

CITY OF SEAT PLEASANT
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

CITY OF SEAT PLEASANT

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Independent Auditors' Report

To the Mayor and City Council
City of Seat Pleasant
Seat Pleasant, MD

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Seat Pleasant as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Independent Auditors' Report (continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Seat Pleasant as of June 30, 2019, 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 and budgetary comparison information, on pages 3 through 8 and 28 through 29 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.

Wujich, Cronin & Sora, LLC

June 15, 2021
Hunt Valley, MD

CITY OF SEAT PLEASANT

Management Discussion and Analysis June 30, 2019

The following information includes our discussion and analysis of the financial performance of the City of Seat Pleasant (City) and provides an overview of the City's financial activities for the year ended June 30, 2019. Please read it in conjunction with the transmittal letter and the City's financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities (net position) as of June 30, 2019, by \$6,073,426. Of this amount, \$763,773 is unrestricted and may be used to meet the City's future obligations. All of the \$763,773 is related to governmental activities, which consist solely of the General Fund. The unrestricted net assets are available for future General Fund expenditures. \$185,207 is restricted by time or purpose. The remaining portion of \$5,124,446 represents the City's investment in Capital Assets, net of related debt and restricted net position.
- The assigned fund balance for the General Fund represented 17.1 percent of total General Fund expenditures compared to the Council adopted target of 25 percent. There is no unassigned fund balance for the general fund at June 30, 2019.
- In comparison with the prior fiscal year, the City's total net position decreased by \$252,842. This is primarily due to an increase in general government related to the formation of the Seat Pleasant Investment Corporate Enterprise, LLC (SPICE). It should be noted here that the formation of the SPICE was done via recommendations from the Office of the Mayor and approved via legislation following adoption by the City Council. The investment was done based on the information provided by the Office of the Mayor, that the investment would lead to potentially increased revenue to the city according to SEC regulations. The corporation was to be set up as a for-profit LLC according to regulations under SEC rules. As such an investment account was set up through Merrill Lynch with the City listed as the sole member of the corporation with no management control or oversight authority. The intent and purpose of SPICE was to invest in organizations and projects established to purchase vacant properties and spur economic development in the City.

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 the 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 to answer this question.

These statements include all assets and deferred outflows and liabilities and deferred inflows 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

Management Discussion and Analysis June 30, 2019

These two statements report changes in the City's net position. You can think of the City's net position (the difference between assets plus deferred outflows and liabilities plus deferred inflows) as one way to measure the City's financial health or position. Over time, increases or decreases in the City's net position are 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 roads to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activity:

- **Governmental Activity**- All of the City's basic services are reported here, including the police, general government, public works, economic development, and recreation. Taxes, fines and state and federal grants finance most of these activities.
- **Business-type Activity** – The City currently has no business-type activities.

Reporting the City's Most Significant Funds **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds - not the City as a whole.

- **Governmental funds** - All the City's basic 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 be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic service 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 through a reconciliation.

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, Expenses 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 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: Rental license fees and other support grants
- Public Safety: State aid, grants, fines, and vehicle release fees
- Public Works: Highway User revenues, storm water management grants, and landfill rebates.

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.

CITY OF SEAT PLEASANT

Management Discussion and Analysis June 30, 2019

Government-Wide Financial Information

The following is a condensed statement of net position as of June 30, 2019 and 2018.

City of Seat Pleasant Condensed Statement of Net Position

| | Governmental Activities | |
|----------------------------------|-------------------------|---------------------|
| | 2019 | 2018 |
| Current and Other Assets | \$ 6,718,406 | \$ 7,065,422 |
| Capital Assets | 5,246,707 | 4,304,548 |
| Total Assets | <u>11,965,113</u> | <u>11,369,970</u> |
| | | |
| Long-term Liabilities | 5,403,215 | 4,230,049 |
| Other Liabilities | 488,472 | 813,653 |
| Total Liabilities | <u>5,891,687</u> | <u>5,043,702</u> |
| | | |
| Net Position | | |
| Net investment in capital assets | 5,124,446 | 3,895,378 |
| Restricted | 185,207 | 261,798 |
| Unrestricted | 763,773 | 2,169,092 |
| | <u>\$ 6,073,426</u> | <u>\$ 6,326,268</u> |

The following table is a condensed statement of activities for the years ended June 30, 2019 and 2018:

City of Seat Pleasant Condensed Statement of Activities

| | Governmental Activities | |
|--|-------------------------|---------------------|
| | 2019 | 2018 |
| Revenue | | |
| Program revenue: | | |
| Charges for services | \$ 5,653,824 | \$ 3,777,007 |
| Operating grants/contributions | 393,123 | 297,402 |
| Capital grants/contributions | 116,034 | - 0 - |
| General revenue: | | |
| Property and income taxes | 3,745,687 | 3,541,961 |
| Other taxes | 2,563 | - 0 - |
| Franchise fees | 97,553 | 64,448 |
| Investment income | 44,917 | 58,360 |
| Gain on sale of property | 261,525 | - 0 - |
| Miscellaneous | 9,377 | 58,360 |
| Total revenue | <u>10,324,603</u> | <u>7,797,538</u> |
| Expenses | | |
| General government | 4,594,861 | 3,608,879 |
| Public safety | 3,428,715 | 3,337,583 |
| Public works | 1,245,346 | 1,002,744 |
| Parks, recreation and culture | 1,102,507 | 768,550 |
| Interest | 206,016 | 51,936 |
| Total expenses | <u>10,577,445</u> | <u>8,769,692</u> |
| Increase (decrease) in net position | <u>(252,842)</u> | <u>(972,154)</u> |
| Net position, beginning of year | <u>6,326,268</u> | <u>7,298,422</u> |
| Net position, end of year | <u>\$ 6,073,426</u> | <u>\$ 6,326,268</u> |

