

CITY OF SEAT PLEASANT, MARYLAND

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

For the Year Ended June 30, 2015



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

JUNE 30, 2015

CONTENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet – Governmental Fund	12
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	14
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	15
Notes to the Financial Statements	16
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues and Expenditures – Budget and Actual – General Fund – Unaudited	29
Schedule of Revenues and Expenditures – Refuse Collection	30



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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, 2015, 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, 2015, 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
March 28, 2016

SB & Company, LLC

CITY OF SEAT PLEASANT, MARYLAND

Management's Discussion and Analysis June 30, 2015

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, 2015. 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, 2015 by \$5.24 million. Of this amount, \$1.9 million is unrestricted and may be used to meet the City's future obligations. All of the \$1.9 million is related to governmental activities, which consist solely of the General Fund. The unrestricted net position is available for future General Fund expenditures. The \$3.3 million represents the City's investment in Capital Assets, net of related debt and restricted net position.

The unassigned fund balance for the General Fund represented 45.3 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 \$39,964.

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, 2015

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, 2015

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, 2015, and for the previous year, which is provided for comparison purposes:

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Assets		
Current assets	\$ 2,216,440	\$ 2,682,415
Capital assets	<u>3,345,231</u>	<u>2,966,464</u>
Total Assets	<u>5,561,671</u>	<u>5,648,879</u>
Liabilities		
Current liabilities	<u>241,534</u>	<u>214,267</u>
Long-term liabilities	<u>84,231</u>	<u>158,742</u>
Total Liabilities	<u>325,765</u>	<u>373,009</u>
Net Position		
Net investment in capital assets	<u>3,275,422</u>	<u>2,854,547</u>
Restricted	<u>45,774</u>	<u>44,510</u>
Unrestricted	<u>1,914,710</u>	<u>2,376,813</u>
Total Net Position	<u>\$ 5,235,906</u>	<u>\$ 5,275,870</u>

CITY OF SEAT PLEASANT, MARYLAND

Management's Discussion and Analysis
June 30, 2015

	Governmental Activities	
	2015	2014
Program revenues:		
Charges for services	\$ 524,470	\$ 574,927
Operating grants and contributions	203,913	111,467
General revenues:		
Income Taxes	224,267	222,270
Property taxes	2,713,561	2,722,227
Other	87,135	37,460
Total general revenues	<u>3,024,963</u>	<u>2,981,957</u>
Total revenues	<u>3,753,346</u>	<u>3,668,351</u>
Expenses:		
General government	1,101,850	1,125,137
Public safety	1,064,453	1,302,097
Public works	1,493,752	1,351,436
Recreation and community service	129,953	129,038
Interest expense	3,302	5,984
Total expenses and transfers	<u>3,793,310</u>	<u>3,913,692</u>
Change in net position	(39,964)	(245,341)
Net position, beginning of year	5,275,870	5,521,211
Net position, End of Year	<u>\$ 5,235,906</u>	<u>\$ 5,275,870</u>

CITY OF SEAT PLEASANT, MARYLAND

Management's Discussion and Analysis June 30, 2015

The City's Funds

The following schedule presents a summary of general revenues and expenses for the fiscal year ended June 30, 2015, percentage of total revenues and expenditures, and changes in relation to the prior year:

	FY15 Amount	Percent of Total	Increase (Decrease) from FY14
Revenues:			
Taxes	\$ 2,959,078	78.39%	\$ 51,928
Intergovernmental	203,913	5.40%	92,446
Charges for services	267,045	7.07%	3,324
Fines, licenses and permits	257,425	6.82%	(53,781)
Interest income	90	0.00%	(589)
Miscellaneous	87,045	2.31%	50,264
Total Revenues	\$ 3,774,596	100%	\$ 143,592
Expenditures:			
General government	\$ 1,080,508	25.52%	\$ (17,531)
Public safety	1,062,032	25.08%	(147,497)
Public works	1,196,163	28.25%	28,669
Recreation and culture	129,953	3.07%	915
Capital outlays	719,687	17.00%	(153,574)
Debt service	45,410	1.07%	(37,556)
Total Expenditures	\$ 4,233,753	100%	\$ (326,574)

Revenues amounted to \$3.8 million in fiscal year 2015, an increase of \$143,592 from fiscal year 2014. Real property taxes produced \$48,339 more revenue than in fiscal year 2014. However, there was a decrease of \$53,781 in fines and permits due to a decrease in speed camera operation. Expenditures totaled \$4.2 million for fiscal year 2015, decrease of \$326,574 from fiscal year 2014. The decrease in expenditures is attributable to the fact that most of the cost associated with the City Center project was expended in Fiscal year 2014.

