
2026	252,666	121,712
2027	262,984	111,393
2028	264,566	100,624
2029-2033	1,246,147	339,986
2034-2038	788,660	121,232
2039-2043	176,807	57,702
2044-2048	181,865	43,834
2049-2053	196,921	28,819
2054-2058	213,238	12,502
2059	43,160	420
	\$ 4,286,337	\$ 1,216,243

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.

POCOMOKE CITY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

RETIREMENT AND PENSION PLANS

General information about the pension plan

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

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

Covered members. On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension system was established.

As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979, became members of the Employees' Pension System as a condition of employment. On or after January 1, 2005, an individual who is a member of the Employees' Retirement System may not transfer membership to the Employees' Pension System.

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

POCOMOKE CITY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

RETIREMENT AND PENSION PLANS (Continued)

General information about the pension plan (continued)

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

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

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

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.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

RETIREMENT AND PENSION PLANS (Continued)

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

At June 30, 2023, the City reported a liability of \$2,665,891 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. At June 30, 2022, the City's proportion was .0095% for the general employees' plan and .0038% for the police officers' plan.

For the year ended June 30, 2023, the City recognized pension expense of \$379,962. At June 30, 2023, the City reported deferred outflows of resources or deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 346,770	\$ 34,985
Net difference between projected and actual earnings on pension plan investments	875,741	959,844
Difference between actual and expected experience		218,912
Changes in proportion	544,005	494,301
Contributions subsequent to measurement date	402,559	
	\$ 2,169,075	\$ 1,708,042

The City's contribution subsequent to the measurement date of \$402,559, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

Deferred financial inflows and outflows are made up of changes in actuarial assumptions, differences in actual and expected experience, and net difference 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 5.49 to 5.78 years. The net difference in investment earnings are being amortized over a closed five-year period.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

RETIREMENT AND PENSION PLANS (Continued)

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

The following table shows the amortization of these balances:

Year Ending June 30	
2024	\$ (35,429)
2025	(37,308)
2026	(52,836)
2027	192,195
2028	(8,148)
Total	<u>\$ 58,474</u>

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

Inflation	2.25% general, 2.75% wage
Salary increases	2.75% to 11.25%, including wage inflation
Investment rate of return	6.80%

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

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

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

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

RETIREMENT AND PENSION PLANS (Continued)

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

For each major class that is included in the MSRPS's target asset allocation as of June 30, 2022, these best estimates are summarized in the following table:

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

For the years ended June 30, 2022 and 2021, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was (2.97)% and 26.69%, respectively. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate. The discount rate used to measure the total pension liability was 6.80%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contribution from the municipalities will be made at contractually required rates, actuarially determined.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.80%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.80%) or 1-percentage point higher (7.80%) than the current rate:

1% Decrease (5.80%)	\$ 4,090,326
Current discount rate (6.80%)	\$ 2,665,891
1% Increase (7.80%)	\$ 1,483,941

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

POCOMOKE CITY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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.

Employees covered by benefit terms

As of June 30, 2021, a total of 57 employees were covered by the benefit terms as follows:

Retirees in pay status (pre-Medicare)	3
Retirees in pay status (post-Medicare)	6
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, 2022 to determine the unfunded actuarial accrued liability.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

OTHER POST-EMPLOYMENT BENEFITS (Continued)

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, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

Actuarial assumptions

The total OPEB liability in the June 30, 2022 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 June 30, 2021 is 1.92%. The rate as of June 30, 2022 is 3.69%.