CITY OF SEAT PLEASANT

Management Discussion and Analysis June 30, 2019

The City's Funds

The following schedule presents a summary of revenues and expenditures for the fiscal year ended June 30, 2019 and 2018:

| Revenues | 2019 | 2018 | Change |
|-------------------------------|----------------------|----------------------|-------------------|
| Taxes | \$ 3,693,005 | \$ 3,619,464 | \$ 73,541 |
| Intergovernmental | 509,170 | 201,055 | 308,115 |
| Fines and forfeitures | 3,268,968 | 3,207,029 | 61,939 |
| Licenses and permits | 186,536 | 166,030 | 20,506 |
| Charges for services | 280,886 | 468,396 | (187,510) |
| Investment income | 44,917 | 58,360 | (13,443) |
| Miscellaneous | 13,727 | 58,360 | (44,633) |
| | <u>\$ 7,997,209</u> | <u>\$ 7,778,694</u> | <u>\$ 218,515</u> |
| Expenditures | | | |
| General government | \$ 4,374,973 | \$ 4,239,033 | \$ 135,940 |
| Public safety | 2,994,161 | 3,207,623 | (213,462) |
| Public works | 1,142,522 | 909,498 | 233,024 |
| Parks, recreation and culture | 1,092,846 | 768,550 | 324,296 |
| Capital outlays | 807,340 | 998,219 | (190,879) |
| Debt service | 466,599 | 51,936 | 414,663 |
| | <u>\$ 10,878,441</u> | <u>\$ 10,174,859</u> | <u>\$ 703,582</u> |

Fines, as well as licenses and permits increased due to an increase in the collections of speed camera fines. Intergovernmental revenues increased primarily due to the increase in Highway User Revenue as appropriated from the state to municipalities. There was a reduction in investment income due to the lack of investments and the reduction due to the funds appropriated for the creation of SPICE, LLC. Miscellaneous revenue decreased due to mis-categorizing some revenue which has now been assigned to the appropriate revenue account. Miscellaneous should never be a large amount. If a revenue line does not exist it should be created to account for appropriate classification and explanation of the revenue source.

Budgetary Highlights

There were budgetary amendments during the year effective February 26, 2019. Both expenditures and revenues increased, and the final amendment was adopted by a majority of the City Council.

Capital Assets

The City's capital assets for its governmental activities as of June 30, 2019, amounted to \$5.25 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 \$807,340.

More detailed information about the City's capital assets is presented in Note 3 to the basic financial statements.

CITY OF SEAT PLEASANT

Management Discussion and Analysis June 30, 2019

Debt

As of June 30, 2019, the City has one bond outstanding in the amount of \$4,100,000. Additionally, the City entered into various equipment and vehicle leases with outstanding balances totaling \$1,091,378. The only other long-term debt obligation is compensated absences of \$211,837.

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, 2019, assessed value of such property totaled approximately \$243,357,606, the debt limit was approximately \$2 million and actual outstanding debt was \$5,191,378.

Economic Factors and Next Year's Budget and Rates

The City is located in the northern part of Prince George's County. Although considered to be in Washington, DC metropolitan area, the City's location also gives it easy access to Baltimore and Annapolis. The Baltimore/Washington area is 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 \$967,234. This increase has been attributed primarily to an increase in assessments.

The City generally expects tax revenues to increase in the future. Most homes in the city are owner-occupied single-family homes with a median value of \$169,300.

The Maryland Department of Labor, Licensing and Regulation reported the unemployment rate in Prince George's County at 3.7 percent and the State at 3.5 percent as of June 30, 2019. In 2019, the estimated median income for the State of Maryland was \$86,738, and for the United States was \$68,703.

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 the FY2020 does not propose any tax rate changes. The real and personal property tax rates remain at \$.58 and \$15.00 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 in 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 FY2020, the City projects it will receive the same allocation it received in fiscal year 2019. 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 approximately 1%.

The City anticipates a substantial increase in Highway User Revenue from estimates provided by Maryland Municipal League and the Maryland Comptroller's Office. Additional revenue is also anticipated. As of this writing, the City will be awarded \$500,000 in restricted revenue to rebuild or construct two single-family homes in the City; additional revenue is anticipated from State Police Aid and the GOCCP for additional patrol officers for the Department of Public Safety. This additional revenue will account for approximately \$4M in revenue by FY 2022.

CITY OF SEAT PLEASANT

Management Discussion and Analysis
June 30, 2019

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 City'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 Mayor and City Council at 6301 Addison Road, Seat Pleasant MD 20743.

CITY OF SEAT PLEASANT

Statement of Net Position
June 30, 2019

| | Primary Government | | Component Unit (SPICE) | |
|--|----------------------------|----------------------------|---------------------------|--|
| | Governmental Activities | Total | | |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 3,283,726 | \$ 3,283,726 | \$ 406,515 | |
| Restricted cash | 185,207 | 185,207 | - 0 - | |
| Accounts receivable - intergovernmental | 206,262 | 206,262 | - 0 - | |
| Accounts receivable - taxes, net of allowance | 38,682 | 38,682 | - 0 - | |
| Traffic citations receivable, net of allowance | 2,408,131 | 2,408,131 | - 0 - | |
| Other assets | <u>16,845</u> | <u>16,845</u> | - 0 - | |
| TOTAL CURRENT ASSETS | 6,138,853 | 6,138,853 | 406,515 | |
| CAPITAL ASSETS | | | | |
| Construction in progress - nondepreciable | 563,319 | 563,319 | - 0 - | |
| Land - nondepreciable | 628,831 | 628,831 | - 0 - | |
| Buildings, infrastructure and equipment - net | <u>4,054,557</u> | <u>4,054,557</u> | - 0 - | |
| TOTAL CAPITAL ASSETS | 5,246,707 | 5,246,707 | - 0 - | |
| OTHER ASSETS | | | | |
| Certificates of deposit | 273,910 | 273,910 | - 0 - | |
| Land held for sale | <u>305,643</u> | <u>305,643</u> | - 0 - | |
| TOTAL OTHER ASSETS | 579,553 | 579,553 | - 0 - | |
| TOTAL ASSETS | <u>11,965,113</u> | <u>11,965,113</u> | 406,515 | |
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable & accrued expenses | 488,472 | 488,472 | 32,425 | |
| Long-term obligations - current portion | <u>4,391,106</u> | <u>4,391,106</u> | - 0 - | |
| TOTAL CURRENT LIABILITIES | 4,879,578 | 4,879,578 | 32,425 | |
| NONCURRENT LIABILITIES | | | | |
| Compensated absences | 211,837 | 211,837 | - 0 - | |
| Long-term obligations | <u>800,272</u> | <u>800,272</u> | - 0 - | |
| TOTAL NONCURRENT LIABILITIES | <u>1,012,109</u> | <u>1,012,109</u> | - 0 - | |
| TOTAL LIABILITIES | <u>5,891,687</u> | <u>5,891,687</u> | 32,425 | |
| NET POSITION | | | | |
| Net investment in capital assets | 5,124,446 | 5,124,446 | - 0 - | |
| Restricted | 185,207 | 185,207 | - 0 - | |
| Unrestricted | <u>763,773</u> | <u>763,773</u> | 374,090 | |
| TOTAL NET POSITION | <u>\$ 6,073,426</u> | <u>\$ 6,073,426</u> | \$ 374,090 | |

