

**MAYOR AND COUNCIL OF  
FEDERALSBURG, MARYLAND**

**FINANCIAL REPORT**

**JUNE 30, 2022**

# MAYOR & COUNCIL OF FEDERALSBURG, MARYLAND

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## INDEPENDENT AUDITORS' REPORT

Mayor and Council of Federalsburg, Maryland  
Federalsburg, Maryland

### **Report on the Financial Statements**

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mayor and Council of Federalsburg, Maryland (the "Town") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2022, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town 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.

#### ***Emphasis of Matter***

As discussed in Note 7 to the financial statements, during the year ended June 30, 2022, the Town implemented new accounting guidance from the Government Accounting Standards Board (GASB) Statement No. 87, "Leases". Our opinion is not modified with respect to this matter.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town'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 Responsibility 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 auditors' 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is 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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional 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. The 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 additional supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2023, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

The image shows a handwritten signature in dark ink that reads "UHY LLP". The letters are stylized and cursive, with the "U" and "H" being particularly prominent.

Salisbury, Maryland  
February 28, 2023

## MAYOR & COUNCIL OF FEDERALSBURG, MARYLAND MANAGEMENT'S DISCUSSION AND ANALYSIS

As Management of the Mayor and Council of Federalsburg, Maryland (the "Town"), we offer readers the Town's financial statements. This narrative overview and analysis of the financial activities of the Town are for the fiscal year ending June 30, 2022. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements which will follow this narrative.

### FINANCIAL HIGHLIGHTS

- The Town's combined net position was \$15,928,460, with \$15,481,197 of that amount invested in capital assets, net of related debt.
- Cash increased by \$859,591 to \$2,016,441.
- On bonds and notes payables, the Town paid down \$747,497 in principal.
- The Town purchased \$525,339 in capital and intangible assets and incurred \$1,142,239 in depreciation and amortization expense for the year. As a result, the Town's capital and intangible assets, net of depreciation and amortization, decreased by \$620,697.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements provide two views of Federalsburg's financial position: the Government-wide Financial Statements and the Fund Financial Statements.

On the Government-wide Financial Statements, the statements summarize all of Federalsburg's funds into one statement using the full accrual method of accounting.

- The Statement of Net Position provides information on assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time increases and decreases in net position can serve as a barometer of financial health. The Statement of Net Position is similar to a balance sheet in private sector accounting.
- The Statement of Activities reflects revenue and expenses that report the underlying cause of the change in net position. All changes in net position are reported as the change occurs. This means the statement includes depreciation on the assets. This statement does not report any capital projects. Capital projects are reported on the Statement of Net Position.

**Fund Focus** is the traditional governmental accounting which focuses on the individual funds. The funds have not disappeared in the new reporting model. As has been the case in the old financial model, a fund is defined as a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are used to ensure compliance with finance-related, legal or regulatory compliance. Funds are classified as either governmental funds, proprietary funds or fiduciary funds (Federalsburg has no fiduciary funds).

## MAYOR & COUNCIL OF FEDERALSBURG, MARYLAND MANAGEMENT'S DISCUSSION AND ANALYSIS

Federalsburg has two funds which are classified as governmental; the General Fund and the Capital Projects Fund.

- Governmental Funds include the General Fund and Capital Projects Fund and are essentially the same as the governmental activities. Governmental funds facilitate cost allocation of centralized services such as building maintenance, street repair, accounting, printing, office equipment, engineering services, etc.
- Governmental funds use a modified accrual basis of accounting. Governmental funds focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources. In the governmental statements, the accounting for items such as capital outlay, depreciation, debt payments, and accrued vacation is different than in the government-wide statements. In government funds, capital outlay and debt principal are reported on the Statement of Revenues, Expenditures and Changes in Fund Balance. Depreciation is not recorded. The rule for reporting accrued vacation is more restrictive. The Balance Sheet for governmental funds does not include any capital assets or long-term debt.

**Major Funds** – Major funds are the largest funds in terms of assets, liabilities, revenues or expenses. This allows the reader to see more detailed activities of the Major Funds. The following funds meet this requirement:

- General
- Water and Sewer

Proprietary Funds use the full accrual method of accounting for both government-wide statements and fund level statements. Federalsburg has one proprietary fund, which is the Water and Sewer Fund. Enterprise funds are used to report business like activities. These funds charge a fee for their services.

All enterprise funds qualify as major funds, and Federalsburg has one enterprise fund, which is the Water and Sewer Fund.

Notes to the Financial Statements follow immediately after the basic financial statements. The notes are an integral part of the financial statements. The notes contain many additional disclosures about the financial health of Federalsburg.

**MAYOR & COUNCIL OF FEDERALSBURG, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

**Net position** - The Town's statement of net position provides an overview of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Over time, this can provide a good indicator of the Town's fiscal health.

	Governmental Activities		Business Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$2,688,307	\$1,747,297	\$ 502,606	\$ 468,965	\$ 3,190,913	\$ 2,216,262
Capital assets	4,451,993	4,704,343	16,283,614	16,651,961	20,735,607	21,356,304
<b>Total assets</b>	<b>\$7,140,300</b>	<b>\$6,451,640</b>	<b>\$16,786,220</b>	<b>\$17,120,926</b>	<b>\$23,926,520</b>	<b>\$23,572,566</b>
<b>Deferred outflows</b>	<b>\$ 399,093</b>	<b>\$ 181,617</b>	<b>\$ 131,106</b>	<b>\$ 87,097</b>	<b>\$ 530,199</b>	<b>\$ 268,714</b>
Current and other liabilities	\$1,572,502	\$ 473,227	\$ 60,602	\$ 40,775	\$ 1,633,104	\$ 514,002
Long-term debt outstanding	2,373,308	2,716,813	3,994,911	4,526,373	6,368,219	7,243,186
<b>Total liabilities</b>	<b>\$3,945,810</b>	<b>\$3,190,040</b>	<b>\$ 4,055,513</b>	<b>\$ 4,567,148</b>	<b>\$ 8,001,323</b>	<b>\$ 7,757,188</b>
<b>Deferred inflows</b>	<b>\$ 432,088</b>	<b>\$ 75,799</b>	<b>\$ 94,848</b>	<b>\$ 16,640</b>	<b>\$ 526,936</b>	<b>\$ 92,439</b>
Net investment in capital assets	\$2,995,932	\$3,121,930	\$12,485,265	\$12,370,194	\$15,481,197	\$15,492,124
Restricted	620,256	573,925	-	-	620,256	573,925
Unrestricted	(454,693)	(328,437)	281,700	254,041	(172,993)	(74,396)
<b>Total net position</b>	<b>\$3,161,495</b>	<b>\$3,367,418</b>	<b>\$12,766,965</b>	<b>\$12,624,235</b>	<b>\$15,928,460</b>	<b>\$15,991,653</b>



**MAYOR & COUNCIL OF FEDERALSBURG, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Statement of Activities presented below is a condensed version of the more detailed one presented in the Financial Statements section of this report. Program revenues are listed first followed by general revenues and then expenses attributable to each function of Federalsburg's government. The change in net position is equal to the revenues minus expenses and is added (subtracted) to net position beginning of year to reach net position end of year.

	Governmental Activities		Business Type Activities		Total	
	2022	2021	2022	2021	2022	2021
<b>Revenues</b>						
Program Revenues						
Charge for Services	\$ 279,743	\$ 258,950	\$ 1,515,608	\$ 1,430,695	\$ 1,795,351	\$ 1,689,645
Operating Grants	409,605	100,696	-	-	409,605	100,696
Capital Grants	170,613	160,227	292,583	1,699,321	463,196	1,859,548
General Revenues						
Property Taxes	1,911,805	1,856,752	-	-	1,911,805	1,856,752
Income Taxes	177,081	176,235	-	-	177,081	176,235
Gain on sale of industrial park land	-	81,280	-	-	-	81,280
Other	27,784	65,703	5	32	27,789	65,735
<b>Total Revenue</b>	<b>\$ 2,976,631</b>	<b>\$ 2,699,843</b>	<b>\$ 1,808,196</b>	<b>\$ 3,130,048</b>	<b>\$ 4,784,827</b>	<b>\$ 5,829,891</b>
<b>Expenses</b>						
General government	698,442	410,906	-	-	698,442	410,906
Public safety	1,291,328	1,185,103	-	-	1,291,328	1,185,103
Public works	701,406	642,301	-	-	701,406	642,301
Recreation and culture	106,455	110,841	-	-	106,455	110,841
Economic development	85,945	102,343	-	-	85,945	102,343
Interest on long-term debt	78,550	83,084	-	-	78,550	83,084
Water and Sewer	-	-	1,885,894	1,812,414	1,885,894	1,812,414
<b>Total Expenses</b>	<b>2,962,126</b>	<b>2,534,578</b>	<b>1,885,894</b>	<b>1,812,414</b>	<b>4,848,020</b>	<b>4,346,992</b>
Excess (deficiency) before transfers	14,505	165,265	(77,698)	1,317,634	(63,193)	1,482,899
Transfers in (out)	(220,428)	(237,485)	220,428	237,485	-	-
<b>Change in net position</b>	<b>(205,923)</b>	<b>(72,220)</b>	<b>142,730</b>	<b>1,555,119</b>	<b>(63,193)</b>	<b>1,482,899</b>
Net position, beginning of year	3,367,418	3,439,638	12,624,235	11,069,116	15,991,653	14,508,754
Net position end of year	\$ 3,161,495	\$ 3,367,418	\$ 12,766,965	\$ 12,624,235	\$ 15,928,460	\$ 15,991,653

**MAYOR & COUNCIL OF FEDERALSBURG, MARYLAND  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

Governmental activities’ revenues totaled \$2,976,631 compared to \$2,699,843 in the prior year. Expenses totaled \$2,962,126 compared to \$2,534,578 in the prior year. The resulting decrease in governmental activities’ net position for fiscal year 2022 was \$205,923.