CITY OF SEAT PLEASANT, MARYLAND

Management's Discussion and Analysis June 30, 2015

Capital Assets

The City's capital assets for its governmental activities as of June 30, 2015, amounted to \$3.3 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 \$719,687.

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

Debt

As of June 30, 2015, the City had no bonds outstanding and other debt obligations are as follows.

SunTrust Loan	<u>\$ 69,809</u>
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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, 2015, assessed value of such property total approximately \$232,796,700, the debt limit was approximately \$3.0 million and the actual outstanding debt was \$70,000, approximately 2.2% of the debt limit. The City retired \$42,108 of its long term obligations during fiscal year 2015 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 \$55,431. 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, 2015

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, 2015. 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 FY2016, the City projects it will receive the same allocation it received in fiscal year 2015. 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 1.01%.

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, 2015

	Governmental Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 655,147
Cash and cash equivalents - restricted	45,774
Investments	1,307,531
Amounts due from other governments	30,028
Other accounts receivable	12,079
Personal property taxes receivable, net of allowance	87,595
Accounts receivable - income taxes	27,902
Prepaid expenses	50,384
Total Current Assets	2,216,440
Non-Current Assets	
Capital assets net of accumulated depreciation	3,345,231
Total Assets	5,561,671
LIABILITIES	
Current Liabilities	
Accounts payable and accrued expenses	113,137
Amounts held in escrow and deposits	45,629
Current portion of long-term debt and compensated absences	82,768
Total Current Liabilities	241,534
Non-Current Liabilities	
Compensated absences	58,054
Loans payable - long term	26,177
Total Non-Current Liabilities	84,231
Total Liabilities	325,765
NET POSITION	
Net investment in capital assets	3,275,422
Restricted	45,774
Unrestricted	1,914,710
Total Net Position	\$ 5,235,906

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

CITY OF SEASIDE PLEASANT, MARYLAND

Statement of Activities

For the Year Ended June 30, 2015

	Program Revenues					Primary Government	
	Expense	Charges for Services		Operating Contributions	Capital Grants and Contributions	Government Activities	Total
		Charges for Services	Grants and Contributions	Capital Grants and Contributions	Government Activities		
Government Activities:							
General government	\$ 1,101,850	\$ 141,714	\$ 133,148	\$ 70,765	-	\$ (826,988)	\$ (826,988)
Public safety	1,064,453	134,676			-	(859,012)	(859,012)
Public works	1,493,752	248,080			-	(1,245,672)	(1,245,672)
Recreation and culture	129,953	-			-	(129,953)	(129,953)
Interest expense	3,302	-			-	(3,302)	(3,302)
Total Primary Government	\$ 3,793,310	\$ 524,470	\$ 203,913	\$ 70,765	-	(3,064,927)	(3,064,927)
General Revenues:							
Income taxes				224,267	224,267		
Property taxes				2,713,561	2,713,561		
Interest and investment income				90	90		
Miscellaneous				<u>87,045</u>	<u>87,045</u>		
Change in net position				(39,964)	(39,964)		
Net position, beginning of year							
Net position, End of Year				<u>\$ 5,275,870</u>	<u>\$ 5,275,870</u>		
				<u>\$ 5,235,906</u>	<u>\$ 5,235,906</u>		