See accompanying notes to financial statements

CITY OF SEAT PLEASANT

Statement of Activities
For the Year Ended June 30, 2019

| FUNCTIONS/PROGRAMS | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | | Component Unit (SPICE) | |
|-------------------------------|----------------------|----------------------|----------------------------------|--------------------------------|---|---------------------|-------------------|------------------------|--|
| | Expenses | Charges For Services | Operating Grants & Contributions | Capital Grants & Contributions | Primary Government | | | | |
| | | | | | Governmental Activities | Total | | | |
| GOVERNMENTAL ACTIVITIES: | | | | | | | | | |
| General government | \$ 4,594,861 | \$ 145,198 | \$ 116,076 | \$ 59,359 | \$ (4,274,228) | \$ (4,274,228) | \$ - 0 - | | |
| Public safety | 3,428,715 | 5,243,699 | 157,842 | - 0 - | 1,972,826 | 1,972,826 | - 0 - | | |
| Public works | 1,245,346 | 263,352 | 119,205 | - 0 - | (862,789) | (862,789) | - 0 - | | |
| Parks, recreation and culture | 1,102,507 | 1,575 | - 0 - | 56,675 | (1,044,257) | (1,044,257) | - 0 - | | |
| Interest | 206,016 | - 0 - | - 0 - | - 0 - | (206,016) | (206,016) | - 0 - | | |
| Total Governmental Activities | <u>10,577,445</u> | <u>5,653,824</u> | <u>393,123</u> | <u>116,034</u> | <u>(4,414,464)</u> | <u>(4,414,464)</u> | | - 0 - | |
| TOTAL PRIMARY GOVERNMENT | <u>\$ 10,577,445</u> | <u>\$ 5,653,824</u> | <u>\$ 393,123</u> | <u>\$ 116,034</u> | <u>(4,414,464)</u> | <u>(4,414,464)</u> | | - 0 - | |
| COMPONENT UNIT: | | | | | | | | | |
| SPICE | \$ 230,488 | \$ - 0 - | \$ 600,000 | \$ - 0 - | | | | 369,512 | |
| TOTAL COMPONENT UNIT | <u>\$ 230,488</u> | <u>\$ - 0 -</u> | <u>\$ 600,000</u> | <u>\$ - 0 -</u> | | | | <u>369,512</u> | |
| GENERAL REVENUES: | | | | | | | | | |
| Taxes: | | | | | | | | | |
| Real estate | | | | | 1,753,547 | 1,753,547 | - 0 - | | |
| Personal property | | | | | 1,636,490 | 1,636,490 | - 0 - | | |
| Income | | | | | 355,650 | 355,650 | - 0 - | | |
| Other taxes | | | | | 2,563 | 2,563 | - 0 - | | |
| Cable franchise fees | | | | | 97,553 | 97,553 | - 0 - | | |
| Investment income | | | | | 44,917 | 44,917 | 4,578 | | |
| Miscellaneous | | | | | 9,377 | 9,377 | - 0 - | | |
| Gain on sale of property | | | | | 261,525 | 261,525 | - 0 - | | |
| TOTAL GENERAL REVENUES | | | | | <u>4,161,622</u> | <u>4,161,622</u> | <u>4,578</u> | | |
| CHANGE IN NET POSITION | | | | | (252,842) | (252,842) | 374,090 | | |
| NET POSITION - BEGINNING | | | | | <u>6,326,268</u> | <u>6,326,268</u> | <u>- 0 -</u> | | |
| NET POSITION - ENDING | | | | | <u>\$ 6,073,426</u> | <u>\$ 6,073,426</u> | <u>\$ 374,090</u> | | |

See accompanying notes to financial statements

CITY OF SEAT PLEASANT

Balance Sheet Governmental Funds June 30, 2019

| | | General Fund |
|--|-------------------------|--------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 3,283,726 | |
| Restricted cash | 185,207 | |
| Accounts receivable - intergovernmental | 206,262 | |
| Accounts receivable - taxes, net of allowance | 38,682 | |
| Traffic citations receivable, net of allowance | 2,408,131 | |
| Other assets | 16,845 | |
| Certificates of deposit | <u>273,910</u> | |
| Total Assets | <u>\$ 6,412,763</u> | |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | <u>\$ 488,472</u> | |
| Total Liabilities | <u>\$ 488,472</u> | |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable revenue - property taxes | 32,287 | |
| Unavailable revenue - income taxes | 87,947 | |
| Unavailable revenue - fines | <u>2,013,187</u> | |
| Total Deferred Inflows of Resources | <u>2,133,421</u> | |
| FUND BALANCES | | |
| Nonspendable | 17,045 | |
| Restricted | 185,207 | |
| Committed | 2,940,355 | |
| Assigned | <u>683,860</u> | |
| Total Fund Balances | <u>3,790,870</u> | |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 6,412,763</u> | |

See accompanying notes to financial statements

CITY OF SEAT PLEASANT

Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2019

| | |
|---|---------------------|
| TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS | \$ 3,790,870 |
| <p>Amounts reported for Governmental Activities in the Statement of Net Position are different because:</p> | |
| <p>Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the governmental funds.</p> | |
| | |
| Governmental capital assets | \$ 10,854,580 |
| Less: accumulated depreciation | <u>(5,607,873)</u> |
| | 5,246,707 |
| <p>Long term liabilities are not payable in the current period and are not reported in the governmental funds.</p> | |
| | |
| Compensated absences | (211,837) |
| Bonds and leases payable | <u>(5,191,378)</u> |
| | (5,403,215) |
| <p>Assets held for sale are not financial resources and, therefore, are not reported in the governmental funds.</p> | |
| | |
| Fines | 2,013,187 |
| Income taxes | 87,947 |
| Property taxes | <u>32,287</u> |
| | <u>2,133,421</u> |
| <p>NET POSITION OF GOVERNMENTAL ACTIVITIES</p> | |
| | |
| | <u>\$ 6,073,426</u> |