Business type activities’ revenues totaled \$1,808,196 compared to \$3,130,048 in the prior year. Expenses totaled \$1,885,894 compared to \$1,812,414 in the prior year. The resulting increase in business-type activities’ net position for fiscal year 2022 was \$142,730.

**GENERAL FUND BUDGETARY ANALYSIS**

- Total revenues were over budget by \$454,070, which mostly relates to actual local income taxes, and intergovernmental revenues being over budget.
- Total expenditures were over budget by \$351,897 which mostly relates to general government expenditures and capital outlay being over budgeted amounts.
- Other financing sources (uses) exceeded budget by \$297,191, which is mostly due to the unbudgeted transfer out to the Water & Sewer Fund and proceeds from issuance of debt.

**CAPITAL AND INTANGIBLE ASSETS AND DEBT ADMINISTRATION**

At the end of 2022, the Town had a net investment in capital and intangible assets of \$20,735,607 in a broad range of capital and intangible assets, including, land, equipment, buildings, vehicles, streets and water and sewer systems. Notable additions included the following:

Description	Governmental Activities	Business-Type Activities
Public Works Software	\$ 15,486	\$ -
Ball Field Improvements	18,359	-
Log Cabin	27,777	-
Equipment	91,274	90,926
Leased equipment	5,630	-
Bulkhead Improvements - CIP	6,129	-
WWTP - Solar Field	-	249,835
Water System	-	19,923
	<u>\$ 164,655</u>	<u>\$ 360,684</u>

**MAYOR & COUNCIL OF FEDERALSBURG, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital & Intangible Asset Summary

Governmental Assets		Business Assets	
Land	\$ 435,107	Water System	\$ 5,139,754
Construction in process	61,129	Sewer System	21,535,658
Industrial Park	2,643,907	Machinery & Equipment	2,617,336
Streets, Curbs and Gutters	2,248,651		
Bridges	790,504		
Buildings	2,150,022		
Property Improvements	3,148,760		
Machinery & Equipment	2,277,443		
Right-to-use asset	5,630		
Totals	13,761,153	Totals	29,292,748
Less Accumulated Depreciation	(9,309,160)	Less Accumulated Depreciation	(13,009,134)
	\$ 4,451,993		\$ 16,283,614

The Town's long-term liabilities as of June 30, 2022, are as follows:

Long-Term Liabilities

	Governmental Activities		Business Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Bonds payable	<b>\$ 1,331,604</b>	\$ 1,430,452	<b>\$ 3,752,417</b>	\$ 4,168,865	<b>\$ 5,084,021</b>	\$ 5,599,317
Notes payable	<b>245,760</b>	271,079	<b>62,237</b>	125,947	<b>307,997</b>	397,026
Compensated absenc	<b>61,512</b>	49,162	<b>9,717</b>	6,383	<b>71,229</b>	55,545
Net pension liability	<b>662,603</b>	882,502	<b>145,450</b>	193,720	<b>808,053</b>	1,076,222
Finance lease	<b>67,270</b>	83,618	<b>25,090</b>	31,458	<b>92,360</b>	115,076
Right-to-use lease	<b>4,559</b>	-	-	-	<b>4,559</b>	-
Total long-term debt	<b>\$ 2,373,308</b>	\$ 2,716,813	<b>\$ 3,994,911</b>	\$ 4,526,373	<b>\$ 6,368,219</b>	\$ 7,243,186

A detailed listing of long-term debt is provided in the notes to the financial statements.

**CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS**

Inflation in Federalsburg is steady and has remained comparable to prior years. Highway user fees and income tax have also remained steady.

Water and sewer rates have remained constant with prior year rates. The Town is still researching to determine if water and sewer rates need to be increased.

**MAYOR & COUNCIL OF FEDERALSBURG, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The property tax rate has remained constant with prior year rates at \$0.88 per \$100 of assessed real property value.

**CONTACTING THE FEDERALSBURG'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of Federalsburg's finances and to demonstrate Federalsburg's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Mayor & Council of Federalsburg, 118 N. Main Street, Federalsburg, Maryland 21632.

# MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND

## STATEMENT OF NET POSITION

June 30, 2022

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,383,902	\$ 12,283	\$ 1,396,185
Receivables:			
Taxes - real and personal property	74,913	-	74,913
Water and sewer service charges	-	366,335	366,335
Other	78,025	104,013	182,038
Due from other governmental units	262,677	-	262,677
Inventories, at cost	4,599	19,975	24,574
Land and property available for sale, at fair value	185,000	-	185,000
Prepaid expenses	13,748	-	13,748
Restricted cash and cash equivalents	620,256	-	620,256
Notes receivable	65,187	-	65,187
Non-depreciable capital assets	496,236	-	496,236
Capital and intangible assets, net	3,955,757	16,283,614	20,239,371
<b>Total assets</b>	<b>7,140,300</b>	<b>16,786,220</b>	<b>23,926,520</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension	399,093	87,606	486,699
Deferred loss on refunding	-	43,500	43,500
<b>Total deferred outflows of resources</b>	<b>399,093</b>	<b>131,106</b>	<b>530,199</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	415,923	60,602	476,525
Line of credit	200,000	-	200,000
Unearned revenues	956,579	-	956,579
Due within one year:			
Compensated absences	5,989	6,173	12,162
Finance lease	16,832	6,384	23,216
Bonds and notes payable	125,819	431,005	556,824
Right-to-use lease	1,098	-	1,098
Due in more than one year:			
Compensated absences	55,523	3,544	59,067
Net pension liability	662,603	145,450	808,053
Finance lease	50,438	18,706	69,144
Bonds and notes payable	1,451,545	3,383,649	4,835,194
Right-to-use lease	3,461	-	3,461
<b>Total liabilities</b>	<b>3,945,810</b>	<b>4,055,513</b>	<b>8,001,323</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension	432,088	94,848	526,936
<b>NET POSITION</b>			
Net investment in capital assets	2,995,932	12,485,265	15,481,197
Restricted	620,256	-	620,256
Unrestricted	(454,693)	281,700	(172,993)
<b>Total net position</b>	<b>\$ 3,161,495</b>	<b>\$ 12,766,965</b>	<b>\$ 15,928,460</b>

The Notes to Financial Statements are an integral part of this statement.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**

**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2022**

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities	Business-Type Activities	
<b>GOVERNMENTAL ACTIVITIES</b>							
General government	\$ 698,442	\$ 97,512	\$ 339,082	\$ -	\$ (261,848)	\$ -	\$ (261,848)
Public safety	1,291,328	-	55,313	-	(1,236,015)	-	(1,236,015)
Public works	701,406	182,186	9,081	159,339	(350,800)	-	(350,800)
Recreation and culture	106,455	45	6,129	-	(100,281)	-	(100,281)
Economic and community development	85,945	-	-	11,274	(74,671)	-	(74,671)
Interest on long-term debt	78,550	-	-	-	(78,550)	-	(78,550)
Total Governmental Activities	2,962,126	279,743	409,605	170,613	(2,102,165)	-	(2,102,165)
<b>BUSINESS-TYPE ACTIVITIES</b>							
Water and sewer	1,882,097	1,515,608	-	292,583	-	(73,906)	(73,906)
Total Primary Government	\$ 4,844,223	\$ 1,795,351	\$ 409,605	\$ 463,196	\$ (2,102,165)	\$ (73,906)	\$ (2,176,071)
<b>General Revenues</b>							
Taxes:							
Property					1,911,805	-	1,911,805
Income					177,081	-	177,081
Interest					7,050	5	7,055
Other					20,734	(3,797)	16,937
Total General Revenues					2,116,670	(3,792)	2,112,878
Transfers in (out)					(220,428)	220,428	-
Change in Net Position					(205,923)	142,730	(63,193)
Net Position Beginning of Year					3,367,418	12,624,235	15,991,653
Net Position End of Year					\$ 3,161,495	\$ 12,766,965	\$ 15,928,460

The Notes to Financial Statements are an integral part of this statement.

# MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND

## BALANCE SHEET GOVERNMENTAL FUNDS June 30, 2022

	General Fund	Nonmajor Capital Projects	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,322,966	\$ 60,936	\$ 1,383,902
Receivables:			
Taxes - real and personal property	74,913	-	74,913
Other	78,025	-	78,025
Due from other governmental units	77,141	185,536	262,677
Inventories, at cost	4,599	-	4,599
Land available for sale, at fair value	185,000	-	185,000
Prepaid expenses	13,748	-	13,748
Restricted assets:			
Cash and cash equivalents	620,256	-	620,256
<b>Total assets</b>	<b>\$ 2,376,648</b>	<b>\$ 246,472</b>	<b>\$ 2,623,120</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 350,424	\$ 65,499	\$ 415,923
Line of credit	200,000	-	200,000
Unearned revenues	913,495	43,084	956,579
<b>Total liabilities</b>	<b>1,463,919</b>	<b>108,583</b>	<b>1,572,502</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	65,283	-	65,283
<b>FUND BALANCES</b>			
Nonspendable	203,347	-	203,347
Restricted for:			
Small business loans	620,256	-	620,256
Assigned for:			
Capital projects	-	137,889	137,889
Unassigned	23,843	-	23,843
<b>Total fund balances</b>	<b>847,446</b>	<b>137,889</b>	<b>985,335</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 2,376,648</b>	<b>\$ 246,472</b>	<b>\$ 2,623,120</b>

*The Notes to Financial Statements are an integral part of this statement.*

# MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND

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

June 30, 2022

Total fund balances, governmental funds	\$ 985,335
Amounts reported for governmental activities in the statement of net position are different because:	
Capital and intangible assets used in governmental activities are not 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.	
Capital assets	4,447,489
Intangible right-to-use asset	4,504
Deferred outflows of resources - pension	399,093
Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the governmental activities of the Statement of Net Position.	65,283
Notes receivable are not due and receivable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	65,187
Deferred inflows of resources - pension	(432,088)
Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position. Those liabilities consist of:	
Bonds payable	(1,331,604)
Notes payable	(245,760)
Finance lease	(67,270)
Compensated absences	(61,512)
Right-to-use lease	(4,559)
Net pension liability	(662,603)
Net position of governmental activities in the Statement of Net Position	<u>\$ 3,161,495</u>



# MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS Year Ended June 30, 2022

	General Fund	Nonmajor Capital Projects	Total Governmental Funds
<b>REVENUES:</b>			
Taxes:			
Local - property	\$ 1,908,337	\$ -	\$ 1,908,337
Local - income	177,081	-	177,081
Licenses and permits	98,680	-	98,680
Intergovernmental	537,090	43,128	580,218
Charges for services	181,063	-	181,063
Note receivable - principal	39,972	-	39,972
Note receivable - interest	6,907	-	6,907
Miscellaneous	20,734	-	20,734
<b>Total revenues</b>	<b>2,969,864</b>	<b>43,128</b>	<b>3,012,992</b>
<b>EXPENDITURES:</b>			
General government	757,409	-	757,409
Public safety	1,175,184	-	1,175,184
Public works	578,196	8,524	586,720
Recreation	16,753	-	16,753
Economic development	312	-	312
Debt service:			
Principal payments	140,515	-	140,515
Interest	78,550	-	78,550
Capital outlay	112,390	52,265	164,655
<b>Total expenditures</b>	<b>2,859,309</b>	<b>60,789</b>	<b>2,920,098</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>110,555</b>	<b>(17,661)</b>	<b>92,894</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Interest and dividends	113	30	143
Proceeds from issuance of debt	5,630	-	5,630
Transfers in (out)	(311,316)	90,888	(220,428)
<b>Total other financing sources (uses)</b>	<b>(305,573)</b>	<b>90,918</b>	<b>(214,655)</b>
<b>Net change in fund balances</b>	<b>(195,018)</b>	<b>73,257</b>	<b>(121,761)</b>
<b>Fund balances, beginning</b>	<b>1,042,464</b>	<b>64,632</b>	<b>1,107,096</b>
<b>Fund balances, end of year</b>	<b>\$ 847,446</b>	<b>\$ 137,889</b>	<b>\$ 985,335</b>

*The Notes to Financial Statements are an integral part of this statement.*

# MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND

## RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2022

Net change in fund balances, governmental funds \$ (121,761)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital outlay	159,025
Intangible right-to-use asset	5,630
Depreciation expense	(415,879)
Right-to-use lease amortization	(1,126)

Loan and lease proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Position. In the current period, loans and leases of this amount were issued: (5,630)

Governmental funds report repayment of long-term liabilities as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Bonds payable	98,848
Notes payable	25,319
Finance lease	16,348
Intangible right-to-use leases	1,071

Governmental funds report receipts of notes receivable principal as a revenue. In contrast, the Statement of Activities treats such receipts as a reduction in noncurrent assets.

Principal receipts	(39,972)
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Property tax revenue in the government-wide Statement of Activities include economic resources that are not reported as revenue in the governmental funds. Those property tax revenues increased (decreased) by this amount this year. 3,468

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase (decrease) in deferred outflows of resources - pensions	217,476
(Increase) decrease in deferred inflows of resources - pensions	(356,289)
(Increase) decrease in compensated absences	(12,350)
(Increase) decrease in net pension liability	219,899

Change in net position of governmental activities \$ (205,923)

# MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND

## STATEMENT OF FUND NET POSITION BUSINESS-TYPE ACTIVITIES June 30, 2022

	<u>Enterprise Fund</u> Water and Sewer Fund
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 12,283
Receivables:	
Water and sewer service charges	366,335
Other	104,013
Inventories, at cost	19,975
<u>Total current assets</u>	<u>502,606</u>
Noncurrent assets	
Capital assets, at cost	29,292,748
Less accumulated depreciation	(13,009,134)
<u>Total noncurrent assets</u>	<u>16,283,614</u>
<u>Total assets</u>	<u>16,786,220</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions	87,606
Deferred loss on refunding	43,500
<u>Total deferred outflows of resources</u>	<u>131,106</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued expenses	60,602
Compensated absences payable	6,173
Finance lease	6,384
Bonds and notes payable	431,005
<u>Total current liabilities</u>	<u>504,164</u>
Noncurrent liabilities	
Compensated absences payable	3,544
Net pension liability	145,450
Finance lease	18,706
Bonds and notes payable	3,383,649
<u>Total noncurrent liabilities</u>	<u>3,551,349</u>
<u>Total liabilities</u>	<u>4,055,513</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pensions	94,848
<u>Total deferred inflows of resources</u>	<u>94,848</u>
<b>NET POSITION</b>	
Net investment in capital assets	12,485,265
Unrestricted	281,700
<u>Total net position</u>	<u>\$ 12,766,965</u>

*The Notes to Financial Statements are an integral part of this statement.*

# MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION BUSINESS-TYPE ACTIVITIES Year Ended June 30, 2022

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
OPERATING REVENUE	
Charges for services:	
Water	\$ 416,395
Sewer	1,099,213
<hr/>	
Total operating revenues	1,515,608
<hr/>	
OPERATING EXPENSES	
Water	280,105
Sewer	766,983
Depreciation and amortization	725,234
<hr/>	
Total operating expenses	1,772,322
<hr/>	
Net operating income (loss)	(256,714)
<hr/>	
NON-OPERATING REVENUE (EXPENSES)	
Intergovernmental revenues	292,583
Transfers in	220,428
Loss on disposal of asset	(3,797)
Financial expense, net	(109,770)
<hr/>	
Total non-operating expense	399,444
<hr/>	
Change in net position	142,730
<hr/>	
Total net position, beginning	12,624,235
<hr/>	
Total net position, ending	\$ 12,766,965

*The Notes to Financial Statements are an integral part of this statement.*

# MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND

## STATEMENT OF CASH FLOWS

### BUSINESS-TYPE ACTIVITIES

Year Ended June 30, 2022

	<u>Enterprise Fund</u>
	Water and Sewer Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 1,461,503
Payments to suppliers	(567,365)
Payments to employees	(275,584)
Other payments	(186,810)
<b>Net cash provided by operating activities</b>	<b>431,744</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Transfers from other funds	220,428
<b>Net cash provided by noncapital financing activities</b>	<b>220,428</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Grant revenues for construction of capital assets	292,583
Acquisition of capital assets	(360,684)
Principal paid on long-term debt	(427,695)
Net change in line of credit	(55,990)
Interest paid on long-term debt	(108,885)
<b>Net cash used by capital and related financing activities</b>	<b>(660,671)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest income	5
<b>Net decrease in cash and cash equivalents</b>	<b>(8,494)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>20,777</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 12,283</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating loss	\$ (256,714)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization expense	725,234
Pension obligation	(17,802)
Changes in assets and liabilities:	
Receivables, net	(52,039)
Inventories	9,904
Accounts and other payables	23,161
<b>Net cash provided by operating activities</b>	<b>\$ 431,744</b>

*The Notes to Financial Statements are an integral part of this statement.*

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 1. Description of Federalsburg, Maryland**

The Mayor and Council of Federalsburg, Maryland (“the Town”) operates under an elected Mayor and Council form of government. The Town directly provides all basic local governmental services.

