

**CITY OF SEAT PLEASANT, MARYLAND**

**Financial Statements and Supplementary Information  
Together with Report of Independent Public Accountants**

**For the Year Ended June 30, 2014**



**SB & COMPANY, LLC**  
EXPERIENCE • QUALITY • CLIENT SERVICE

**JUNE 30, 2014**

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Honorable Mayor, Members of the City Council  
And City Manager  
City of Seat Pleasant, Maryland

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

We have audited the accompanying financial statements of the governmental activities and the major fund of the City of Seat Pleasant (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the City, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

Hunt Valley, MD  
January 26, 2015

*SB & Company, LLC*



## **CITY OF SEAT PLEASANT, MARYLAND**

### **Management's Discussion and Analysis June 30, 2014**

Our discussion and analysis of the financial performance of the City of Seat Pleasant provides an overview of the City's financial activities for the year ended June 30, 2014. Please read it in conjunction with the City's financial statements.

#### **Financial Highlights**

The assets of the City exceeded its liabilities (net position) as of June 30, 2014 by \$5.28 million. Of this amount, \$2.38 million is unrestricted and may be used to meet the City's future obligations. All of the \$2.38 million is related to governmental activities, which consist solely of the General Fund. The unrestricted net assets are available for future General Fund expenditures. The remaining portion of \$2.90 million represents the City's investment in Capital Assets, net of related debt.

The unassigned fund balance for the General Fund represented 51.2 percent of total General Fund expenditures compared to the Council adopted target of 25 percent.

In comparison with the prior fiscal year, the City's total net position decreased by \$245,341. This is primarily due to an increase in expenses. During the current fiscal year, as a result of decrease in net position, the City decreased its current assets.

#### **Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities are government-wide statements that provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements report the City's operation in more detail than the government-wide statements by providing information about the City's most significant funds and individual parts.

#### **Reporting the City as a Whole**

##### **The Statement of Net Position and the Statement of Activities**

One of the most important questions asked about the City's finances is, "Is the City, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

## **CITY OF SEAT PLEASANT, MARYLAND**

### **Management's Discussion and Analysis June 30, 2014**

#### **The Statement of Net Position and the Statement of Activities** (continued)

These two statements report changes in the City's net position. You can think of the City's net position (the difference between assets and liabilities) as one way to measure the City's financial health or position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's infrastructure to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we have only one kind of activity:

Governmental Activities – All of the City's services are reported here, including the police, general administration, highways, and sanitation. Taxes, franchise fees, fines and forfeitures, license fees, and state and county grants or payments finance most of these activities.

#### **Reporting the City's Funds**

##### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds-not the City as a whole. All of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation following the fund financial statements.

##### **The City as a Whole**

##### **Governmental Activities**

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenditures and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much

## CITY OF SEAT PLEASANT, MARYLAND

### Management's Discussion and Analysis June 30, 2014

#### Governmental Activities (continued)

each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General Government	Building Permit Fees, Business License Fees, State Grants, Franchise Fees, Cable Company. Grants
Highways	Highway User Revenues, State Grants, Community Development Grants
Sanitation/Waste Removal	County Rebates, Special Trash Fees
Police Department	State Grants, Fines, Report Fees, Property Forfeitures, Donations

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted to a specific purpose.

#### Government-Wide Financial Information

The following is selected information as of June 30, 2014, and for the previous year, which is provided for comparison purposes:

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets	\$ 2,682,415	\$ 3,616,882
Capital assets	2,966,464	2,385,768
<b>Total Assets</b>	<u>5,648,879</u>	<u>6,002,650</u>
<b>Liabilities</b>		
Current liabilities	214,267	303,993
Long-term liabilities	158,742	177,446
<b>Total Liabilities</b>	<u>373,009</u>	<u>481,439</u>
<b>Net Position</b>		
Net investment in capital assets	2,854,547	2,196,869
Restricted	44,510	62,858
Unrestricted	2,376,813	3,261,484
<b>Total Net Position</b>	<u>\$ 5,275,870</u>	<u>\$ 5,521,211</u>