See accompanying notes to financial statements

CITY OF SEAT PLEASANT

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

| General Fund | |
|--|------------------|
| REVENUES | |
| Taxes | \$ 3,693,005 |
| Intergovernmental | 509,170 |
| Licenses and permits | 186,536 |
| Fines and forfeitures | 3,268,968 |
| Charges for services | 280,886 |
| Investment income | 44,917 |
| Miscellaneous | <u>13,727</u> |
| Total Revenues | \$ 7,997,209 |
| EXPENDITURES | |
| Current operating | |
| General government | 4,374,973 |
| Public safety | 2,994,161 |
| Public works | 1,142,522 |
| Parks, recreation and culture | 1,092,846 |
| Capital outlays | 807,340 |
| Debt service - principal | 256,628 |
| Debt service - interest | <u>209,971</u> |
| Total Expenditures | 10,878,441 |
| EXCESS OF EXPENDITURES OVER REVENUES | (2,881,232) |
| OTHER FINANCING SOURCES | |
| Proceeds from sale of assets | 778,486 |
| Proceeds from debt | <u>532,003</u> |
| Total other financing sources | 1,310,489 |
| NET CHANGE IN FUND BALANCES | (1,570,743) |
| FUND BALANCES - BEGINNING | 5,361,613 |
| FUND BALANCES - ENDING | \$ 3,790,870 |

CITY OF SEAT PLEASANT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2019

| | |
|---|---------------------|
| NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS | \$ (1,570,743) |
| <p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p> | |
| <p>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. This is the amount by which capital outlays of \$807,340 exceeded depreciation expense of \$685,139 in the current period.</p> | |
| | 122,201 |
| <p>Governmental funds report proceeds from sales of assets. However, in the Statement of Activities, the cost of those assets reduces those proceeds. This is the cost of assets sold during the year.</p> | |
| | (516,961) |
| <p>Governmental funds report principal debt payments as expenditures because they use current financial resources. Principal payments reduce long term debt in the Statement of Net Position. This is the amount of principal payments made during the year.</p> | |
| | 256,628 |
| <p>Governmental funds recognize proceeds from financing as an other financing source. Proceeds increase long term debt in the Statement of Net Position. This is the amount of proceeds from financing during the year.</p> | |
| | (532,003) |
| <p>Governmental funds report compensated absences when paid. However, in the Statement of Activities, they are recorded when earned. This is the excess of the amount paid over the amount earned for the year.</p> | |
| | (81,788) |
| <p>Governmental funds recognize revenues if they are received within sixty days of year end. The Statement of Activities reports revenues when earned.</p> | |
| <p>Revenue earned, but not received in the current period:</p> | |
| Income taxes | 20,395 |
| Personal property taxes | 32,287 |
| Traffic camera fines | <u>2,017,142</u> |
| | <u>2,069,824</u> |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | <u>\$ (252,842)</u> |

CITY OF SEAT PLEASANT

Statement of Fiduciary Net Position - Fiduciary Fund
June 30, 2019

| | <u>Employee Benefit Plan</u> |
|---|----------------------------------|
| ASSETS | |
| Investments with fiscal agents | <u>\$ 190,151</u> |
| NET POSITION | |
| Held in trust for employee benefit plan | <u>\$ 190,151</u> |

Statement of Changes in Fiduciary Net Position - Fiduciary Fund
For the Year Ended June 30, 2019

| | <u>Employee Benefit Plan</u> |
|---------------------------------------|----------------------------------|
| CONTRIBUTIONS | |
| Employer | \$ 36,000 |
| Employees | 34,878 |
| Employee rollovers | 45,655 |
| Investment gains | <u>4,994</u> |
| Total Contributions | 121,527 |
| DISTRIBUTIONS | |
| Total Distributions | <u>- 0 -</u> |
| CHANGE IN NET POSITION | 121,527 |
| TOTAL NET POSITION - BEGINNING | <u>68,624</u> |
| TOTAL NET POSITION - ENDING | <u>\$ 190,151</u> |

See accompanying notes to financial statements

CITY OF SEAT PLEASANT

Notes to Financial Statements June 30, 2019

1. Summary of Significant Accounting Policies

The City of Seat Pleasant, Maryland (the City) was incorporated in 1931 and is located in Prince George's County, Maryland. The City is a municipal corporation governed by an elected Mayor and City Council and provides the following services as authorized by its charter: public safety, highways and streets, sanitation, public improvements, parks and recreation, and general administrative services. A substantial portion of the City's revenue is received from the property and income taxes related to the residents and businesses of the City.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body's ability to exercise oversight responsibility or the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

The following discretely presented component unit is reported in a separate column in the government-wide statements to emphasize that it is legally separate from the City. The Seat Pleasant Investment Corporate Enterprise, LLC ("SPICE") was created by the City Council April 9, 2018. The SPICE is a wholly owned Maryland corporation. Funding for SPICE is primarily from appropriations from the City's general fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to local governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The government-wide statements are reported using the "economic resources" measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied, while grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Program revenues include: (1) charges for services which report fees and other charges to users of the City's services and facilities; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets, when applicable. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

CITY OF SEAT PLEASANT

Notes to Financial Statements June 30, 2019

1. Summary of Significant Accounting Policies (continued)

While government-wide and fund financial statements are presented separately, they are interrelated. The governmental activities column of the government-wide statements incorporates data from governmental funds. Separate financial statements are provided for each major governmental fund held by the City. The City has no business-type activities or proprietary or fiduciary funds.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included in the balance sheet. The City's deferred outflows of resources and deferred inflows of resources are noncurrent. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other funding sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized when they are both measurable and available. Available means collectible within the current period, or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Major revenue sources susceptible to year-end accruals include: Income tax receipts, property taxes, and traffic camera citations. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). In general, all other revenues are considered to be measurable and available when cash is received.

Since the governmental funds financial statements are presented using a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented on the page following each fund level statement that summarizes the adjustments necessary to convert the fund level statements into the government-wide presentation.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Types and Major Funds

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. There are no non-major funds.

CITY OF SEAT PLEASANT

Notes to Financial Statements June 30, 2019

1. Summary of Significant Accounting Policies (continued)

The City reports the following major governmental fund:

The General Fund is the primary operating fund of the City. It accounts for all of the financial resources and the legally authorized activities of the City except for those required to be accounted for in other specialized funds. The general fund accounts for the normal operating activities of the City. These activities are financed primarily by taxes, grants from other governments and charges for services.