**A. Financial Reporting Entity**

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision of whether to include a potential component unit was made by applying the criteria set forth in the GASB standards related to component units. The basis, but not the only criterion for including a potential component unit, is the exercise of oversight responsibility by the Town’s elected officials. Based upon the application of these criteria, there are no component units accompanying these statements.

**Note 2. Summary of Significant Accounting Policies**

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

**A. Basis of Presentation**

The Town’s basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net position and the statement of activities display information about the Town as a whole. These statements include the financial activities of the Town. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the Town at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town’s governmental activities and for business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from general revenues of the Town.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 2. Summary of Significant Accounting Policies (continued)**

**A. Basis of Presentation (continued)**

FUND FINANCIAL STATEMENTS

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The Town uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

General Fund (major) - The General Fund is the general operating fund of the Town. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

Capital Projects Fund (nonmajor) - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities that are not financed by proprietary funds.

PROPRIETARY FUNDS

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

Enterprise funds – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Town's major enterprise fund is:

Water and Sewer Fund - The Water and Sewer Fund is used to account for all financial transactions, including the acquisition or construction of major capital facilities, related to the operation of the Town's water and sewer services.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 2. Summary of Significant Accounting Policies (continued)**

**B. Fund Accounting (continued)**

**FIDUCIARY FUNDS**

Fiduciary fund reporting focuses on net position and changes in net position. The Town does not have any fiduciary funds.

**C. Measurement Focus**

Government-wide financial statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the statement of net position.

Fund financial statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter (within 60 days after year end) to be used to pay liabilities of the current fiscal year.



**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 2. Summary of Significant Accounting Policies (continued)**

**D. Basis of Accounting (continued)**

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursable basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, interest and rent.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated assets during the year is reported in the operating statement as an expense with a like amount reported as donated revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgetary Process**

Budgetary control is exercised in all funds. The budget shown in the financial statements is the budget ordinance at the close of the day on June 30, 2022. All annual appropriations lapse at fiscal year-end.

**F. Property Tax**

Property taxes are levied on July 1 and become delinquent on October 1. Taxes are assessed an interest penalty after September 30. Owner occupied residential property owners may choose to pay their taxes semiannually. The first payment must be paid by September 30. The second payment is due on or before December 31. If the second payment has not been paid by the due date, taxes are assessed interest and penalties. All real estate assessments are assessed, billed, and collected by Caroline County, Maryland (the “County”), who in turn remits payment to the Town.

All personal property assessments are assessed by the State of Maryland (the “State”). The Town receives a copy of all personal property assessments from the State, which are used to generate bills. The Town collects its own personal property taxes. Town property tax revenues are recognized when collected.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 2. Summary of Significant Accounting Policies (continued)**

**G. Receivables**

Allowance for doubtful accounts – The Town has evaluated the collectability of outstanding amounts due to the Town for water and sewer service charges. Based on its analysis, the Town has determined that all water and sewer accounts are collectible, and as such, has not established an allowance for doubtful accounts.

**H. Inventories**

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

**I. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of three thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset’s life are not.

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

	Governmental Activities Useful Lives	Business-type Activities Useful Lives
Industrial Park	15 - 30 years	-
Streets, curbs and gutters	15 - 20 years	-
Bridges	10 - 20 years	-
Building and improvements	10 - 40 years	-
Improvements, non-buildings	5 - 40 years	-
Machinery and equipment	5 - 7 years	3 - 20 years
Water system	-	3 - 40 years
Sewer system	-	3 - 40 years

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 2. Summary of Significant Accounting Policies (continued)**

**J. Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

The Town has an item, which arises only on a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

In addition, see Note 8 for further details relating to the deferred outflows / inflows of resources relating to the Town's pension plan.

**K. Accrued Compensated Absences**

The Town accrues a liability for vested compensated absences including vacation and sick time with various limitations on each type of compensated absence. All accrued compensated absences liabilities are recorded in the government-wide financial statements.

Town employees earn annual leave based on length of service. Annual leave accumulates, and any unused portion is paid upon termination. Annual leave generally must be taken by June 30 each year.

Sick leave for all Town employees is earned based on length of service. Town employees may accumulate a maximum of 60 days of sick leave. At termination, employees are not paid for accumulated sick leave unless the employee has been employed for ten years or more.

The entire compensated absences liability is reported on the government-wide financial statements. On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements.

**L. Accrued Liabilities and Long-Term Obligations**

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

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 2. Summary of Significant Accounting Policies (continued)**

**L. Accrued Liabilities and Long-Term Obligations (continued)**

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**M. Net Position**

Net position represents the net amount of assets, deferred outflows or resources, liabilities and deferred inflows of resources. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Restricted components of net position are reported when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by grantors, contributors, creditors, or laws and regulations of other governments.

Restricted resources are applied first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those fund balance classifications can be used.

**N. Governmental Fund Balances**

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

Nonspendable – amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can only be spent for specific purposes because of the Town charter or code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – amounts that can be used only for specific purposes determined by formal action by the Town Council ordinance or resolutions.

Assigned – amounts that are designated by the Council or management with intent to be used for specific purposes, but are neither restricted nor committed by ordinance or resolution.

Unassigned – amounts not included in other spendable classifications.

The Town did not have any committed fund balances at June 30, 2022. Nonspendable fund balances consist of inventories, land available for sale and prepaid amounts.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 2. Summary of Significant Accounting Policies (continued)**

**O. Operating Revenues and Expenses**

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

**P. Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Q. Interfund Receivables/Payables**

On fund financial statements, receivables and payables resulting from interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position. The only interfund balances which remain on the government-wide statement of net position are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

**R. Interfund Transfers In/Out**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flow of cash or goods from one fund to another without a requirement for repayment are reported as Interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in enterprise funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Note 3. Cash and Cash Equivalents**

For purposes of the statement of cash flows, the proprietary fund consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Town is authorized to invest unexpended revenues from taxation, lawful distributions of funds from other governmental agencies, or any other funds properly received by it, until it determines the funds are needed for proper public purpose. The Town can invest such funds in federally insured banking institutions that pledge United States Treasury bills, notes, or other obligations to secure such deposits.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 3. Cash and Cash Equivalents (continued)**

At June 30, 2022, the Town had bank deposits with various financial institutions totaling \$2,044,768 (carrying value \$2,016,441). As required by law, a depository is to pledge securities, in addition to FDIC insurance, at least equal to the amount on deposit at all times. The depository banks pledge collateral for specific accounts, which are held in the Town's name by their trust department or agents. As of June 30, 2022, all deposits were either fully insured or collateralized.

The Town's exposure to investment rate and credit risk is minimal, as all investments are in cash, or certificates of deposit and are thus precluded from having to sell below original cost. Custodial credit risk is also mitigated by having all investments fully collateralized by securities as mentioned previously.

**Note 4. Capital and Intangible Assets**

The following is a summary of changes in capital assets for the year ended June 30, 2022:

	June 30, 2021	Additions	Transfers / Deductions	June 30, 2022
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets, not being depreciated:				
Land	\$ 435,107	\$ -	\$ -	\$ 435,107
Construction in process	65,850	6,129	(10,850)	61,129
Total capital assets, not being depreciated	<u>500,957</u>	<u>6,129</u>	<u>(10,850)</u>	<u>496,236</u>
Capital assets, being depreciated:				
Industrial Park	2,643,907	-	-	2,643,907
Streets, curbs and gutters	2,248,651	-	-	2,248,651
Bridges	790,504	-	-	790,504
Building and improvements	2,150,022	-	-	2,150,022
Improvements, non-buildings	3,091,774	46,136	10,850	3,148,760
Machinery and equipment	2,170,683	106,760	-	2,277,443
Total capital assets, being depreciated	<u>13,095,541</u>	<u>152,896</u>	<u>10,850</u>	<u>13,259,287</u>
Less accumulated depreciation:				
Industrial Park	1,821,391	77,812	-	1,899,203
Streets, curbs and gutters	1,484,439	60,451	-	1,544,890
Bridges	550,154	30,511	-	580,665
Building and improvements	1,035,314	56,473	-	1,091,787
Improvements, non-buildings	2,096,024	97,523	-	2,193,547
Machinery and equipment	1,904,833	93,109	-	1,997,942
Total accumulated depreciation	<u>8,892,155</u>	<u>415,879</u>	<u>-</u>	<u>9,308,034</u>
Total capital assets, being depreciated, net	<u>4,203,386</u>	<u>(262,983)</u>	<u>10,850</u>	<u>3,951,253</u>
Governmental activities capital assets, net	<u>\$ 4,704,343</u>	<u>\$ (256,854)</u>	<u>\$ -</u>	<u>\$ 4,447,489</u>