Changes in the total OPEB liability

	<u>Total OPEB Liability</u>
Balance as of June 30, 2021 for FYE 2022	\$ 306,061
Changes for the year:	
Service cost	17,972
Interest	5,786
Experience gains (losses)	(2,174)
Changes in assumptions	(88,069)
Benefit payouts	(7,271)
Net changes	<u>(73,756)</u>
Balance as of June 30, 2022 for FYE 2023	<u>\$ 232,305</u>

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

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

1% Decrease (2.69%)	\$ 277,547
Current discount rate (3.69%)	\$ 232,305
1% Increase (4.69%)	\$ 196,305

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

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

1% Decrease (2.94%)	\$ 189,333
Current discount rate (3.94%)	\$ 232,305
1% Increase (4.94%)	\$ 289,395

OPEB expense and deferred outflows and inflows of resources related to OPEB

Benefit payments are recognized when currently due and payable in accordance with the benefit terms. For the year ended June 30, 2023, the City recognized an OPEB expense of (\$823). At June 30, 2023, the City reported deferred outflows of resources or deferred inflows of resources related to the OPEB plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$ 158,121
Changes of assumptions	64,342	108,747
Total	\$ 64,342	\$ 266,868

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

OTHER POST-EMPLOYMENT BENEFITS (Continued)

OPEB expense and deferred outflows and inflows of resources related to OPEB (continued)

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		
2024	\$	(24,582)
2025		(24,582)
2026		(24,582)
2027		(24,582)
2028		(24,582)
Thereafter		(79,616)
Total	\$	<u>(202,526)</u>

RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City 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.

NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 101, *Compensated Absences*, will be effective for the City beginning with the year ending June 30, 2025. This statement updates the recognition and measurement guidance for compensated absences.

REQUIRED SUPPLEMENTARY INFORMATION

POCOMOKE CITY, MARYLAND

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

FOR THE YEAR ENDED JUNE 30, 2023

	Budget		Actual	Variance with Budget
	Original	Final		Favorable (Unfavorable)
REVENUES				
Taxes	\$ 3,856,418	\$ 3,856,418	\$ 4,031,981	\$ 175,563
Licenses and permits	106,950	106,950	169,969	63,019
Intergovernmental	1,040,224	1,040,224	1,452,419	412,195
Charges for services	291,100	291,100	356,837	65,737
Fines and forfeitures	11,375	11,375	20,025	8,650
Investment earnings	500	500	10,475	9,975
Miscellaneous	283,954	283,954	290,557	6,603
Total revenues	<u>5,590,521</u>	<u>5,590,521</u>	<u>6,332,263</u>	<u>741,742</u>
EXPENDITURES				
Current				
General government	634,739	634,739	647,781	(13,042)
Public safety	1,558,760	1,558,760	1,657,033	(98,273)
Public works	1,313,201	1,313,201	1,188,771	124,430
Parks, recreation and culture	83,400	83,400	78,996	4,404
Urban housing and development	292,693	292,693	237,734	54,959
Economic development	134,136	134,136	100,432	33,704
Employee benefits	1,276,293	1,276,293	1,068,714	207,579
Miscellaneous	123,625	123,625	116,099	7,526
Debt service	63,258	63,258	82,440	(19,182)
Capital outlay	17,881	17,881	484,029	(466,148)
Total expenditures	<u>5,497,986</u>	<u>5,497,986</u>	<u>5,662,029</u>	<u>(164,043)</u>
Revenues over expenditures	<u>92,535</u>	<u>92,535</u>	<u>670,234</u>	<u>577,699</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds			21,283	21,283
Transfers out	(92,535)	(92,535)		92,535
Net other financing sources	<u>(92,535)</u>	<u>(92,535)</u>	<u>21,283</u>	<u>113,818</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ 691,517</u>	<u>\$ 691,517</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)**

Fiscal year/ measurement date	City's proportion of the net pension liability	City's		City's proportionate share as a percentage of covered payroll	City's proportionate share as a percentage of covered payroll	Plan's fiduciary net position as a percentage of total pension
		proportionate share of the net pension liability (asset)	City's covered payroll			
General Employees' Plan						
2015/2014	0.008815%	\$ 1,564,326	\$ 2,174,057	71.95%		71.95%
2016/2015	0.009698%	2,015,345	2,307,186	87.35%		68.78%
2017/2016	0.009107%	2,148,635	2,271,272	94.60%		65.79%
2018/2017	0.007884%	1,704,880	2,313,992	73.68%		69.38%
2019/2018	0.005832%	1,223,672	1,656,878	73.85%		71.18%
2020/2019	0.006117%	1,261,593	1,871,611	67.41%		72.34%
2021/2020	0.007037%	1,590,356	1,904,141	83.52%		70.72%
2022/2021	0.007658%	1,148,918	2,061,011	55.75%		81.84%
2023/2022	0.009545%	1,909,841	2,122,143	90.00%		76.27%
Law Enforcement Officers' Plan (LEOPS)						
2019/2018	0.004801%	\$ 1,007,372	\$ 732,779	137.47%		71.18%
2020/2019	0.006180%	1,274,741	739,620	172.35%		72.34%
2021/2020	0.006292%	1,422,110	788,500	180.36%		70.72%
2022/2021	0.007807%	1,171,202	554,336	211.28%		81.84%
2023/2022	0.003779%	756,050	756,924	99.88%		76.27%