Budgetary Data – Formal budgetary accounting is employed as a management control for the General Fund. The budget is presented annually by the Mayor to the City Council at least 32 days before the beginning of the fiscal year. The budget shall be adopted by a majority vote of the Mayor and City Council before the first day of the new fiscal year. The Mayor and City Council may amend the budget upon 30 days advance public notice of such changes.

For day-to-day management control, expenditures should not exceed budget at the department level. The budget uses the same basis of accounting as used to reflect actual revenues and expenditures, except that prior year surpluses may be utilized to offset budget short falls in the current year's budget.

Cash and Cash Equivalents – Cash and cash equivalents may include demand deposits, money market accounts, investments in the Maryland Local Government Investment Pool (MLGIP), and certificates of deposit with an initial maturity date of less than three months.

Restricted Cash – Consists of funds held from police seizures and red light and speed camera citations.

Accounts Receivable – Receivables not expected to be collected within 60 days of year end will be reported as a deferred inflow of resources in the Balance Sheet – Governmental Funds, as they are not currently available to the City. All receivables excluding personal property taxes and red light and speed camera citations are reported at gross values. Allowances are reported when management has determined that collection of the receivable is not probable. No other allowance for uncollectible accounts is deemed necessary.

Intergovernmental – Receivables from other governments primarily consists of income taxes, highway user fees, state police aid, and miscellaneous census revenue collected on behalf of the City by the State of Maryland and remitted to the City as well as grant payments. Amounts due from other governments include income taxes of \$127,519, highway user fees of \$12,102 state police aid of \$26,422, miscellaneous census revenue of \$9,318, and grant funds of \$15,265 taxes of \$2,735. Additionally, real estate taxes are collected by Prince George's County on behalf of the City and remitted to the City. Real estate taxes included in amounts due from other governments is \$15,637. All amounts were received within 60 days of year-end with the exception of the local income tax reserve in the amount of \$87,947 which has been included with deferred inflows of resources.

CITY OF SEAT PLEASANT

Notes to Financial Statements June 30, 2019

1. Summary of Significant Accounting Policies (continued)

Taxes – Consists of personal property taxes billed and collected by the City based on assessed values provided by the State of Maryland. The balance of personal property taxes due was \$211,869. The City has determined an allowance for doubtful accounts in regards to personal property taxes in the amount of \$173,187. Personal property taxes receivable, net of allowance is \$38,682. Of this amount, \$32,287 was not collected within 60 days of year end and accordingly has been deferred in the general fund.

Traffic citations receivable, net of allowance – As of June 30, 2019, the City had outstanding \$7,376,440 of unpaid citations. Management has determined citations greater than twelve months outstanding have a remote chance of collection and accordingly an allowance for doubtful accounts of \$4,968,309 has been established. The general fund reports a short-term receivable of \$2,408,131 of which \$2,013,187 is not collectible within sixty days and therefore has been deferred.

Certificates of deposit – Certificates of deposit with an initial maturity date of greater than three months are reported at cost plus accrued interest, which approximates fair value.

Inventory – Inventory is stated at cost. The costs of inventory items are recorded as expenditures in the governmental funds and as assets and costs of goods sold in the government-wide financial statements. Inventory for the year ended June 30, 2019, consisted of homes bought and held for sale, in the amount of \$305,643.

Net Capital Assets - The City's property, buildings and facilities with an estimated useful life of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. All land is capitalized. Donated capital assets received on or before June 30, 2015 are stated at their estimated fair value at the date of donation. Donated capital assets after July 1, 2015 are recorded at acquisition value. The costs of normal maintenance and repairs which do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

The City has been exempted from retroactively reporting its infrastructure assets. However, all future construction or major improvements to the roads, bridges, sidewalks, drainage and lighting systems for the City will be capitalized and depreciated in a manner consistent with current policies for capital assets in the governmental activities.

Estimated useful lives for depreciable assets are as follows:

| | |
|-----------------------------------|--------------|
| Land improvements | 5 - 50 years |
| Infrastructure | 5 - 50 years |
| Buildings and improvements | 5 - 50 years |
| Vehicles, furniture and equipment | 2 - 20 years |

Deferred Outflows and Inflows of Resources - A *deferred outflow of resources* represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Likewise, a *deferred inflow of resources* represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

CITY OF SEAT PLEASANT

Notes to Financial Statements June 30, 2019

1. Summary of Significant Accounting Policies (continued)

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Issuance costs are expensed as incurred.

Compensated Absences - Compensated absences are those earned but unused absences for which employees will be paid, such as vacation and sick leave. Employees are granted vacation and sick leave in varying amounts. It is the City's policy to permit employees to accumulate earned but unused sick leave without limitation and up to 240 hours of vacation leave. Upon separation from employment, an employee will be paid for unused vacation leave, but not for unused sick leave. Vacation leave is accrued as applicable in the government-wide financial statements as part of long term obligations. A liability is reported in governmental fund financial statements only if it has matured, for example, as a result of employee resignations and retirements.

Net Position –

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets

This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balance of the debt that is attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted

This category represents the net position of the City which has been restricted for a specific project or purpose by a third party. As of June 30, 2019, the City's restricted net position consisted of funds restricted to public safety expenditures of \$185,207.

Unrestricted

This category represents the net position of the City, which is not restricted for any project or other purpose by third parties.

Fund Balance –

In the fund financial statements, fund balances are classified in the following categories:

Nonspendable

This category includes amounts that cannot be spent due to form, such as prepaid amounts, or amounts that must be maintained intact legally or contractually such as security deposits. As of June 30, 2019, the City had \$17,045 of prepaid funds and security deposits that are not in spendable form.

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2019, balances classified as restricted consisted of \$185,207 of funds restricted to public safety expenditures.

Committed

This category includes amounts constrained for a specific purpose by the Mayor and Council using its highest level of decision making authority, prior to year-end. As of June 30, 2019, the Mayor and Council committed \$2,940,355 for smart city construction.

CITY OF SEAT PLEASANT

Notes to Financial Statements June 30, 2019

1. Summary of Significant Accounting Policies (continued)

Assigned

This category includes amounts constrained by the intent to be used for a specific purpose by a governing board which has the authority to assign funds. As of June 30, 2019, the City had \$1,500,000 of assigned funds appropriated for the City's fiscal year 2020 budget, of which only \$683,860 was available.

Unassigned

This category includes all funds which are not specifically classified as Nonspendable, Restricted, Committed or Assigned.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the balance sheet as "Cash and cash equivalents" and "Restricted cash." Cash and cash equivalents and Restricted cash include demand deposits, money market accounts, and investments in the Maryland Local Government Investment Pool (MLGIP).

