

**CITY OF SEAT PLEASANT, MARYLAND  
FINANCIAL STATEMENTS  
JUNE 30, 2016**

## **CITY OF SEAT PLEASANT**

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**JUNE 30, 2016**

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Seat Pleasant (the "City") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the basic financial statements of the City, 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.

### 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 misstatements.

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 of 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.

### **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 each major fund of the City of Seat Pleasant as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matters**

As discussed in Note 1 to the financial statements, there were prior period accounting errors by the City, resulting in an understatement of previously reported equity and revenue. As a result of the errors, the City has restated beginning Net Position by \$56,799, from \$5,235,906 to \$5,292,705 and beginning Fund Balance in the general fund by \$56,799 from \$2,013,273 to \$2,070,072. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 4 through 10 and 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

January 17, 2017

*Hinchey + Associates, LLC*

**CITY OF SEAT PLEASANT, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

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, 2016. 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, 2016 by \$5.87 million. Of this amount, \$2.6 million is unrestricted and may be used to meet the City's future obligations. All of the \$2.6 million is related to governmental activities, which consist solely of the General Fund. The unrestricted net assets are available for future General Fund expenditures. The remaining portion of \$3.18 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 69 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 increased by \$575,092. This is primarily due to an increase in revenues and decrease in expenditures. During the current fiscal year, real estate taxes, personal property and speed camera fines increases as a result of higher collections and expenditures decreased as a result of reduction in capital projects.

### **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 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 plus deferred outflows and liabilities plus 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, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

These two statements report net position and 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, there are only Government activities:

- Government Activities: The City's basic services are reported here, including the police, general administration, maintenance and parks. Taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- The City currently does not have any 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.

- Government funds – The City's basic services are reported in the governmental funds, which focus on how money flows into and out of these 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 government 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 the reconciliation to the right of the fund financial statements.
- Proprietary funds – The City has no proprietary funds.

**CITY OF SEAT PLEASANT, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

**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:                   Building permit fees, rental housing licenses, and penalties

Highways and streets:                   Highway User Revenues

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, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

**Governmental-Wide Financial information**

The following is selected information as of June 30, 2016 and 2015.

|  | 2016         | 2015         |
|--|--------------|--------------|
| Current assets                                       | \$ 2,923,851 | \$ 2,216,440 |
| Capital assets                                       | 3,210,505    | 3,345,231    |
| Total assets   | 6,134,356    | 5,561,671    |
| Deferred outflows                                    | -            | -            |
| Total deferred outflows and assets                   | 6,134,356    | 5,561,671    |
| Current liabilities                                  | 159,851      | 241,534      |
| Long-term liabilities                                | 106,708      | 84,231       |
| Total liabilities                                    | 266,559      | 325,765      |
| Deferred inflows                                     | 117,574      | -            |
| Net position   |              |              |
| Net investment in capital assets                     | 3,184,328    | 3,275,422    |
| Restricted   | 46,293       | 45,774       |
| Unrestricted   | 2,637,176    | 1,914,710    |
| Total net position                                   | 5,867,797    | 5,235,906    |
| Total liabilities, deferred inflows and net position | 6,251,930    | 5,561,671    |
| Program revenues                                     |              |              |
| Charges for services                                 | 729,616      | 524,470      |
| Operating grants and contributions                   | 266,014      | 203,913      |
| General Revenues                                     |              |              |
| Income taxes   | 228,596      | 224,267      |
| Property taxes                                       | 3,181,197    | 2,713,561    |
| Miscellaneous  | 19,809       | 87,135       |
| Investment earnings                                  | 2,536        | -            |
| Total general revenues                               | 3,432,138    | 3,024,963    |
| Transfers  | -            | -            |
| Total revenues and transfers                         | 4,427,768    | 3,753,346    |
| Expenses   |              |              |
| General government                                   | 1,225,997    | 1,101,850    |
| Public safety  | 1,103,722    | 1,064,453    |
| Public works   | 1,291,140    | 1,493,752    |
| Recreation and culture                               | 230,039      | 129,953      |
| Interest   | 1,778        | 3,302        |
| Total expenses and transfers                         | 3,852,676    | 3,793,310    |
| Change in net position                               | 575,092      | (39,964)     |
| Net position, beginning of year - restated           | 5,292,705    | 5,275,870    |
| Net position, end of year                            | \$ 5,867,797 | \$ 5,235,906 |