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)

Fiscal Year	Contractually required contribution	Actual contribution	Contribution deficiency (excess)	City's covered payroll	Actual contribution as a percentage of covered payroll
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%
2021	168,753	168,753		1,904,141	8.86%
2022	217,848	217,848		2,061,011	10.57%
2023	231,951	231,951		2,122,143	10.93%
Law Enforcement Officers' Plan (LEOPS)					
2019	\$ 126,914	\$ 126,914	\$	732,779	17.32%
2020	134,908	134,908		739,620	18.24%
2021	172,025	172,025		788,500	21.82%
2022	86,240	86,240		554,336	15.56%
2023	170,608	170,608		756,924	22.54%

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - MSRPS
(UNAUDITED)**

JUNE 30, 2023

Changes in benefit terms:

There were no benefit changes during the year.

Changes in assumptions:

Inflation and salary increase rates changed.

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

Actuarial	Entry age normal.	
Remaining amortization period	25 year closed amortization period ending June 30, 2039; 16 years remaining.	
Asset valuation model	Five year smoothed market (maximum 120% and minimum 80% of market value).	
Inflation	2022	2.25% general; 2.75% wage
	2021	2.60% general; 3.10% wage
Salary increases	2022	2.75% to 11.25%, including inflation
	2021	3.10% to 11.6%, including inflation
Investment rate of return	2022	6.80%
	2021	6.80%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2019 valuation pursuant to an experience study of the period July 1, 2014 to June 30, 2018.	
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale.	

POCOMOKE CITY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

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

	2023	2022	2021	2020	2019	2018
Total OPEB liability	\$ 17,972	\$ 15,842	\$ 12,391	\$ 18,546	\$ 18,085	\$ 21,764
Service cost	5,786	7,497	8,037	13,918	13,105	11,313
Interest cost						(12,137)
Changes in benefit terms						
Experience losses (gains)	(2,174)	(48,450)	(126)	(174,363)	(289)	
Changes of assumptions	(88,069)	28,537	36,838	20,049	(2,828)	(54,078)
Benefit payments	(7,271)	(7,428)	(7,828)	(6,834)	(9,711)	(9,711)
Net change in total OPEB liability	(73,756)	(4,002)	49,312	(128,684)	18,362	(42,849)
Total OPEB liability, beginning of year	306,061	310,063	260,751	389,435	371,073	413,922
Total OPEB liability, end of year	<u>\$ 232,305</u>	<u>\$ 306,061</u>	<u>\$ 310,063</u>	<u>\$ 260,751</u>	<u>\$ 389,435</u>	<u>\$ 371,073</u>
Plan fiduciary net position						
Contributions employer	\$ 7,271	\$ 7,428	\$ 7,828	\$ 6,834	\$ 9,711	\$ 9,711
Benefit payments	(7,271)	(7,428)	(7,828)	(6,834)	(9,711)	(9,711)
Net change in fiduciary net position						
Fiduciary net position, beginning of year						
Fiduciary net position, end of year	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
City's total OPEB liability, end of year	<u>\$ 232,305</u>	<u>\$ 306,061</u>	<u>\$ 310,063</u>	<u>\$ 260,751</u>	<u>\$ 389,435</u>	<u>\$ 371,073</u>
Fiduciary net position as a % of total OPEB liability	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Notes to schedule						
No benefit changes.						
Changes of assumptions: The discount rate was changed as follows:						
	6/30/2021	1.92%				
	6/30/2022	2.45%				
	6/30/2023	3.69%				
Because this OPEB plan does not depend on salary, no salary information is presented, Information for fiscal year 2017 and earlier is not available.						