CITY OF SEAT PLEASANT, MARYLAND

Management's Discussion and Analysis  
June 30, 2014

	Governmental Activities	
	2014	2013
<b>Program revenues:</b>		
Charges for services	\$ 574,927	\$ 621,304
Operating grants and contributions	111,467	174,408
<b>General revenues:</b>		
Income Taxes	222,270	223,873
Property taxes	2,722,227	2,384,755
Other	37,460	27,902
Total general revenues	<u>2,981,957</u>	<u>2,636,530</u>
Total revenues	<u>3,668,351</u>	<u>3,432,242</u>
<b>Expenses:</b>		
General government	1,127,082	1,270,525
Public safety	1,306,136	1,064,377
Public works	1,351,436	1,250,367
Recreation and community service	129,038	51,058
Total expenses and transfers	<u>3,913,692</u>	<u>3,636,327</u>
Change in net position	(245,341)	(204,085)
Net position, beginning of year	<u>5,521,211</u>	<u>5,725,296</u>
Net position, End of Year	<u>\$ 5,275,870</u>	<u>\$ 5,521,211</u>



**CITY OF SEAT PLEASANT, MARYLAND**

**Management's Discussion and Analysis  
June 30, 2014**

**The City's Funds**

The following schedule presents a summary of general revenues and expenses for the fiscal year ended June 30, 2014, percentage of total revenues and expenditures, and changes in relation to the prior year:

	FY14 Amount	Percent of Total	Increase (Decrease) from FY13
<b>Revenues:</b>			
Taxes	\$ 2,907,150	80.06%	\$ 224,169
Intergovernmental	111,467	3.07%	(62,941)
Charges for services	263,721	7.26%	(124,055)
Fines, licenses and permits	311,206	8.57%	77,678
Interest income	679	0.02%	(1,773)
Miscellaneous	36,781	1.01%	11,331
<b>Total Revenues</b>	<b>\$ 3,631,004</b>	<b>100%</b>	<b>\$ 124,409</b>
<b>Expenditures:</b>			
General government	\$ 1,098,039	24.08%	\$ 27,595
Public safety	1,209,529	26.52%	216,378
Public works	1,167,494	25.60%	(75,391)
Recreation and culture	129,038	2.83%	77,980
Capital outlays	873,261	19.15%	633,169
Debt service	82,966	1.82%	(49,677)
<b>Total Expenditures</b>	<b>\$ 4,560,327</b>	<b>100%</b>	<b>\$ 830,054</b>

Revenues amounted to \$3.6 million in fiscal year 2014, an increase of \$124,409 from fiscal year 2013. Real property taxes produced \$45,541 more revenue than in fiscal year 2013. The personal property assessable base increase resulted in \$145,087 additional revenue for personal property taxes. However, there was a decrease of \$50,830 in fines and permits due to a decrease in red lights and speed camera operations. The city issued less permits for new home construction during fiscal year 2014 as compared to fiscal year 2013. State grants have been reduced. Commercial and residential building permit revenue has decreased, reflecting a decrease in the number of homes being built within the city limits. Expenditures totaled \$4.6 million for fiscal year 2014, an increase of \$830,054 from fiscal year 2013. The increase in expenditures is attributable to the acquisition of fixed assets, demolition of structures in the city and expenditures associated with the City Center project.

## CITY OF SEAT PLEASANT, MARYLAND

### Management's Discussion and Analysis June 30, 2014

#### Capital Assets

The City's capital assets for its governmental activities as of June 30, 2014, amounted to \$3.0 million (net of accumulated depreciation). Capital assets include land, historical treasures, building and improvements, improvements other than buildings, and machinery and equipment. During the year the city made capital outlays of \$873,261.

More detailed information about the City's capital assets is presented in Note 5 to the basic financial statements.

#### Debt

As of June 30, 2014, the City had no bonds outstanding and other debt obligations are as follows.

SunTrust Loan	<u>\$ 111,917</u>
---------------	-------------------

Neither Maryland State law nor the City Charter mandates a limit on municipal debt. On May 10, 1999, the City Council established a policy to limit debt to 0.8 percent of assessed value of taxable property. As of June 30, 2014 assessed value of such property total approximately \$168,087,660, the debt limit was approximately \$3.0 million and the actual outstanding debt was \$112,000, approximately 4% of the debt limit. The City retired \$76,982 of its long term obligations during fiscal year 2014 through regularly scheduled payments.