**CITY OF SEAT PLEASANT, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

**The City's Funds**

The following schedule presents a summary of general revenue and expenses for the fiscal year ended June 30, 2016 and the amount of increases and decreases in relation to the prior year.

|                             | FY2016<br>Amount           | Percent<br>of Total | Increase<br>(Decrease)<br>From FY15 |
|-----------------------------|----------------------------|---------------------|-------------------------------------|
| <b>Revenues</b>             |                            |                     |                                     |
| Taxes                       | \$ 3,421,362               | 79%                 | \$ 462,284                          |
| Fines, licenses and permits | 388,189                    | 9%                  | 130,764                             |
| Charges for services        | 275,911                    | 6%                  | 8,866                               |
| Intergovernmental           | 183,935                    | 4%                  | (19,978)                            |
| Investment earnings         | 2,536                      | 0%                  | 2,446                               |
| Miscellaneous               | <u>82,662</u>              | <u>2%</u>           | <u>(4,383)</u>                      |
| <b>TOTAL REVENUE</b>        | <b><u>\$ 4,354,595</u></b> | <b><u>100%</u></b>  | <b><u>\$ 579,999</u></b>            |
| <b>Expenditures</b>         |                            |                     |                                     |
| General government          | \$ 1,150,831               | 31%                 | \$ 70,323                           |
| Public safety               | 1,002,029                  | 27%                 | (60,003)                            |
| Public works                | 1,179,826                  | 31%                 | (16,337)                            |
| Recreation and culture      | 230,039                    | 6%                  | 100,086                             |
| Capital outlays             | 143,929                    | 4%                  | (575,758)                           |
| Debt service                |                            |                     |                                     |
| Principal                   | 43,632                     | 1%                  | 1,524                               |
| Interest                    | <u>1,778</u>               | <u>0%</u>           | <u>(1,524)</u>                      |
| <b>TOTAL EXPENDITURES</b>   | <b><u>\$ 3,752,064</u></b> | <b><u>100%</u></b>  | <b><u>\$ (481,689)</u></b>          |

Taxes, fines, licenses and permits increased due to an increase in the collections of the real and personal property taxes and speed camera fines. Capital outlays decreased from the prior year due primarily to a scale back in capital projects.

**CITY OF SEAT PLEASANT, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

**Capital Asset and Debt Administration**

**Capital Assets**

The City's capital assets for its governmental activities as of June 30, 2016, amounted to \$3.2 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 \$143,929.

More detailed information about the City's capital assets is presented in Note 6 to the basic financial statements.

**Debt**

As of June 30, 2016, the City had no bonds outstanding and other debt obligations are as follows:

|                              | <u>2016</u>              |
|------------------------------|--------------------------|
| SunTrust Lease Dated 1/14/11 | \$ 26,177                |
| Compensated absences         | <u>106,708</u>           |
|                              | <u><u>\$ 132,885</u></u> |

Neither Maryland State law nor the City Charter mandates a limit on municipal debt. On May 10, 1999, the City Council established a policy to limit debt to 0.8 percent of assessed value of taxable property. As of June 30, 2016 assessed value of such property total approximately \$250,651,483, the debt limit was approximately \$3.0 million and the actual outstanding debt was \$132,885, approximately 4.4 % of the debt limit. The city retired \$46,771 of its longer term obligations during fiscal year 2016 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 \$299,088. 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, 2016**

The Maryland Department of Labor, Licensing and Regulation reported the unemployment rate in Prince George's County at 4.4 percent and the State at 4.2 percent as of June 30, 2016. In 2016 the estimated median income for the City of Seat Pleasant was \$47,408. The estimated median income for State of Maryland was \$74,551 and the United States it was \$54,462.