The City is a participant in the MLGIP, which was established by the State of Maryland as an investment vehicle for short-term investment of funds by local municipalities. The MLGIP, under the control of the state treasurer, has been managed by a single financial institution. The MLGIP is operated in accordance with Rule 2a-7 (SEC-registered) of the Investment Company Act of 1940, as amended. The fair value is based on a share price of \$1.00 per share (Level 1). As of June 30, 2019, all pool holdings are in cash and cash equivalents.

Credit Risk - The City has adopted a policy to be followed when investing public funds in accordance with the provisions of Section 17-101 of the Local Government Article of the Annotated Code of Maryland which prescribes the type of investments permissible for Maryland Municipalities. This policy requires that City funds be invested in obligations for which the United States has pledged its full faith and credit, obligations insured by a federal agency (such as the FDIC), obligations collateralized by federal obligations, and portfolios created under the Maryland Local Government Investment Pool. The City was in compliance with the provisions of the Annotated Code of Maryland as of June 30, 2019, which was adopted to mitigate credit risk for the City.

Interest Rate and Credit Risk – The City manages interest rate and credit risk by investing primarily in short term holdings, including demand deposits and MLGIP.

Custodial Credit Risk – The City manages custodial credit risk through its use of permissible investments based on its compliance with the Annotated Code of Maryland as previously described. As such, uninsured or uncollateralized funds are not permitted.

CITY OF SEAT PLEASANT

Notes to Financial Statements June 30, 2019

2. Cash and Cash Equivalents (continued)

Deposits recorded in the following schedule are reported in the financial statements as Cash and cash equivalents and Restricted cash.

Deposits by level of risk are:

| | Carrying Amount | Bank Balance |
|---|-------------------------|-------------------------|
| Primary Government: | | |
| Cash on hand | \$ 786 | \$ - 0 - |
| FDIC Insured | 3,674,804 | 3,748,098 |
| Maryland Local Government Investment Pool | <u>67,253</u> | <u>67,253</u> |
| Total deposits | <u>\$ 3,742,843</u> | <u>\$ 3,815,351</u> |

The SPICE holds funds of \$406,515 in a money market account. They have been included in the following analysis of deposits by level of risk. The funds are not fully insured by the FDIC.

| | Carrying Amount | Bank Balance |
|---|-----------------------|-------------------|
| Discretely presented component unit: | | |
| FDIC Insured | \$ 250,000 | \$ 250,000 |
| Uninsured deposits | <u>156,515</u> | <u>156,515</u> |
| Total deposits | <u>\$ 406,515</u> | <u>\$ 406,515</u> |

3. Capital Assets

Capital asset activity for the City for the year ended June 30, 2019 was as follows:

| | Beginning Balance (restated) | Increases | Decreases | Ending Balance |
|--|------------------------------------|-------------------|-----------------|-------------------------|
| Governmental Activities: | | | | |
| Nondepreciable: | | | | |
| Land | \$ 628,831 | \$ - 0 - | \$ - 0 - | \$ 628,831 |
| Construction in progress | 409,170 | 154,149 | - 0 - | 563,319 |
| Art and historical treasure | 518 | - 0 - | - 0 - | 518 |
| Buildings and improvements | 4,974,875 | - 0 - | - 0 - | 4,974,875 |
| Equipment and vehicles | 3,849,824 | 625,287 | - 0 - | 4,475,111 |
| Furniture and fixtures | <u>184,022</u> | <u>27,904</u> | <u>- 0 -</u> | <u>211,926</u> |
| Total | <u>10,047,240</u> | <u>\$ 807,340</u> | <u>\$ - 0 -</u> | <u>10,854,580</u> |
| Less: Accumulated depreciation | | | | |
| Buildings and improvements | 2,670,190 | \$ 137,673 | \$ - 0 - | 2,807,863 |
| Equipment and vehicles | 2,108,202 | 531,695 | - 0 - | 2,639,897 |
| Furniture and fixtures | <u>144,342</u> | <u>15,771</u> | <u>- 0 -</u> | <u>160,113</u> |
| Total accumulated depreciation | <u>4,922,734</u> | <u>\$ 685,139</u> | <u>\$ - 0 -</u> | <u>5,607,873</u> |
| Governmental Activities Capital Assets, net | <u>\$ 4,304,548</u> | | | <u>\$ 5,246,707</u> |

CITY OF SEAT PLEASANT

Notes to Financial Statements June 30, 2019

3. Capital Assets (continued)

The City entered into a lease agreement for a fleet of police vehicles and related equipment On July 10, 2017 that was excluded from the City's financial statements for the year ended June 30, 2018. The effect of the leasing agreement on opening fixed asset balances resulted in an increase for equipment and vehicles in the amount of \$1,024,873 as well as an increase in accumulated depreciation for equipment and vehicles in the amount of \$204,975. The restatement of opening fixed asset balances was off set by the associated long-term debt and did not warrant a restatement of opening net position or fund balance.

Depreciation expense was charged to governmental functions as follows during the year ended June 30, 2019.

| | |
|----------------------------|-------------------|
| General government | \$ 197,806 |
| Public safety | 400,776 |
| Public works | <u>86,557</u> |
| Total depreciation expense | <u>\$ 685,139</u> |

There are no capital assets held by the discretely presented component unit.

4. Long Term Obligations

Long-Term Obligations at June 30, 2019 consists of:

Governmental Activities:

Direct Borrowings:

In September 2017, the City borrowed \$4,100,000 from BB&T bank to finance the construction of the new City Hall. Interest only payments at 3.02%, in the amount of \$61,910 are due biannually until August 15, 2019, at which time the entire principal amount, as well as interest, is due. Interest expense for the year ended June 30, 2019 is \$123,820.

This note is backed by the full faith and credit of the City and contain acceleration provisions that in the event of default the full amount outstanding including accrued interest may become due and payable immediately. See note 12 regarding subsequent determinations regarding the expiration of the interim financing with BB&T.

Capital Leases:

On July 10, 2017, the City entered into a lease with Ford Motor Company for police vehicles and the required upfitting as well as a trailer in the amount of \$1,024,873. The lease is payable in quarterly installments of \$54,793 to be made through April 11, 2022, including interest at a rate of 3.43%. The lease is collateralized by the related vehicles and equipment.