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended June 30, 2022

**Note 4. Capital and Intangible Assets (continued)**

Depreciation expense was charged to governmental functions as follows:

General government	\$ 55,940
Public safety	74,349
Public works	110,255
Recreation and culture	89,702
Economic and community development	85,633
	<u>\$ 415,879</u>

	June 30, 2021	Additions	Transfers / Deductions	June 30, 2022
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets, not being depreciated:				
Construction in process	\$ 1,746,421	\$ 249,835	\$ (1,996,256)	\$ -
Total capital assets, not being depreciated	<u>1,746,421</u>	<u>249,835</u>	<u>(1,996,256)</u>	<u>-</u>
Capital assets, being depreciated:				
Water system	5,133,431	19,923	(13,600)	5,139,754
Sewer system	21,535,658	-	-	21,535,658
Machinery and equipment	530,154	90,926	1,996,256	2,617,336
Total capital assets, being depreciated	<u>27,199,243</u>	<u>110,849</u>	<u>1,982,656</u>	<u>29,292,748</u>
Less accumulated depreciation:				
Water system	414,663	8,194	(9,803)	413,054
Sewer system	11,436,748	627,450	-	12,064,198
Machinery and equipment	442,292	89,590	-	531,882
Total accumulated depreciation	<u>12,293,703</u>	<u>725,234</u>	<u>(9,803)</u>	<u>13,009,134</u>
Business-type activities capital assets, net	<u>\$ 16,651,961</u>	<u>\$ (364,550)</u>	<u>\$ (3,797)</u>	<u>\$ 16,283,614</u>

Intangible right-to-use asset activity for the year ended June 30, 2022 is as follows:

	June 30, 2021	Additions	Transfers / Deductions	June 30, 2022
<b>GOVERNMENTAL ACTIVITIES</b>				
Intangible right-to-use assets				
Leased equipment	\$ -	\$ 5,630	\$ -	\$ 5,630
Less accumulated amortization	-	(1,126)	-	(1,126)
Intangible right-to-use assets, net	<u>\$ -</u>	<u>\$ 4,504</u>	<u>\$ -</u>	<u>\$ 4,504</u>

Amortization expense for the period ended June 30, 2022 totaled \$1,126.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended June 30, 2022

**Note 5. Notes Receivable**

The Town has entered into various note agreements with local businesses to promote economic development. Notes receivable outstanding at June 30, 2022 are comprised of the following:

	Interest Rate	Maturity Date	Balances		Charge-off/ Payments	Balances
			June 30, 2021	Additions		June 30, 2022
Federalsburg Brewing Co.	2.25%	2027	\$ 8,056	\$ -	\$ 1,369	\$ 6,687
Federalsburg Brewing Co.	2.25%	2027	11,717	-	1,992	9,725
Federalsburg Brewing Co.	2.25%	2027	14,620	-	2,491	12,129
Great Shoals Cellars, LLC	4.50%	2024	28,883	-	28,883	-
Meredith's TV & Appliance, Inc	3.50%	2022	353	-	353	-
St. Michaels Distillery, LLC	2.25%	2028	41,530	-	4,884	36,646
			<b>\$ 105,159</b>	<b>\$ -</b>	<b>\$ 39,972</b>	<b>\$ 65,187</b>

**Note 6. Long-term Liabilities**

The following is a summary of the changes in the business-type activities long-term debt obligations:

	Interest Rate	Maturity Date	Balances		Retirements and Repayments	Balances	Amount Due In
			June 30, 2021	Additions		June 30, 2022	One Year
MD Water Quality Loan 2007	0.04%	2027	\$ 544,038	\$ -	\$ 93,846	\$ 450,192	\$ 94,222
MD WWTP Upgrade	1.10%	2028	1,083,493	-	157,342	926,151	159,073
MDE Water Quality	0.80%	2033	150,420	-	11,993	138,427	12,089
Water Quality Bond 2013	1.00%	2033	196,910	-	15,825	181,085	15,983
Drinking Water Bond 2014	1.10%	2033	7,557	-	601	6,956	607
CDA Bonds of 2015	3.29%	2034	2,150,500	-	134,000	2,016,500	138,000
Bond premium			35,947	-	2,841	33,106	2,841
Total bonds payable			4,168,865	-	416,448	3,752,417	422,815
MD Pension	7.75%	2031	44,503	-	3,108	41,395	3,350
MD Loan 1995	4.95%	2026	25,454	-	4,612	20,842	4,840
Interim Financing - Solar	4.50%	2022	55,990	143,172	199,162	-	-
Total notes payable			125,947	143,172	206,882	62,237	8,190
Compensated absences payable			6,383	3,334	-	9,717	6,173
Net pension liability (see Note 8)			193,720	-	48,270	145,450	-
Finance lease (see Note 7)			31,458	-	6,368	25,090	6,384
Total Business-type Activities Long-Term Debt			<b>\$ 4,526,373</b>	<b>\$ 146,506</b>	<b>\$ 677,968</b>	<b>\$ 3,994,911</b>	<b>\$ 443,562</b>



**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 6. Long-term Liabilities (continued)**

The annual requirements to amortize all business-type activities debt outstanding are as follows:

Fiscal Year Ending June 30,	Bonds		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2023	\$ 422,815	\$ 85,642	\$ 8,190	\$ 4,239
2024	429,706	79,053	8,689	3,740
2025	436,118	72,423	9,219	3,209
2026	444,555	64,128	9,785	2,643
2027	428,314	55,567	4,515	2,042
2028-2032	1,162,180	171,686	21,839	4,388
2033-2034	428,729	21,839	-	-
	<b>\$ 3,752,417</b>	<b>\$ 550,338</b>	<b>\$ 62,237</b>	<b>\$ 20,261</b>

Interest expense in the business-type activities for the year ended June 30, 2022 totaled \$109,775 which includes \$14,541 in required loan administration payments.

The following is a summary of the changes in the governmental activities long-term debt obligations:

	Interest Rate	Maturity Date	Balances June 30, 2021	Additions	Retirements and Repayments	Balances June 30, 2022	Amount Due In One Year
Rural Development Bond 1986	5.00%	2022	\$ 3,717	\$ -	\$ 3,717	\$ -	\$ -
USDA Public Safety	1.95%	2049	419,139	-	8,376	410,763	8,724
USDA Public Safety	1.95%	2049	381,096	-	7,755	373,341	8,077
Roads Bond	4.75%	2028	626,500	-	79,000	547,500	82,000
<b>Total bonds payable</b>			<b>1,430,452</b>	<b>-</b>	<b>98,848</b>	<b>1,331,604</b>	<b>98,801</b>
Note payable Police Radios	2.57%	2027	68,343	-	11,156	57,187	11,757
MD Pension	7.75%	2031	202,736	-	14,163	188,573	15,261
<b>Total notes payable</b>			<b>271,079</b>	<b>-</b>	<b>25,319</b>	<b>245,760</b>	<b>27,018</b>
Compensated absences payable			49,162	12,350	-	61,512	5,989
Net pension liability (see Note 8)			882,502	-	219,899	662,603	-
Finance lease (see Note 7)			83,618	-	16,348	67,270	16,832
Intangible right-of-use lease (see Note 7)			-	5,630	1,071	4,559	1,098
<b>Total Governmental Activities Long-Term Debt</b>			<b>\$ 2,716,813</b>	<b>\$ 17,980</b>	<b>\$ 361,485</b>	<b>\$ 2,373,308</b>	<b>\$ 149,738</b>

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended June 30, 2022

**Note 6. Long-term Liabilities (continued)**

The annual requirements to amortize all governmental activities debt outstanding are as follows:

Fiscal Year Ending June 30,	Bonds		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2023	\$ 98,801	\$ 55,397	\$ 27,018	\$ 16,032
2024	102,516	51,656	28,507	14,543
2025	107,262	47,604	30,104	12,946
2026	112,039	43,187	31,803	11,257
2027	116,850	38,386	28,840	9,442
2028-2032	214,170	138,988	99,488	19,994
2033-2037	138,791	108,309	-	-
2038-2042	170,969	76,132	-	-
2043-2047	210,608	36,492	-	-
2048-2049	59,598	2,177	-	-
	<b>\$ 1,331,604</b>	<b>\$ 598,328</b>	<b>\$ 245,760</b>	<b>\$ 84,214</b>

Interest expense in the governmental activities for the year ended June 30, 2022 totaled \$78,550.

**Note 7. Leases**

The Town implemented guidance of GASB 87, *Leases*, at July 1, 2021 for accounting and reporting of leases.