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, 2023, appears on pages one through three. 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 52 through 56 is presented for purposes of additional analysis and is not a required part of the financial statements.

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

Other Matter

The prior year comparative information has been derived from the City's 2022 and 2021 financial statements and, in our reports dated September 30, 2022 and September 30, 2021, 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.

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 15, 2024

POCOMOKE CITY, MARYLAND

**SCHEDULES OF REVENUES AND EXPENDITURES
GENERAL FUND**

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

	2023	2022	2021
REVENUES			
Taxes	\$ 4,031,981	\$ 3,854,058	\$ 3,756,753
Licenses and permits	169,969	101,256	114,531
Intergovernmental	1,452,419	1,415,528	1,136,829
Charges for services	356,837	371,861	330,928
Fines and forfeitures	20,025	32,271	29,720
Investment earnings	10,475	2,257	682
Miscellaneous	290,557	226,242	209,171
Total revenues	6,332,263	6,003,473	5,578,614
EXPENDITURES			
Current			
General government	647,781	634,860	638,945
Public safety	1,657,033	1,551,304	1,543,150
Public works	1,188,771	1,184,792	1,126,719
Parks, recreation and culture	78,996	51,501	54,232
Urban housing and development	237,734	233,120	207,295
Economic development	100,432	108,784	95,542
Employee benefits	1,068,714	1,100,400	1,222,593
Miscellaneous	116,099	113,446	97,899
Debt service	82,440	72,429	69,278
Capital outlay	484,029	586,772	320,238
Total expenditures	5,662,029	5,637,408	5,375,891
Revenues over expenditures	670,234	366,065	202,723
OTHER FINANCING SOURCES (USES)			
Loan proceeds	21,283		
Transfers out		(177,000)	(107,500)
Net other financing sources (uses)	21,283	(177,000)	(107,500)
Net change in fund balance	\$ 691,517	\$ 189,065	\$ 95,223

POCOMOKE CITY, MARYLAND

**SCHEDULES OF REVENUES
GENERAL FUND**

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

	2023	2022	2021
REVENUES			
Taxes			
Real property	\$ 2,780,308	\$ 2,699,234	\$ 2,609,168
Personal property	927,494	892,427	791,973
Interest, discounts and credits	17,660	24,833	31,669
Local taxes	306,519	237,564	323,943
Total taxes	4,031,981	3,854,058	3,756,753
Other revenues			
Licenses and permits	169,969	101,256	114,531
Intergovernmental			
Federal Government	294,138	261,473	50,368
State of Maryland	450,351	474,423	402,470
Worcester County	707,930	679,632	683,991
Service charges for current services			
Trash removal fees	261,409	260,280	254,895
Recreation user fees	2,244	3,593	130
Other service charges	93,184	107,988	75,903
Fines and forfeitures	20,025	32,271	29,720
Investment earnings	10,475	2,257	682
Miscellaneous			
Rental income	70,922	53,926	71,625
Other	219,635	172,316	137,546
Total other revenues	2,300,282	2,149,415	1,821,861
Total revenues	6,332,263	6,003,473	5,578,614
OTHER FINANCING SOURCES (USES)			
Loan proceeds	21,283		
Transfers out		(177,000)	(107,500)
Net other financing sources (uses)	21,283	(177,000)	(107,500)
Total revenues and other financing sources (uses)	\$ 6,353,546	\$ 5,826,473	\$ 5,471,114