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

CITY OF SEAT PLEASANT, MARYLAND

Balance Sheet – Governmental Fund
As of June 30, 2015

	General Fund
ASSETS	
Cash and cash equivalents	\$ 655,147
Cash and cash equivalents - restricted	45,774
Investments	1,307,531
Amounts due from other governments	30,028
Other accounts receivable	12,079
Personal property taxes receivable, net of allowance	87,595
Accounts receivable - income taxes	27,902
Prepaid expenses	50,384
Total Assets	\$ 2,216,440
LIABILITIES AND DEFERRED INFLOWS	
Accounts payable and accrued expenses	113,137
Amounts held in escrow and deposits	45,629
Total Liabilities	158,766
DEFERRED INFLOWS	
Unavailable revenue	44,401
FUND BALANCE	
Non-spendable	50,384
Restricted	45,774
Unassigned	1,917,115
Total Fund Balance	2,013,273
Total Liabilities, Deferred Inflows and Fund Balance	\$ 2,216,440

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, 2015**

TOTAL FUND BALANCES - GOVERNMENTAL FUND	\$ 2,013,273
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Certain receivables are offset by unavailable 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.	44,401
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	3,345,231
Noncurrent liabilities are not reported as liabilities in the governmental funds.	<u>(166,999)</u>
Total Net Assets - Governmental Activities	<u>\$ 5,235,906</u>

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, 2015**

	General Fund
REVENUES	
Taxes	\$ 2,959,078
Intergovernmental	203,913
Charges for services	267,045
Fines, licenses and permits	257,425
Interest and investment income	90
Miscellaneous	<u>87,045</u>
Total revenues	<u>3,774,596</u>
EXPENDITURES	
General government	1,080,508
Public safety	1,062,032
Public works	1,196,163
Recreation and culture	129,953
Capital outlays	719,687
Debt service:	
Principal	42,108
Interest	<u>3,302</u>
Total expenditures	<u>4,233,753</u>
Defecency of revenues over expenditures	(459,157)
Fund balances, beginning of year	<u>2,472,430</u>
Fund balances, End of Year	<u>\$ 2,013,273</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, 2015**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUND \$ (459,157)

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 \$719,687
is exceeded by depreciation expense of \$340,920 in the period. 378,767

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). 19,568

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. (21,250)

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 2015. 42,108

Change in Net Assets of Governmental Activities \$ (39,964)

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

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Seat Pleasant, Maryland (the City) was established in 1931 and is governed by an elected mayor and an elected city council. The City provides the following services as authorized by its charter: public safety (police), highways and streets, sanitation, public improvements and general administrative services. However, the City is located within Prince Georges County, Maryland, and all infrastructures within the City are included in the County's infrastructure. The City's major sources of revenue are real estate, income and usage taxes.

The accounting policies of the City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

In evaluating how to define the City of Seat Pleasant, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set by the Governmental Accounting Standards Board. Component units are legally separate organizations for which the elected officials of the City are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Based upon the application of criteria set by the Governmental Accounting Standards Board, there are no separate component units of the City.

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The City's funds are grouped into one broad fund category.

Governmental funds include the General Fund. The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. As of June 30, 2015, the City had no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, including the reclassification or elimination of internal activity (between funds). This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the City, if any, and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect costs are allocated to programs. 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. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment, if any, is self-financing or draws from the general revenues of the City. Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column.

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds

City activities pertaining to general government, public works, capital projects, recreation, and culture are reported in the governmental funds. All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within two months of year-end and available to pay obligations of the current period). These include property taxes, franchise taxes, investment earnings, charges for services and intergovernmental revenues.

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues are recorded as receivables and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which has not matured, are recognized when paid.

Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition, excluding investments in the State of Maryland Local Government Investment Pool.

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

In accordance with accounting principles generally accepted in the United States of America (GAAP), investments held as of June 30, 2015, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables

Personal property taxes receivable net of allowances for uncollectible accounts of \$1,284,547 were \$87,595, as of June 30, 2015. Real estate taxes receivable was \$10,217 as of June 30, 2015. Governmental funds report unavailable revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unavailable revenues pertaining to property and real estate taxes at year end were \$39,450.

Deferred Income Tax Revenue

As of June 30, 2015, the City was advised by the State of Maryland that \$27,902 of the Local Tax Reserve Fund was allocable to the City. In accordance with GAAP, the City recorded a receivable of \$27,902 and unavailable income tax revenue in the amount of \$4,951 in the fund financial statements. Changes in this amount have been reflected as current year income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

Inventory of Supplies

Inventories, if any, are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds, if any, when used.