The following is a summary of the changes in the governmental activities finance lease obligations:

	Balances June 30, 2021	Additions	Retirements and Repayments	Balances June 30, 2022	Amount Due in One Year
Police car lease; Ford Interceptor unit # 23PC54, principal and interest payable in monthly installments of \$774, interest at 2.917%, maturing 2026.	\$ 41,809	\$ -	\$ 8,174	\$ 33,635	8,416
Police car lease; Ford Interceptor unit # 23PC5R, principal and interest payable in monthly installments of \$774, interest at 2.917%, maturing 2026.	41,809	-	8,174	33,635	8,416
	<b>\$ 83,618</b>	<b>\$ -</b>	<b>\$ 16,348</b>	<b>\$ 67,270</b>	<b>\$ 16,832</b>

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended June 30, 2022

**Note 7. Leases (continued)**

Future minimum lease payments under these finance leases are as follows:

<u>Fiscal Year Ending June 30,</u>	
2023	\$ 18,570
2024	18,570
2025	18,570
2026	15,474
	<hr/> 71,184
Less amounts representing interest	3,914
Present value of net minimum lease payments	<hr/> <b>\$ 67,270</b> <hr/>

Interest expense on the above finance leases was \$1,738 for the year ended June 30, 2022.

The cost of equipment acquired under the above capital lease arrangement, as included in capital assets totaled \$104,244 (including upfitting) and the related accumulated depreciation was \$26,935 at June 30, 2022.

The following is a summary of the changes in the business-type activities finance lease obligation:

	<u>Balances</u> June 30, 2021	<u>Additions</u>	<u>Retirements</u> and Repayments	<u>Balances</u> June 30, 2022	<u>Amount</u> Due in One Year
Truck lease; Ford F-250 unit # 23PC4L, principal and interest payable in monthly installments of \$536, interest at 0.238%, maturing 2026.	<hr/> \$ 31,458	\$ -	\$ 6,368	\$ 25,090	\$ 6,384
	<hr/> \$ 31,458	\$ -	\$ 6,368	\$ 25,090	\$ 6,384

Future minimum lease payments under this finance lease are as follows:

<u>Fiscal Year Ending June 30,</u>	
2023	\$ 6,437
2024	6,437
2025	6,437
2026	5,901
	<hr/> 25,212
Less amounts representing interest	122
Present value of net minimum lease payments	<hr/> <b>\$ 25,090</b> <hr/>

Interest expense on the above finance lease was \$53 for the year ended June 30, 2022.

The cost of equipment acquired under the above capital lease arrangement, as included in capital assets totaled \$31,982 and the related accumulated depreciation was \$7,996 at June 30, 2022.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 7. Leases (continued)**

*Town as Lessee*

In July 2021, the Town entered into a lease agreement for a copier. Payments under this lease total approximately \$1,198 per year. The lease agreement in place for this copier will expire during fiscal year 2026. For purposes of discounting future payments on this lease, the Town used its incremental borrowing rate in place at the time of lease inception of 2.65%. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 4.

The following is a summary of the changes in right-to-use lease obligations:

	Balances June 30, 2021		Additions	Retirements and Repayments	Balances June 30, 2022		Amount Due in One Year
<b>GOVERNMENTAL ACTIVITIES</b>							
Intangible right-to-use lease	\$	-	\$ 5,630	\$ 1,071	\$	4,559	\$ 1,098

The future minimum lease payments are approximately as follows:

Fiscal Year Ending June 30,	Equipment		Total
	Principal	Interest	
2023	\$ 1,098	\$ 100	\$ 1,198
2024	1,125	73	1,198
2025	1,154	45	1,199
2026	1,182	16	1,198
Total	\$ 4,559	\$ 234	\$ 4,793

Interest expense on the above intangible right-to-use asset was approximately \$126 for the year ended June 30, 2022.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 8. Pension Plan**

**Organization**

The State Retirement Agency is the administrator of the Maryland State Retirement and Pension System (the System). The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. Responsibility for the System's administration and operation is vested in a 15 member Board of Trustees. The System is made up of two cost-sharing employer pools: the "State Pool" and the "Municipal Pool". The State Pool consists of State agencies, board of education, community colleges, and libraries. The Municipal Pool consists of participating governmental units that elected to join the System. Neither pool shares in each other's actuarial liabilities, thus participating governmental units that elect to join the System (the "Municipal Pool") share in the liabilities of the Municipal Pool only. The State Retirement Agency issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Suite 1660, Baltimore, Maryland 21202-1600 or on-line at [www.sra.maryland.gov](http://www.sra.maryland.gov).

The System is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System.

Generally, employees of the Town participate in the Employees' Retirement and Pension Systems (Employee's Systems). The Employees' Systems are cost sharing multiple-employer defined benefit pension plans.

**Basis of Accounting**

The System's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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 System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 8. Pension Plan (continued)**

**Covered Members**

Employees' Retirement and Pension Systems

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, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the Employees' Retirement System. 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.

**Summary of Significant Plan Provisions**

All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. For all individuals who are members of the Employees', Teachers', Correctional Officers' or State Police Retirement System on or before June 30, 2011, retirement allowances are computed using both the highest three years' Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For all individuals who are members of the pension systems of the State Retirement and Pension System on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' AFC and the actual number of years of accumulated creditable service. For any individual who becomes a member of one of the pension systems on or after July 1, 2011, pension allowances are computed using both the highest five consecutive year's AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

Beginning July 1, 2011, the member contribution rate was increased for members of the Employees' Pension Systems from 5% to 7%, in fiscal year 2013.

In addition, the benefit 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 the valuation.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 8. Pension Plan (continued)**

A brief summary of the retirement eligibility requirements of and the benefits available under the various systems in effect during fiscal year 2021 are as follows:

Service Retirement Allowances

A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from either the Teachers' or Employees' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' or Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' or Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' or Employee's Pension System.

Exceptions to these benefit formulas apply to members of the Employees' Pension System, who are employed by a participating governmental unit that does not provide the 1998 or 2006 enhanced pension benefits or the 2011 reformed pension benefits. The pension allowance for those members equals 0.8% of the member's AFC up to the social security integration level (SSIL), plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 8. Pension Plan (continued)**

Vested Allowances

Any individual who is a member of the State Retirement and Pension System on or before June 30, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Any individual who joins the State Retirement and Pension System on or after July 1, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance. A member, who terminates employment prior to attaining retirement age and before vesting, receives a refund of all member contributions and interest.

Early Service Retirement

A member of either the Teachers' or 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 a Teachers' or Employees' Retirement System member is 30%.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011 may retire with reduced benefits upon attaining age 55 with a least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Teachers' or Employees' Pension System is 42%. An individual who become a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Teachers' or Employees' Pensions System is 30%.

Members of the State Police, Judges', Law Enforcement Officers' and Local Fire and Police Systems are not eligible for early service benefits.

Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 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. A member (other than a member of the Maryland General Assembly or a judge, both of which are ineligible for accidental disability benefits) who is permanently and totally disabled as the result of an accident occurring in the line of duty receives 2/3 (66.7%) of the member's AFC plus an annuity based on all member contributions and interest. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.



**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 8. Pension Plan (continued)**

Adjusted Retirement Allowances

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the CPI. For the Teachers' and Employees' Retirement Systems (TRS/ERS) the method by which the annual COLA's are computed depends upon elections made by members who were active on July 1, 1984 (or within 90 days of returning to service, for members who were inactive on July 1, 1984) enabling the member to receive either an unlimited COLA, a COLA limited to 5% or a two part combination COLA depending upon the COLA election made by the member.

However, beginning July 1, 2011, for benefits attributable to service earned on or after July 1, 2011, in all of the systems except the judges' and legislators' systems, the adjustment is capped in the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate. The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of return. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

**Actuarial Assumptions**

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	In the 2021 actuarial valuation, 2.25% general, 2.75% wage. In the 2020 actuarial valuation, 2.60% general, 3.10% wage.
Salary Increases	In the 2021 actuarial valuation, 2.75% to 9.25%. In the 2020 actuarial valuation, 3.10% to 11.60%.
Investment Rate of Return	In the 2021 actuarial valuation, 6.80%. In the 2020 actuarial valuation, 7.40%.
Discount Rate	In the 2021 actuarial valuation 6.80%. In the 2020 actuarial valuation 7.40%.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period July 1, 2014 to July 30, 2018.
Mortality	Various versions of the Pub-2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality Improvements scale for males and females.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 8. Pension Plan (continued)**

**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 the System’s investment consultant(s) and actuary(s). For each major asset class that is included in the System’s target asset allocation as of June 30, 2021, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37%	4.70%
Private Equity	13%	6.50%
Rate Sensitive	19%	-0.40%
Credit Opportunity	9%	2.60%
Real Assets	14%	4.20%
Absolute Return	8%	2.00%
Total	<u>100%</u>	

The above was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2021.