POCOMOKE CITY, MARYLAND

**SCHEDULES OF EXPENDITURES
GENERAL FUND**

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

EXPENDITURES	<u>2023</u>	<u>2022</u>	<u>2021</u>
General government			
Legislative	\$ 94,119	\$ 90,942	\$ 82,301
Executive	100,904	106,711	99,429
Human resources	44,011	61,114	62,673
Financial administration	220,241	205,612	201,938
Law	78,202	57,263	56,677
General services	107,831	111,475	126,353
Other general government	2,473	1,743	9,574
Total general government	<u>647,781</u>	<u>634,860</u>	<u>638,945</u>
Public safety			
Police department	1,471,465	1,392,852	1,379,766
Fire department	185,568	158,452	163,384
Total public safety	<u>1,657,033</u>	<u>1,551,304</u>	<u>1,543,150</u>
Public works			
General services	93,496	105,546	95,485
Sanitation and waste removal	461,747	417,550	411,166
Mechanic	53,467	50,558	51,438
Highways and streets	580,061	611,138	568,630
Total public works	<u>1,188,771</u>	<u>1,184,792</u>	<u>1,126,719</u>
Parks, recreation and culture			
Golf course	6,053	1,401	1,379
Parks and docks	62,255	41,963	46,237
Other	10,688	8,137	6,616
Total parks, recreation and culture	<u>78,996</u>	<u>51,501</u>	<u>54,232</u>
Housing and urban development	<u>237,734</u>	<u>233,120</u>	<u>207,295</u>
Economic development	<u>100,432</u>	<u>108,784</u>	<u>95,542</u>
Miscellaneous			
Employee benefits	1,068,714	1,100,400	1,222,593
General insurance	98,036	89,451	81,045
Other	18,063	23,995	16,854
Total miscellaneous	<u>1,184,813</u>	<u>1,213,846</u>	<u>1,320,492</u>
Debt service	<u>82,440</u>	<u>72,429</u>	<u>69,278</u>
Capital outlay	<u>484,029</u>	<u>586,772</u>	<u>320,238</u>
Total expenditures	<u>\$ 5,662,029</u>	<u>\$ 5,637,408</u>	<u>\$ 5,375,891</u>

POCOMOKE CITY, MARYLAND

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

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

	2023	2022	2021
OPERATING REVENUES			
Charges for services	\$ 1,632,129	\$ 1,609,572	\$ 1,621,840
Sewage haulers	656,535	670,849	597,065
Operating grants	48,849	66,811	47,039
Miscellaneous and late charges	61,190	67,541	7,993
Total operating revenues	2,398,703	2,414,773	2,273,937
OPERATING EXPENSES			
Salaries and wages	305,166	267,694	285,423
Employee benefits	222,946	248,666	306,400
Contract labor	124,011	167,560	193,127
Insurance	28,454	26,453	23,570
Materials and supplies	230,489	205,511	171,402
Heat, light and power (net of rebates)	292,979	360,769	226,550
Facility maintenance	128,814	94,118	279,403
Vehicle operating expenses	26,535	20,109	15,002
Telephone	7,383	7,321	8,296
Bad debt expense (recovery)	(1,338)	52,699	2,425
Depreciation	610,978	616,764	603,321
Total operating expenses	1,976,417	2,067,664	2,114,919
Operating income	422,286	347,109	159,018
NON-OPERATING REVENUES (EXPENSES)			
Capital grants	1,413,195	94,863	46,496
Interest expense	(164,296)	(150,074)	(138,120)
Loss on disposal of assets			(8,782)
Net non-operating revenues (expenses)	1,248,899	(55,211)	(100,406)
Change in net position	\$ 1,671,185	\$ 291,898	\$ 58,612