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as bridges, roads, curbs and gutters, streets, sidewalks, drainage systems and lighting systems are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated. In accordance with GAAP, intangible assets are recognized if they are identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 20 years.

Restricted Reserves

The City uses restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Interest Expense

Interest is expensed as incurred except when interest is incurred during the construction period and is capitalized as part of the cost of the asset.

Compensated Absences

The City accrues unused vacation pay in the period the fund liability is incurred. Full-time employees are granted vacation leave based on the number of continuous service years. Upon termination, the employees will be paid the number of days accrued. Vested annual leave is expensed in the appropriate fund. As of June 30, 2015, the balance of compensated absences was \$97,190.

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that were used.

Equity/Fund Balance Classifications

Equity is classified as net position on the government-wide financial statements and is displayed in three components:

Net Investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted - Consists of net position with constraints placed on their use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted - all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance may be reported in five components - nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable - This component includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - This component consists of amounts that have constraints placed on them either externally by third parties or by law through constitutional provisions or enabling legislation.

Committed - This component consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority. These committed amounts cannot be used for any other purpose unless the highest level of decision making authority authorizes the change.

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity/Fund Balance Classifications (continued)

Assigned - This component consists of amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the City Council.

Unassigned - This classification represents amounts that have not been restricted, committed, or assigned to specific purposes within the general fund.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as needed.

2. COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Requirements for all funds

Annual budgets are adopted for all City funds. The City Council may subsequently amend the budget and the budget was amended during fiscal year 2015. For day-to-day management control, expenditures may not exceed budget at the major account level. The City prepares an annual operating budget on a basis consistent with generally accepted accounting principles (GAAP).

3. DEPOSITS AND INVESTMENTS

Deposit Policies

Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptance, and other available bank investments provided that approved securities are pledged to secure those funds deposited in an amount equal to the amount of those funds. In addition, the City can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law and can invest in the State of Maryland Local Government Investment Pool.

The City's deposits are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City.

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements

June 30, 2015

3. DEPOSITS AND INVESTMENTS (continued)

Deposits

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by collateral valued at 102 percent of principal and accrued interest. Collateral is to be held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City.

As of June 30, 2015, the carrying amount of the City's deposits was \$700,921 and the bank balance totaled \$922,358. Of the bank balances, only \$585,483 was insured by Federal Depository Insurance Corporation (FDIC) with the remaining balance collateralized by assets held by the depository's agent in the City's name. As of June 30, 2015, the City's bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized. Restricted cash as of June 30, 2015, consisted of the Police Seizure Fund of \$43,553 and the Junior Police Fund of \$2,221.

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City has no policy regarding credit risk.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's policy provides that to the extent practicable, investments are matched with anticipated cash flows.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy regarding credit risk is to invest in the Maryland Local Government Investment Pool and certificates of deposit which are collateralized, thereby mitigating the concentration of credit risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. City policy provides that investment collateral is held by a third party custodian with whom the City has a current custodial agreement in the City's name.

Generally, the City's investing activities are managed by the City Treasurer. Investing is performed in accordance with investment policies adopted by the City Council complying with State Statutes and the City Charter. City funds may be invested in: 1) U.S. Treasury obligations; 2) U.S. Government Agency and U.S. Government-sponsored instrumentalities; 3) Repurchase agreements (master repurchase agreement required); 4) Collateralized certificates of deposit (only Maryland commercial banks) corporation, special district authority or political subdivision thereof, or in any fund or trust that invests only in the securities described in this paragraph.

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements
June 30, 2015

3. DEPOSITS AND INVESTMENTS (continued)

Investments

The City has invested, as of June 30, 2015, \$1,034,292 in the State of Maryland Local Government Investment Pool (MLGIP) and \$273,239 in certificates of deposit. The pool is under the administrative control of the State's Treasurer's Office. The City's investments are shown by type, carrying amount, fair value, cost and level of risk assumed in holding the various accounts. Investments are carried at cost which approximates market. The fair value of MLGIP investments is determined daily. PNC Bank is currently contracted to operate the Pool, and may invest in any instrument permitted by Section 6-222 of the State Finance and Procurement Article. The City's fair value position in the Pool is the same as the value of pool share. All investments have duration of less than one year. The average credit in the MLGIP investments are rated AAA. Certificates of deposit are not rated.