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

**Discount rate**

A single discount rate of 6.80% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 6.80%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended June 30, 2022

**Note 8. Pension Plan (continued)**

**Sensitivity of the Net Pension Liability**

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan’s net pension liability, calculated using a single discount rate of 6.80%, as well as what the plan’s net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher:

System	1% Decrease to 5.80%	Discount Rate 6.80%	1% Increase to 7.80%
Employees (Muni)	\$ 1,214,641	\$ 808,053	\$ 336,756

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town’s proportion of the net pension liability was calculated as follows by the System(s):

1. Calculate the net pension liability for the entire System. For purposes of funding the System, all calculations are determined on an actuarial basis and are completed through the development of rates based on two separate asset pools, one for employees of the State of Maryland (the State) and one for the Participating Governmental Units (“PGUs”). These pools are kept on an actuarial basis and allow for the State to fund only State employees and PGUs to fund only PGU employees. For the accounting of the System, however, the assets of the System are accounted in a single pool which is audited annually.
2. Determined the total contributions to the System by the State and PGUs, inclusive of any underfunding of contributions.
3. Calculated for each participating government, their percentage of the adjusted System contribution by dividing the total adjusted System contribution into each PGU’s contribution.
4. Provide each PGU its adjusted percentage of contribution and the System’s net pension liability and other related amounts as of June 30, 2021, under GASB No. 67 requirements.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 8. Pension Plan (continued)**

At June 30, 2022, the Town reported the following related to pensions:

Employer's proportionate (percentage) of the collective net pension liability	0.0053862%
Employer's proportionate share of the collective net pension liability	\$ 808,053
Pension expense recognized by the employer for the year ended June 30, 2022	\$ 37,188

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in assumptions	\$ 156,405	\$ (17,319)
Net difference between projected and actual investment earnings on pension plan investments	78,662	(447,684)
Differences between expected and actual experience	-	(61,933)
Change in proportion	115,556	-
Contributions subsequent to measurement date	136,076	-
	<u>\$ 486,699</u>	<u>\$ (526,936)</u>

The \$136,076 of deferred outflows of resources resulting from the Town's contributions to the Employees' Systems subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources will be amortized over a five year period.

Net deferred outflows / (inflows) will be amortized as follows:

<u>Year Ended June 30:</u>	
2023	\$ (58,875)
2024	(46,422)
2025	(45,807)
2026	(61,975)
2027	36,766
<u>Total</u>	<u>\$ (176,313)</u>

For the year ended June 30, 2022 the Town's total payroll for all employees was \$1,328,542. Total covered payroll was \$961,615. Covered payroll refers to all compensation paid by the Town to active employees covered by Employees' Systems.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 8. Pension Plan (continued)**

**Special Actuarial Liability**

In July 2006, the Town entered into the State of Maryland Employees' Contributory Pension System ("ECPS"). Based on the demographics of the employees and the well-funded status of the ECPS, the Town incurred a special actuarial liability of \$1,458,581 upon entrance into the plan. During December 2006 and January 2007, the Town made a series of five payments totaling \$480,486, bringing the liability to \$978,095. The Town was required to make annual payments of \$86,393 over 25 years to satisfy the liability.

In May 2008, the actuary who calculated the ECPS liability contacted the Town stating that they had made an error in the calculation of the special actuarial liability, reducing the liability by \$491,569. The effects of the correction now require the Town to make annual principal and interest payments of \$36,443 through 2031 to satisfy the liability. See Note 6 for amounts payable to the plan as of June 30, 2022.

**Note 9. Deferred Compensation Plan**

The Mayor and Council also provide a deferred compensation retirement plan in which employees may contribute. The City of Federalsburg Deferred Compensation Plan is administered by the U.S. Conference of Mayors Deferred Compensation Program. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the deferred compensation participants and are not subject to the claims of the Town's general creditors.

The Town has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the plan's assets are not reported on the combined balance sheet of the Town.

**Note 10. Risk Management**

The Town 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 Town's risk financing techniques include participation in a public entity pool and the purchase of commercial insurance.

For general, property, excess, and environmental liability coverage, the Town is a member of the Maryland Local Government Insurance Trust (LGIT). This trust is a public entity risk pool, which is owned and directed by the local governments that subscribe to its coverages and operates under the terms of a Trust Agreement.

Subscribers to coverage by LGIT share in the risk among participants of the pools. As a result, the Town's annual premium requirements are affected by the loss experience of the various insurance pools in which it participates. The Town may be required to make additional assessments from time to time. These amounts are recorded as an expenditure when they are probable and can be reasonably estimated. Conversely, favorable performance of certain insurance pools may result in reduced premiums.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2022**

**Note 10. Risk Management (continued)**

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

**Note 11. Commitments, Contingencies and Subsequent Events**

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Town does not anticipate losses as a result of these transactions.

In the normal course of operations, the Town received grant funds from various Federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

**Note 12. Required Fund Disclosures**

The following funds had expenditures exceeding budgeted amounts:

Fund	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
Water fund	\$ 356,008	\$ 414,956	\$ 58,948
Sewer fund	\$ 867,421	\$ 1,357,366	\$ 489,945
General fund	\$ 2,507,412	\$ 2,859,309	\$ 351,897

Funds available to provide for the excess expenditures were made available from other sources including revenues exceeding budgeted amounts, within these funds. In management's opinion, the excess expenditures had no material impact on the financial results of the Town.

## REQUIRED SUPPLEMENTARY INFORMATION

# MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND

## REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Taxes:				
Local - property	\$ 1,907,206	\$ 1,907,206	\$ 1,908,337	\$ 1,131
Local - income	90,000	90,000	177,081	87,081
Licenses and permits	124,315	124,315	98,680	(25,635)
Intergovernmental	188,444	188,444	537,090	348,646
Charges for services	185,170	185,170	181,063	(4,107)
Note receivable - principal	-	-	39,972	39,972
Note receivable - interest	9,382	9,382	6,907	(2,475)
Miscellaneous	11,277	11,277	20,734	9,457
<b>Total revenues</b>	<b>2,515,794</b>	<b>2,515,794</b>	<b>2,969,864</b>	<b>454,070</b>
<b>EXPENDITURES:</b>				
General government	638,937	638,937	757,409	(118,472)
Public safety	1,097,900	1,097,900	1,175,184	(77,284)
Public works	495,566	495,566	578,196	(82,630)
Recreation	20,800	20,800	16,753	4,047
Economic development	4,950	4,950	312	4,638
Debt service:				
Principal payments	213,482	213,482	140,515	72,967
Interest	35,777	35,777	78,550	(42,773)
Capital outlay	-	-	112,390	(112,390)
<b>Total expenditures</b>	<b>2,507,412</b>	<b>2,507,412</b>	<b>2,859,309</b>	<b>(351,897)</b>
Excess (deficiency) of revenues over expenditures	8,382	8,382	110,555	102,173
<b>OTHER FINANCING SOURCES (USES):</b>				
Interest and dividends	23	23	113	90
Proceeds from issuance of debt	-	-	5,630	5,630
Reserve of fund balance	(8,405)	(8,405)	-	8,405
Transfers out	-	-	(311,316)	(311,316)
<b>Total other financing sources (uses)</b>	<b>(8,382)</b>	<b>(8,382)</b>	<b>(305,573)</b>	<b>(297,191)</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (195,018)</b>	<b>\$ (195,018)</b>



**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**MARYLAND STATE RETIREMENT AND PENSION SYSTEMS**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**(as of measurement date)**  
**June 30, 2022**

<b>Measurement Date</b>	<b>Employer's Proportion (Percentage) of the Collective NPL A</b>	<b>Employer's Proportion Share of the Collective NPL B</b>	<b>Employer's Covered Payroll C</b>	<b>Proportionate Share as a Percentage of Covered Payroll (B / C)</b>	<b>Plan's Total Fiduciary Net Position D</b>	<b>Plan's Total Pension Liability E</b>	<b>Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (D / E)</b>
June 30, 2014	0.0053319%	\$ 946,234	\$ 880,194	108%	\$ 45,339,988,000	\$ 63,086,719,000	72%
June 30, 2015	0.0059236%	\$ 1,231,030	\$ 908,747	135%	\$ 45,789,840,000	\$ 66,571,552,000	69%
June 30, 2016	0.0054376%	\$ 1,282,937	\$ 814,715	157%	\$ 45,365,927,000	\$ 68,959,954,000	66%
June 30, 2017	0.0052794%	\$ 1,141,596	\$ 869,281	131%	\$ 48,987,184,000	\$ 70,610,885,000	69%
June 30, 2018	0.0054313%	\$ 1,139,574	\$ 939,665	121%	\$ 51,827,233,000	\$ 72,808,833,000	71%
June 30, 2019	0.0054801%	\$ 1,130,306	\$ 845,570	134%	\$ 53,943,420,000	\$ 74,569,030,000	72%
June 30, 2020	0.0047618%	\$ 1,076,222	\$ 700,022	154%	\$ 54,586,037,000	\$ 77,187,397,000	71%
June 30, 2021	0.0053862%	\$ 808,053	\$ 803,251	101%	\$ 67,604,500,000	\$ 82,606,805,000	82%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**MARYLAND STATE RETIREMENT AND PENSION SYSTEMS**  
**SCHEDULE OF CONTRIBUTIONS**  
 (as of fiscal year end)  
 June 30, 2022

<b>Fiscal Year</b>	<b>Contractually Required Contribution</b> <b>A</b>	<b>Actual Contribution</b> <b>B</b>	<b>Contribution Deficiency (Excess)</b> <b>(A - B)</b>	<b>Employer's Covered Employee Payroll</b> <b>C</b>	<b>Actual Contribution as a Percentage of Covered Payroll</b> <b>(B / C)</b>
2015	\$ 124,252	\$ 124,252	\$ -	\$ 908,747	14%
2016	\$ 105,928	\$ 105,928	\$ -	\$ 814,715	13%
2017	\$ 107,454	\$ 107,454	\$ -	\$ 869,281	12%
2018	\$ 108,305	\$ 108,305	\$ -	\$ 939,665	12%
2019	\$ 112,535	\$ 112,535	\$ -	\$ 845,570	13%
2020	\$ 102,095	\$ 102,095	\$ -	\$ 700,022	15%
2021	\$ 118,686	\$ 118,686	\$ -	\$ 803,251	15%
2022	\$ 136,076	\$ 136,076	\$ -	\$ 961,615	14%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.

**MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**MARYLAND STATE RETIREMENT AND PENSION SYSTEMS**  
**ACTUARIAL ASSUMPTIONS - PENSION PLAN**  
**June 30, 2022**

**Changes in Benefit Terms**

There were no benefit changes during the year.

**Changes in Assumptions**

Discount rate decreased from 7.40% to 6.8% in the 2021 actuarial valuation.

**Method and Assumptions used in Calculations of Actuarially Determined Contributions**

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25-year closed amortization period ending June 30, 2039; 17 years remaining.
Asset Valuation Model	Five-year smoothed market; 20% collar
Inflation	In the 2021 actuarial valuation, 2.25% general, 2.75% wage. In the 2020 actuarial valuation, 2.60% general, 3.10% wage.
Salary Increases	In the 2021 actuarial valuation, 2.75% to 9.25%. In the 2020 actuarial valuation, 3.10% to 11.60%.
Investment Rate of Return	In the 2021 actuarial valuation, 6.80%. In the 2020 actuarial valuation, 7.40%.
Retirement Age	Experienced-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 July 30, 2018.
Mortality	Various versions of the Pub-2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality improvements scale for males and females.

## **ADDITIONAL SUPPLEMENTARY INFORMATION**

# MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND

## ADDITIONAL SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Intergovernmental	\$ 3,109,986	\$ 3,109,986	\$ 43,128	\$ (3,066,858)
<b>Total revenues</b>	<b>3,109,986</b>	<b>3,109,986</b>	<b>43,128</b>	<b>(3,066,858)</b>
<b>EXPENDITURES:</b>				
Public works	-	-	8,524	(8,524)
Capital outlay	3,107,043	3,107,043	52,265	3,054,778
<b>Total expenditures</b>	<b>3,107,043</b>	<b>3,107,043</b>	<b>60,789</b>	<b>3,046,254</b>
Excess (deficiency) of revenues over expenditures	2,943	2,943	(17,661)	(20,604)
<b>OTHER FINANCING SOURCES (USES):</b>				
Interest and dividends	5	5	30	25
Reserve of fund balance	(2,948)	(2,948)	-	2,948
Transfers in (out)	-	-	90,888	90,888
<b>Total other financing sources (uses)</b>	<b>(2,943)</b>	<b>(2,943)</b>	<b>90,918</b>	<b>93,861</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 73,257</b>	<b>\$ 73,257</b>

# MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND

## INCOME AND EXPENSE DETAIL BUDGET AND ACTUAL WATER FUND Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>WATER SERVICE:</b>				
Operating revenues:				
Charges for services	\$ 464,299	\$ 464,299	\$ 404,768	\$ (59,531)
Water connections	3,000	3,000	9,561	6,561
Other operating	6,200	6,200	2,066	(4,134)
<b>Total operating revenues</b>	<b>473,499</b>	<b>473,499</b>	<b>416,395</b>	<b>(57,104)</b>
Operating expenses:				
Salaries and wages	94,620	94,620	90,561	4,059
Employee benefits	42,930	42,930	33,891	9,039
Utilities	20,000	20,000	41,398	(21,398)
Repairs and maintenance	86,000	86,000	87,230	(1,230)
Supplies and chemicals	5,000	5,000	8,843	(3,843)
Depreciation	36,668	36,668	134,851	(98,183)
Other operating	70,790	70,790	18,182	52,608
<b>Total operating expenses</b>	<b>356,008</b>	<b>356,008</b>	<b>414,956</b>	<b>(58,948)</b>
<b>Net operating income (loss)</b>	<b>117,491</b>	<b>117,491</b>	<b>1,439</b>	<b>(116,052)</b>
Non-operating revenue (expense):				
Intergovernmental revenues	-	-	40,845	40,845
Transfers in (out)	-	-	267,180	267,180
Use of net position	5,441	5,441	-	(5,441)
Interest income	225	225	4	(221)
Debt service principal	(112,240)	(112,240)	-	112,240
Loss on disposal of asset	-	-	(3,797)	(3,797)
Interest expense	(10,917)	(10,917)	(14,280)	(3,363)
<b>Net non-operating revenue (expense)</b>	<b>(117,491)</b>	<b>(117,491)</b>	<b>289,952</b>	<b>407,443</b>
<b>NET INCOME (LOSS)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 291,391</b>	<b>\$ 291,391</b>

# MAYOR AND COUNCIL OF FEDERALSBURG, MARYLAND

## INCOME AND EXPENSE DETAIL BUDGET AND ACTUAL SEWER FUND Year Ended June 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
<b>SEWER COLLECTION AND DISPOSAL:</b>				
Operating revenues:				
Charges for services	\$ 1,203,103	\$ 1,203,103	\$ 989,130	\$ (213,973)
Sewer connections	2,500	2,500	10,330	7,830
Bay restoration fees	90,000	90,000	99,753	9,753
<b>Total operating revenues</b>	<b>1,295,603</b>	<b>1,295,603</b>	<b>1,099,213</b>	<b>(196,390)</b>
Operating expenses:				
Salaries and wages	96,189	96,189	102,605	(6,416)
Employee benefits	42,403	42,403	34,059	8,344
Utilities	91,000	91,000	134,454	(43,454)
Repairs and maintenance	105,000	105,000	143,071	(38,071)
Supplies and chemicals	167,000	167,000	182,100	(15,100)
Depreciation and amortization	177,024	177,024	590,383	(413,359)
Other operating expenses	188,805	188,805	170,694	18,111
<b>Total operating expenses</b>	<b>867,421</b>	<b>867,421</b>	<b>1,357,366</b>	<b>(489,945)</b>
<b>Net operating income (loss)</b>	<b>428,182</b>	<b>428,182</b>	<b>(258,153)</b>	<b>(686,335)</b>
Non-operating revenue (expenses):				
Intergovernmental revenues	-	-	251,738	251,738
Transfer in (out)	-	-	(46,752)	(46,752)
Reserve of net position	(26,289)	(26,289)	-	26,289
Interest income	115	115	1	(114)
Debt service principal	(315,456)	(315,456)	-	315,456
Interest expense	(86,552)	(86,552)	(95,495)	(8,943)
<b>Net non-operating revenue (expense)</b>	<b>(428,182)</b>	<b>(428,182)</b>	<b>109,492</b>	<b>537,674</b>
<b>NET INCOME (LOSS)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (148,661)</b>	<b>\$ (148,661)</b>

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

Mayor and Council of Federalsburg, Maryland  
Federalsburg, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mayor and Council of Federalsburg, Maryland (the “Town”) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated February 28, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

*A 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.

*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. We identified the following deficiency in internal control over financial reporting that we consider to be a material weakness, as defined above.



## Finding Number 2022-001

*Criteria:* Proper segregation of duties should be in place to strengthen internal controls to provide reasonable assurance that a material misstatement to the financial statements is prevented.

*Condition:* We noted that the system currently in place creates conflicts within duties assigned to a single individual and produces a high level of internal control risk. During our audit, we noted a lack of segregation of duties.

*Cause:* The lack of appropriately designed internal control systems has produced conflicts regarding assigned duties.

*Effect:* Segregation of duties issues does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, the misappropriation of assets and/or errors on a timely basis.

*Recommendation:* We recommend that, when possible, responsibilities for authorization, recording, and maintaining custody of assets be assigned to different employees. In situations where this is not possible, we recommend the implementation of certain transaction review controls. It is important to note that review controls do not eliminate all risk when segregation of duties conflicts exist, and management and those charged with governance need to be aware of such risks.

*Identification of Repeat Finding:* Due to the nature and size of the Town, this is a repeat finding.

*Views of Responsible Officials:* It has been determined that it would not be cost effective for the Town to add additional personnel to ensure complete segregation of duties in the finance department.

## **Report on Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Town in a separate letter dated February 28, 2023.

## **Mayor and Council of Federalsburg, Maryland's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Town's response to the findings identified above. The Town's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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.

The image shows a handwritten signature in black ink that reads "UHY LLP". The letters are stylized and cursive, with the "U" and "H" being particularly prominent.

Salisbury, Maryland  
February 28, 2023