#### Economic Factors and Next Year's Budgets and Rates

The City is located in the northern part of Prince George's County. Although considered to be in the Washington, DC metropolitan area, the City's location also gives it easy access to Baltimore and Annapolis. The Baltimore/Washington area is considered to be one of the fastest growing regions in the nation. Proximity to the Baltimore/Washington area and federal government spending generally contributes to the City's stability.

The City's total assessed value for personal property increased by \$330,000. This increase has been attributed primarily to an increase in assessments.

The City generally expects tax revenues to increase in the future. The majority of homes in the city are owner-occupied single-family homes that the 2010 census placed in the price range of \$100,000 to \$160,000 with a median value of \$145,000.

## CITY OF SEAT PLEASANT, MARYLAND

### Management's Discussion and Analysis

June 30, 2014

#### Economic Factors and Next Year's Budgets and Rates (continued)

The Maryland Department of Labor, Licensing and Regulation reported the unemployment rate in Prince George's County at 6.6 percent and the State at 6.2 percent as of June 30, 2014. The 2010 Census showed the median income for the City of Seat Pleasant at \$47,050. The income level exceeds the State of Maryland at \$41,119 and the United States at \$46,440.

The City in the future will be preparing a financial forecast as a component of developing the annual operating budget and capital improvements program. The assumptions in the forecast will be reviewed with the City Council as background for decisions about revenue projections and estimated costs.

The adopted budget for FY2015 does not propose any tax rate changes. The real and personal property tax rates remain at \$.58 and \$11.00 per \$100 of assessed valuation, respectively.

The State of Maryland's budget situation mirrors that of most states - significant deficits in the current and upcoming year are projected, along with gloomy forecasts well into the latter half of the decade. The City felt the impact of these financial woes in FY2003 when the State reduced the amount of Highway User Revenue distributed to local governments. As a result, the City has lost approximately \$15,000 annually since FY2003. In FY2015, the City projects it will receive the same allocation it received in fiscal year 2014. Fortunately, current state income tax proceeds, the City's largest source of state shared revenues, have remained relatively stable over the last few years. In addition to the above, the City's real estate assessment base increased by 1.2%.

#### Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer at 6301 Addison Road, Seat Pleasant, Maryland 20743.

CITY OF SEAT PLEASANT, MARYLAND

Statement of Net Position  
As of June 30, 2014

	<u>Governmental Activities</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 1,150,142
Cash and cash equivalents - restricted	44,510
Investments	1,306,949
Amounts due from other governments	38,778
Other accounts receivable	30,481
Personal property taxes receivable, net of allowance	25,125
Accounts receivable - income taxes	29,322
Prepaid expenses	57,108
<b>Total Current Assets</b>	<u>2,682,415</u>
<b>Non-Current Assets</b>	
Capital assets net of accumulated depreciation	<u>2,966,464</u>
<b>Total Assets</b>	<u>5,648,879</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable and accrued expenses	98,855
Amounts held in escrow and deposits	45,479
Current portion of long-term debt and compensated absences	69,933
<b>Total Current Liabilities</b>	<u>214,267</u>
<b>Non-Current Liabilities</b>	
Compensated absences	86,043
Loans payable - long term	72,699
<b>Total Non-Current Liabilities</b>	<u>158,742</u>
<b>Total Liabilities</b>	<u>373,009</u>
<b>NET POSITION</b>	
Net investment in capital assets	2,854,547
Restricted	44,510
Unrestricted	2,376,813
<b>Total Net Position</b>	<u>\$ 5,275,870</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF SEAT PLEASANT, MARYLAND**

**Statement of Activities  
For the Year Ended June 30, 2014**

	Direct Expense	Indirect Expense Allocation	Program Revenues			Primary Government	
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Total
<b>Government Activities:</b>							
General government	\$ 1,125,137	\$ 1,945	\$ 118,965	\$ 50,427	\$ -	\$ (957,690)	\$ (957,690)
Public safety	1,302,097	4,039	199,936	61,040	-	(1,045,160)	(1,045,160)
Public works	1,351,436	-	256,026	-	-	(1,095,410)	(1,095,410)
Recreation and culture	129,038	-	-	-	-	(129,038)	(129,038)
Interest expense	5,984	(5,984)	-	-	-	-	-
<b>Total Primary Government</b>	<b>\$ 3,913,692</b>	<b>\$ -</b>	<b>\$ 574,927</b>	<b>\$ 111,467</b>	<b>\$ -</b>	<b>(3,227,298)</b>	<b>(3,227,298)</b>
<b>General Revenues:</b>							
Income taxes						222,270	222,270
Property taxes						2,722,227	2,722,227
Interest and investment income						679	679
Miscellaneous						36,781	36,781
Change in net position						(245,341)	(245,341)
Net position, beginning of year						5,521,211	5,521,211
<b>Net position, End of Year</b>						<b>\$ 5,275,870</b>	<b>\$ 5,275,870</b>

The accompanying notes are an integral part of this financial statement.