4. PROPERTY TAX

Real estate and personal property taxes are levied based on the State of Maryland assessments. Property taxes include amounts levied against all real and public utility property and tangible personal property which are used in businesses located in the City. Real property taxes are levied on the first day of July on the assessed value. When taxes are overdue, a lien is placed against the property. Taxes are due and payable on the first day of July in the year for which they are levied and become overdue and in arrears on the first day of the following October. Penalties and interest are charged on any unpaid taxes. The property tax rate for fiscal year 2015 is \$.58 per \$100 of assessed value for real property, and \$11.00 per \$100 of assessed value for personal property.

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements
June 30, 2015

5. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u> <u>and</u> <u>Transfers</u>	<u>Disposals</u> <u>and</u> <u>Transfers</u>	<u>Ending</u> <u>Balance</u> <u>June 30, 2015</u>
Governmental Activities				
Not being depreciated:				
Land	\$ 628,830	\$ -	\$ -	\$ 628,830
Art/Historical treasures	518	-	-	518
Total	<u>629,348</u>	<u>-</u>	<u>-</u>	<u>629,348</u>
Depreciable capital assets:				
Buildings and improvements	3,864,546	464,471	-	4,329,017
Equipment and vehicles	1,723,026	205,523	-	1,928,549
Furniture and fixtures	110,015	49,693	-	159,708
Total	<u>5,697,587</u>	<u>719,687</u>	<u>-</u>	<u>6,417,274</u>
Total Capital Assets	<u>6,326,935</u>	<u>719,687</u>	<u>-</u>	<u>7,046,622</u>
Accumulated depreciation:				
Buildings and improvements	2,050,382	104,666	-	2,155,048
Equipment and vehicles	1,160,765	174,759	-	1,335,524
Furniture and fixtures	149,324	61,495	-	210,819
Total	<u>3,360,471</u>	<u>340,920</u>	<u>-</u>	<u>3,701,391</u>
Capital Assets, Net	<u>\$ 2,966,464</u>	<u>\$ 378,767</u>	<u>\$ -</u>	<u>\$ 3,345,231</u>

Depreciation was charged to governmental activities as follows:

Governmental activities:

General government	\$ 40,910
Public safety	2,421
Public works	<u>297,589</u>
Total	<u>\$ 340,920</u>

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements June 30, 2015

6. DEFERRED COMPENSATION PLAN

The City established in accordance with City Council approval a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all City employees, permits them to defer a portion of their salary until future years. There were 10 employees participating in the plan as of June 30, 2015. Employees can defer any portion of their includable salaries over the plan year. The City contributed up to 2.5% of eligible employees' salaries to this plan during the year ended June 30, 2015. During the year ended June 30, 2015, the City contributed \$8,808 to the plan.

All amounts of compensation deferred under the plan and all related income are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose.

In compliance with the Internal Revenue Code Section 457(g), all assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, in accordance with Governmental Accounting Standards Board Statement No. 32, "Accounting and Financial Reporting for the Internal Revenue Code 457 Deferred Compensation Plan," the investments designated for compensation benefits are not reflected in the City's financial statements.

The Plan Administrator, Mutual of America Life Insurance Company, is the trustee.

7. LONG-TERM OBLIGATIONS

Governmental Activities

On December 19, 2008, the City entered into a lease agreement with SunTrust Bank for the purchase of 10 police vehicles in the amount of \$350,000. The vehicles were capitalized in the amount of \$338,462 and the remaining amount held in escrow in the City's name. Monthly principal and interest payments are due in the amount of \$7,856 beginning January 19, 2009. The interest rate is fixed at 3.70%. The balance outstanding as of June 30, 2015 was \$69,809.