On September 17, 2018, the City entered into a lease with KS Bank for police vehicles and the required upfitting in the amount of \$48,954. The lease is payable in 5 annual installments of \$11,159 to be made through April 1, 2023, including interest at a rate of 5.37%. The lease is collateralized by the related vehicles and equipment.

CITY OF SEAT PLEASANT

Notes to Financial Statements June 30, 2019

4. Long Term Obligations (continued)

On September 26, 2018, the City entered into a lease with KS Bank for police vehicles and the required upfitting in the amount of \$301,822. The lease is payable in 6 annual installments of \$57,187 to be made through January 1, 2024, including interest at a rate of 4.85%. The lease is collateralized by the related vehicles and equipment.

On March 11, 2019 the City entered into a lease with KS Bank for police vehicles and the required upfitting in the amount of \$131,287. The lease is payable in 5 annual installments of \$29,581 to be made through September 1, 2023, including interest at a rate of 5.17%. The lease is collateralized by the related vehicles and equipment.

On March 25, 2019 the City entered into a lease with KS Bank for police vehicles and the required upfitting in the amount of \$49,940. The lease is payable in 5 annual installments of \$11,311 to be made through September 1, 2023, including interest at a rate of 5.32%. The lease is collateralized by the related vehicles and equipment.

Compensated Absences:

Employees of the City earn annual leave each month, based on their years of service. Employees are allowed to carryover unused vacation leave for use in future periods to be paid out at the time of retirement, resignation, dismissal, or death. The following is a summary of compensated absences as of June 30, 2019:

| | | <u>Governmental Activities</u> |
|-------------------------------------|--|--------------------------------|
| Amount payable at beginning of year | | \$ 130,049 |
| Increases | | 87,639 |
| Decreases | | <u>(5,851)</u> |
| Amount payable at end of year | | <u>\$ 211,837</u> |

During the year ended June 30, 2019, the following changes occurred in Long-Term Obligations:

| | <u>Beginning Balance (restated)</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---------------------------------|---|--------------------------|--------------------------|----------------------------|
| Governmental Activities: | | | | |
| Capital leases | \$ 815,943 | \$ 532,063 | \$ 256,628 | \$ 1,091,378 |
| Direct Borrowings | 4,100,000 | - 0 - | - 0 - | 4,100,000 |
| Compensated absences | <u>130,049</u> | <u>87,639</u> | <u>5,851</u> | <u>211,837</u> |
| Totals | <u>\$ 5,045,992</u> | <u>\$ 619,702</u> | <u>\$ 219,681</u> | <u>\$ 5,403,215</u> |

CITY OF SEAT PLEASANT

Notes to Financial Statements June 30, 2019

4. Long Term Obligations (continued)

Combined capital lease and general obligation bond future debt service requirements are as follows:

| <u>Years Ending June 30</u> | <u>Governmental Activities</u> | |
|-----------------------------|--------------------------------|-----------------------------|
| | <u>Principal Maturing</u> | <u>Interest Payable</u> |
| 2020 | \$ 4,391,106 | \$ 99,212 |
| 2021 | 297,733 | 30,676 |
| 2022 | 309,450 | 18,959 |
| 2023 | 99,637 | 9,601 |
| 2024 | 93,453 | 4,625 |
| Totals | <u>\$ 5,191,378</u> | <u>\$ 163,072</u> |

5. Operating Leases

On November 1, 2017, the City entered into a 12 month lease agreement for office furniture. Monthly payments are \$77, with the last payment on October 1, 2018. Total lease payments for the year ended June 30, 2019 were \$308.

On January 1, 2018, the City entered into a 12 month lease agreement for office furniture. Monthly payments are \$94, with the last payment on December 1, 2018. Total lease payments for the year ended June 30, 2019 were \$564.

On June 19, 2017, the City entered into a 60 month lease agreement with Pitney Bowes for a postage meter and related services. Monthly payments are \$115, billed quarterly at \$344, with the last payment due July 1, 2022. Total lease payments for the year ended June 30, 2019, were \$1,376.

Combined operating lease future payment requirements are as follows:

| <u>Years Ending June 30</u> | <u>Amount</u> |
|-----------------------------|------------------------|
| 2020 | \$ 1,376 |
| 2021 | 1,376 |
| 2022 | 1,376 |
| 2023 | 344 |
| Totals | <u>\$ 4,472</u> |

CITY OF SEAT PLEASANT

Notes to Financial Statements June 30, 2019

6. Property Tax

Property taxes on real estate are recorded as receivables and attach as an enforceable lien on property on July 1, the date levied. Semi-annual installment payments are mandatory for qualified properties unless the taxpayer chooses to pay in one installment. Qualified property is defined as "an owner-occupied principal residence". Under the semi-annual plan, one-half of the tax bill is due September 30 with the balance due on December 31. For all other properties, the bill is due in its entirety on September 30. After the due date, interest is charged on the delinquent portion. All delinquent taxes are turned over to the county for tax sale. The tax rate for real property for the fiscal year ended June 30, 2019 was \$0.58 per \$100 assessed value

Personal property taxes are ordinarily billed annually by the City, based on an assessment determined by the State of Maryland. The government-wide financial statements reflect the personal property taxes in the period they were earned, that is the tax year for which they were levied. The tax rate for personal property for the fiscal year ended June 30, 2019 was \$15 per \$100 assessed value.

7. Employee Benefit Plans

The City offers a defined contribution plan in accordance with section 401(a) to all employees after completion of one year of service. The City amended and restated the plan effective January 1, 2019. The plan was adopted by resolution of the Mayor and Council. No contributions are required by employees. The plan provides for employer contributions of 3% of the annual base compensation of participants. Participants are fully vested after 5 years. During the year ended June 30, 2019, the City contributed \$36,000.

The City offers a deferred compensation plan in accordance with Section 457(b) of the Internal Revenue Code to all full-time employees. The City amended and restated the plan effective January 1, 2019. The plan permits employees to defer a portion of their salary until future years and is administered by the ICMA Retirement Corporation. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency. The plan was adopted by resolution of the Mayor and Council and may be amended by such. The City does not match contributions to this plan.

8. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases insurance to protect its interest in its property and equipment, insurance against employee dishonesty and liability protection. During the year ended June 30, 2019, there was no significant reduction in insurance coverage. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years. Insurance is provided through the Maryland Local Government Insurance Trust (the "Trust") and by commercial insurance. This is a total risk and cost sharing plan for all participants. In the event that the Trust's General Fund falls into a deficit that cannot be satisfied by transfer from the Trust's capital and surplus accounts, the Trustees determine a method to fund the deficit. The trust agreement empowers the Trustees to assess an additional premium to each deficit-year participant. Debt issues could also be used to fund a deficit.