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

POCOMOKE CITY, MARYLAND

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

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

	2023	2022	2021
OPERATING REVENUES			
Charges for services	\$ 544,346	\$ 546,644	\$ 465,623
Operating grants and donations	722,456	706,454	640,243
Total operating revenues	1,266,802	1,253,098	1,105,866
OPERATING EXPENSES			
Salaries and wages	884,459	884,417	938,906
Employee benefits	45,212	137,814	300,049
Contract labor	3,734	1,926	2,935
Insurance	21,318	17,194	15,320
Materials and supplies	80,478	91,673	96,176
Heat, light and power (net of rebates)	(3,997)	(9,074)	5,056
Maintenance - facility	12,109	3,290	5,423
Vehicle operating expenses	47,105	54,921	24,289
Telephone	4,359	3,258	3,463
Bad debt expense (recovery)	(16,203)	15,291	5,765
Depreciation	158,946	107,136	95,819
Total operating expenses	1,237,520	1,307,846	1,493,201
Operating income (loss)	29,282	(54,748)	(387,335)
NON-OPERATING REVENUES (EXPENSES)			
Capital grants	121,523	428,892	
Interest expense	(4,417)	(7,163)	(10,838)
Gain on disposal of assets	10,000		1,500
Net non-operating revenues (expenses)	127,106	421,729	(9,338)
Income (loss) before transfers	156,388	366,981	(396,673)
Transfers in		177,000	107,500
Change in net position	\$ 156,388	\$ 543,981	\$ (289,173)

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

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 *GOVERNMENT AUDITING
 STANDARDS***

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 SUSAN P. KEEN, CPA
 MICHAEL C. KLEGER, CPA
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 JOHN M. STERN, JR., CPA

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, 2023, 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 January 15, 2024.

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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) as a basis for designing 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.

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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 or significant deficiencies 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 financial statements. 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.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 15, 2024

UNIFORM GUIDANCE REPORTS

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pocomoke City, Maryland as of and for the year ended June 30, 2023, and the related notes to the financial statements that collectively comprise Pocomoke City, Maryland's basic financial statements. We have issued our report thereon dated January 15, 2024, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
 January 15, 2024

POCOMOKE CITY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2023

Federal Grantor/Pass-through Grantor/ Program Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Total Award	Federal Expenditures
<u>U.S. Department of the Treasury</u> Coronavirus State and Local Fiscal Recovery Funds	COVID-19 21.027		\$ 4,029,248	\$ 1,583,073
<u>U.S. Department of Agriculture</u> Water and waste disposal system for rural communities	10.760		1,056,000	614,489
<u>U.S. Department of Justice</u> Pass through Governor's Office of Crime Control and Prevention Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.738	BJAG-2020-0012 BJAG-020-0029	30,000 27,911	1,980 27,911
Total U.S. Department of Justice			<u>57,911</u>	<u>29,891</u>
<u>U.S. Department of Housing and Urban Development</u> Pass through Maryland Department of Housing and Community Development Entitlement Grants Cluster Community Development Block Grants/Entitlement Grants	14.218	MD-21-CD-6 MD-22-CD-7	30,000 635,727	6,967 70,726
Total expenditures of federal awards			<u>\$ 5,808,886</u>	<u>\$ 2,305,146</u>

See accompanying notes to schedule of expenditures of federal awards.

POCOMOKE CITY, MARYLAND

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2023

BASIS OF PRESENTATION

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Pass-through entity identifying numbers are presented where available.

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

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

LOANS

For purposes of the schedule of expenditures of federal awards, the value of federal expenditures in the form of loans is calculated as the sum of the balance of loans from previous years for which the Federal Government imposes continuing compliance requirements plus the value of new loans received during the fiscal year.

The Town has been awarded a loan of \$1,056,000 from the U.S. Department of Agriculture (USDA) for upgrades to the pump station. Interim financing has been provided by Taylor Bank for the construction period, as required by USDA. As of June 30, 2023, outstanding Federal loans with continuing compliance requirements were \$50,301. However, draws on the interim financing were made subsequent to year-end for expenditures of 614,489 incurred prior to June 30, 2023, on this project.

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Program

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

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

Basis for Opinion on Each Major Federal Program

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

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

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Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

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

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 15, 2024

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

SECTION B. FINDINGS – FINANCIAL STATEMENTS AUDIT

There were no audit findings for Pocomoke City, Maryland for the year ended June 30, 2022.

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

There were no audit findings for Pocomoke City, Maryland for the year ended June 30, 2022.

POCOMOKE CITY, MARYLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to the financial statements noted? Yes x No

Federal Awards

Internal control over major federal programs:

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

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

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

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds

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

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

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR AWARD PROGRAMS AUDIT

None