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements June 30, 2015

7. LONG-TERM OBLIGATIONS (continued)

The changes in long-term debt as of June 30, 2015 are summarized as follows:

	Balance July 1, 2014	Additions	Repayments	Balance June 30, 2015	Amount Due Within 1 Year
Governmental activities:					
SunTrust Lease Dated 1/14/11	\$ 111,917	\$ -	\$ 42,108	\$ 69,809	\$ 43,632
Compensated absences	116,758	67,125	86,693	97,190	39,136
Total	\$ 228,675	\$ 67,125	\$ 128,801	\$ 166,999	\$ 82,768

Interest costs charged to expense during the year ended June 30, 2015 was \$3,302.

The principal and interest requirements to maturity of the long-term debt of all funds were as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 43,632	\$ 1,776	\$ 45,408
2017	26,177	312	26,489
2018	-	-	-
Total	\$ 69,809	\$ 2,088	\$ 71,897

8. CONCENTRATION OF CREDIT RISK

The City derives most of its revenues, except grants, from its citizens. The City provides various services to its residents.

CITY OF SEAT PLEASANT, MARYLAND

Notes to the Financial Statements June 30, 2015

9. RISK MANAGEMENT

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

The City has an insurance agreement with the Local Government Insurance Trust (LGIT), a public entity risk pool. LGIT provides the City's general, automobile, employee, health, police and public officials' legal liability insurance coverage. The City's commercial insurance company provides property coverage.

This is a total risk and cost sharing pool for all participants. In the event that the Trust's General Fund falls into a deficit that cannot be satisfied by transfers from the Trust's capital and surplus accounts, the Trustees shall 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.

Premiums are charged to the appropriate City's General Fund, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust.

There have been no assessments during the year ended June 30, 2015 and the amount of settlements has not exceeded coverage for each of the past three years.

10. COMMITMENTS AND CONTINGENCIES

Grants

The City receives grants from time-to-time. Expenditures from certain grants are subject to audit by the grantor, and the City is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the City's management, no material refunds will be required as a result of disallowed expenditures.

11. OTHER POST-EMPLOYMENT BENEFITS

The City does not offer other post-employment benefits as defined by Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting for Post Employment Benefit Plans Other Than Pensions" (GASB 45).

CITY OF SEAT PLEASANT, MARYLAND

**Schedule of Revenues and Expenditures – Budget and Actual -
General Fund - Unaudited
For the Year Ended June 30, 2015**

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Income taxes	\$ 155,463	\$ 155,463	\$ 224,267	\$ 68,804
Property taxes	2,346,755	2,346,755	2,646,821	300,066
Other taxes	63,303	63,303	87,990	24,687
Fines, licenses and permits	77,885	77,885	257,425	179,540
Interest and investment income	10,000	10,000	90	(9,910)
Grants and contributions	411,000	411,000	203,913	(207,087)
Other revenues	132,258	132,258	354,090	221,832
Total Revenues	\$ 3,196,664	\$ 3,196,664	3,774,596	577,932
EXPENDITURES				
General government	\$ 1,172,564	\$ 1,172,564	\$ 1,080,508	\$ 92,056
Public safety	1,027,128	1,027,128	1,062,032	(34,904)
Public works	1,136,883	1,136,883	1,196,163	(59,280)
Community services	133,939	133,939	129,953	3,986
Greendale center	-	-	-	-
Capital outlays	-	688,495	719,687	(31,192)
Debt service:				
Principal	-	-	42,108	(42,108)
Interest	-	-	3,302	(3,302)
Total Expenditures	\$ 3,470,514	\$ 4,159,009	4,233,753	(74,744)
Excess of Revenues Over/(Under) Expenditures			\$ (459,157)	\$ 503,188

CITY OF SEAT PLEASANT, MARYLAND

**Schedule of Revenues and Expenditures – Refuse Collection
For the Year Ended June 30, 2015**

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Refuse collection fees	\$ 251,458	\$ 251,458	\$ 248,080	\$ (3,378)
EXPENDITURES				
Refuse collection expenditures	<u>251,458</u>	<u>251,458</u>	<u>312,122</u>	<u>(60,664)</u>
Excess of Revenues Over/(Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (64,042)</u>	<u>\$ (64,042)</u>