CITY OF SEAT PLEASANT

Notes to Financial Statements June 30, 2019

9. Discretely Presented Component Unit

During the year ended June 30, 2019, the City funded initial operations of the SPICE with a contribution of \$600,000.

10. Contingent Liabilities and Commitments

Most grants and cost-reimbursable contracts specify the types of expenditures for which the grants or contract funds may be used. The expenditures made by the City under some of these grants and contracts are subject to audit. To date, the City has not been notified of any significant unallowable costs relating to its grants or contracts. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits will not have a material effect on the accompanying financial statements.

In the ordinary course of business, the City is party to a lawsuit which management is vigorously defending. No accruals have been made for a loss contingency because the outcome of the case cannot be determined at this time. In addition, the City is fully insured for this claim through the Local Government Insurance Trust.

12. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition through June 15, 2021, the date the financial statements were available to be issued.

The interim construction loan with BB&T Bank was to be paid in full in August 2019. However, because of delays in obtaining permanent financing from the USDA, the City and BB&T have verbally agreed to extend the loan through closing of the permanent loan with USDA. Once funded, the USDA loan will be for a 30 year period, with interest at 2.75%.

In March 2020, significant mitigation efforts began taking effect in the United States in an attempt to curtail the spread of the coronavirus (COVID-19) pandemic. Such efforts have included travel restrictions, business closures, and event cancellations. Capital markets have seen significant volatility in the wake of the pandemic and significant economic disruptions are likely to occur. In response, the City has altered its operations by reducing personnel on-site and by working remotely where possible. Management cannot reasonably estimate the related financial impact and duration of the situation at this time. However, the City believes it has sufficient cash and investment reserves to sustain operations in the event of continued disruption. Management intends to monitor the situation on an ongoing basis and to continue efforts to reduce its impact on the City's operations and financial resources.

In February of 2021, the City Council determined SPICE had not provided the expected benefit to the City. As a result, the City Council took action to begin dissolution of the company.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SEAT PLEASANT

Schedule of Revenues and Expenditures - General Fund - Budget and Actual (Non-GAAP Budgetary Basis)
For the Year Ended June 30, 2019

| | General Fund | | | |
|---|--------------------|-------------------|-----------------------|-----------------------|
| | Original Budget | Final Budget | Actual | Variance |
| Revenues | | | | |
| Taxes | \$ 4,336,930 | \$ 4,336,930 | \$ 3,693,005 | \$ (643,925) |
| Intergovernmental | 358,154 | 558,154 | 509,170 | (48,984) |
| Charges for services | 487,266 | 487,266 | 280,886 | (206,380) |
| Fines and forfeitures | 3,166,005 | 3,166,005 | 3,268,968 | 102,963 |
| Licenses and permits | 169,500 | 169,500 | 186,536 | 17,036 |
| Miscellaneous | 13,898 | 13,898 | 58,644 | 44,746 |
| Total Revenues | <u>8,531,753</u> | <u>8,731,753</u> | <u>7,997,209</u> | <u>(734,544)</u> |
| Other financing sources - sale of assets | 175,000 | 175,000 | 778,486 | 603,486 |
| Other financing sources - proceeds | 3,500,000 | 3,500,000 | 532,003 | (2,967,997) |
| Prior year surplus | <u>1,500,000</u> | <u>1,500,000</u> | <u>- 0 -</u> | <u>(1,500,000)</u> |
| | <u>5,175,000</u> | <u>5,175,000</u> | <u>1,310,489</u> | <u>(3,864,511)</u> |
| Total revenues and other financing sources | <u>13,706,753</u> | <u>13,906,753</u> | <u>9,307,698</u> | <u>(4,599,055)</u> |
| Expenditures | | | | |
| General government | 8,150,380 | 8,194,880 | 4,374,973 | 3,819,907 |
| Public safety | 2,249,134 | 2,303,134 | 2,994,161 | (691,027) |
| Public works | 1,395,739 | 1,463,739 | 1,142,522 | 321,217 |
| Parks, recreation and culture | 1,080,327 | 1,102,327 | 1,092,846 | 9,481 |
| Capital outlays | 414,000 | 425,500 | 807,340 | (381,840) |
| Debt service | 416,773 | 416,773 | 466,599 | (49,826) |
| Total expenditures | <u>13,706,353</u> | <u>13,906,353</u> | <u>10,878,441</u> | <u>3,027,912</u> |
| Excess of revenue and other financing sources over expenditures | <u>\$ 400</u> | <u>\$ 400</u> | <u>\$ (1,570,743)</u> | <u>\$ (1,571,143)</u> |

See accompanying notes to required supplementary information.

CITY OF SEAT PLEASANT

Notes to Required Supplementary Information June 30, 2019

1. Budgetary Information

The Mayor shall submit a budget to the City Council by April 1 each year. The budget shall provide a complete financial plan for the fiscal year and contain estimates of anticipated revenues and proposed expenditures for the coming year. Total anticipated revenues shall equal or exceed the total of proposed expenditures. The budget shall be adopted by a majority vote of the Mayor and City Council at least 32 days before the first day of the new fiscal year. Transfers between major appropriations must be approved by the Council. All appropriations shall lapse at the end of the budget year.

If no budget is approved by July 1, a majority vote of the Council shall be necessary to extend the current budget for a 30 day period.

The budget uses the same basis of accounting as used to reflect actual revenues and expenditures, except that prior year surpluses may be utilized to offset budget short falls in the current year's budget. Prior year surpluses are not considered revenue for GAAP purposes.

| | |
|---|----------------------|
| Total budgeted revenues and other financing sources | \$ 13,906,753 |
| Less: prior year surplus | <u>(1,500,000)</u> |
| Total GAAP budgetary revenues | <u>\$ 12,406,753</u> |

This adjustment increases the unfavorable revenue variance of (\$4,599,055) to an unfavorable variance of (\$3,099,055).

The legal level of budgetary control is at the general classification of expenditure. The City exceeded its budget at June 30, 2019 in the following areas:

| | |
|-----------------|------------|
| Public safety | \$ 691,027 |
| Capital outlays | \$ 381,840 |
| Debt service | \$ 49,826 |

Due to favorable variances in the general government and public works departments, the City expended \$3,027,912 less than the total budgeted expenditures.