CITY OF SEAT PLEASANT, MARYLAND

Balance Sheet – Governmental Fund  
As of June 30, 2014

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,150,142
Cash and cash equivalents - restricted	44,510
Investments	1,306,949
Amounts due from other governments	38,778
Other accounts receivable	30,481
Personal property taxes receivable, net of allowance	25,125
Accounts receivable - income taxes	29,322
Prepaid expenses	57,108
<b>Total Assets</b>	<u><u>\$ 2,682,415</u></u>
<b>LIABILITIES AND DEFERRED INFLOWS</b>	
Accounts payable and accrued expenses	98,855
Amounts held in escrow and deposits	45,479
<b>Total Liabilities</b>	<u>144,334</u>
<b>DEFERRED INFLOWS</b>	
Unavailable revenue	<u>65,651</u>
<b>FUND BALANCE</b>	
Non-spendable	57,108
Restricted	44,510
Unassigned	2,370,812
<b>Total Fund Balance</b>	<u>2,472,430</u>
<b>Total Liabilities, Deferred Inflows and Fund Balance</b>	<u><u>\$ 2,682,415</u></u>

The accompanying notes are an integral part of this balance sheet.

**CITY OF SEAT PLEASANT, MARYLAND**

**Reconciliation of the Governmental Fund Balance Sheet to the  
Statement of Net Position  
As of June 30, 2014**

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUND</b>	<b>\$ 2,472,430</b>
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Certain receivables are offset by unavaliabe revenue in the governmental funds since they are not available to pay for current period expenditures. This is the amount of unavailable revenue related to these receivables.	65,651
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	2,966,464
Noncurrent liabilities are not reported as liabilities in the governmental funds.	<u>(228,675)</u>
<b>Total Net Assets - Governmental Activities</b>	<b><u><u>\$ 5,275,870</u></u></b>

The accompanying notes are an integral part of this financial statement.

**CITY OF SEAT PLEASANT, MARYLAND**

**Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund  
For the Year Ended June 30, 2014**

	<u>General Fund</u>
<b>REVENUES</b>	
Taxes	\$ 2,907,150
Intergovernmental	111,467
Charges for services	263,721
Fines, licenses and permits	311,206
Interest and investment income	679
Miscellaneous	36,781
<b>Total revenues</b>	<u>3,631,004</u>
<b>EXPENDITURES</b>	
General government	1,098,039
Public safety	1,209,529
Public works	1,167,494
Recreation and culture	129,038
Capital outlays	873,261
Debt service:	
Principal	76,982
Interest	5,984
<b>Total expenditures</b>	<u>4,560,327</u>
Deficiency of revenues over expenditures	(929,323)
Fund balances, beginning of year	<u>3,401,753</u>
<b>Fund balances, End of Year</b>	<u>\$ 2,472,430</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF SEAT PLEASANT, MARYLAND**

**Reconciliation of the Governmental Fund Statement of Revenues,  
Expenditures, and Changes in Fund Balance to the Statement of Activities  
For the Year Ended June 30, 2014**

<b>TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUND</b>	<b>\$ (929,323)</b>
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay of \$873,261 is exceeded by depreciation expense of \$291,278 and loss on disposal of \$1,287 in the period.	580,696
In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental fund, however, expenditures for compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid or expected to be paid within one year).	(11,043)
In the Statement of Activities, revenues are recognized when they are earned and received. In the governmental fund, revenues are recognized as income if they are available to satisfy current obligations. This is the amount of the increase in unavailable revenue in the governmental funds which is recognized as revenue in the Statement of Activities.	37,347
Long-term debt repayments are an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount of long-term debt repayments for 2014.	<u>76,982</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ (245,341)</u></u></b>

The accompanying notes are an integral part of this financial statement.