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 FY2016 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 FY2017, the City projects it will receive the same allocation it received in fiscal year 2016. 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 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 MARYLAND**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

|  | Governmental<br>Activities | Total                      |
|--|----------------------------|----------------------------|
| <b>ASSETS</b>  |                            |                            |
| Current Assets   |                            |                            |
| Cash and cash equivalents - unrestricted                                     | \$ 983,564                 | \$ 983,564                 |
| Cash and cash equivalents - restricted                                       | 46,293                     | 46,293                     |
| Investments  | 1,309,700                  | 1,309,700                  |
| Amounts due from other governments   | 76,475                     | 76,475                     |
| Other accounts receivable  | 43,110                     | 43,110                     |
| Personal property taxes receivable, net of allowances                        | 406,701                    | 406,701                    |
| Accounts receivable - income taxes   | 32,605                     | 32,605                     |
| Prepaid expenses   | 25,403                     | 25,403                     |
| Total Current Assets   | <u>2,923,851</u>           | <u>2,923,851</u>           |
| Noncurrent Assets  |                            |                            |
| Net capital assets   | 3,210,505                  | 3,210,505                  |
| Total Noncurrent Assets  | <u>3,210,505</u>           | <u>3,210,505</u>           |
| <b>TOTAL ASSETS</b>  | <u>6,134,356</u>           | <u>6,134,356</u>           |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>  |                            |                            |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS<br/>OF RESOURCES</b>                   | <u><u>\$ 6,134,356</u></u> | <u><u>\$ 6,134,356</u></u> |
| <b>LIABILITIES</b>   |                            |                            |
| Current Liabilities  |                            |                            |
| Accounts payable   | \$ 93,429                  | \$ 93,429                  |
| Amounts held in escrow and deposits  | 40,245                     | 40,245                     |
| Current portion of long-term debt  | 26,177                     | 26,177                     |
| Total Current Liabilities  | <u>159,851</u>             | <u>159,851</u>             |
| Noncurrent Liabilities   |                            |                            |
| Compensated absences   | 106,708                    | 106,708                    |
| Total Noncurrent Liabilities   | <u>106,708</u>             | <u>106,708</u>             |
| <b>TOTAL LIABILITIES</b>   | <u>266,559</u>             | <u>266,559</u>             |
| <b>DEFERRED INFLOWS OF RESOURCES</b>   |                            |                            |
| <b>NET POSITION</b>  |                            |                            |
| Net investment in capital assets   | 3,184,328                  | 3,184,328                  |
| Restricted   | 46,293                     | 46,293                     |
| Unrestricted   | 2,637,176                  | 2,637,176                  |
| <b>TOTAL NET POSITION</b>  | <u>5,867,797</u>           | <u>5,867,797</u>           |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND NET POSITION</b> | <u><u>\$ 6,134,356</u></u> | <u><u>\$ 6,134,356</u></u> |

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

**CITY OF SEAT PLEASANT MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

| Functions/Programs                         | Expenses            | Indirect<br>Expense<br>Allocation | Program Revenues        |  |  | Net (Expense) Revenue and<br>Changes in Net Position |                       |  |
|--|---------------------|-----------------------------------|-------------------------|--|--|--|-----------------------|--|
|  |                     |                                   | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital Grants<br>and<br>Contributions | Primary Government                                   |                       |  |
|  |                     |                                   |                         |  |  | Governmental<br>Activities                           | Total                 |  |
| <b>Primary Government</b>                  |                     |                                   |                         |  |  |  |                       |  |
| Governmental Activities:                   |                     |                                   |                         |  |  |  |                       |  |
| General government                         | \$ 1,225,997        | \$ 578                            | \$ 153,675              | \$ 105,030                               | \$ -                                   | \$ (967,870)   | \$ (967,870)          |  |
| Public safety                              | 1,103,722           | 1,200                             | 330,209                 | 78,905                                   | -                                      | (695,808)  | (695,808)             |  |
| Public works                               | 1,291,140           | -                                 | 243,682                 | 82,079                                   | -                                      | (965,379)  | (965,379)             |  |
| Recreation and culture                     | 230,039             | -                                 | 2,050                   | -  | -                                      | (227,989)  | (227,989)             |  |
| Interest expense                           | 1,778               | (1,778)                           | -                       | -  | -                                      | -  | -                     |  |
| <b>Total Governmental Activities</b>       | <b>3,852,676</b>    | <b>-</b>                          | <b>729,616</b>          | <b>266,014</b>                           | <b>-</b>                               | <b>(2,857,046)</b>                                   | <b>(2,857,046)</b>    |  |
| <b>Total Primary Government</b>            | <b>\$ 3,852,676</b> | <b>\$ -</b>                       | <b>\$ 729,616</b>       | <b>\$ 266,014</b>                        | <b>\$ -</b>                            | <b>\$ (2,857,046)</b>                                | <b>\$ (2,857,046)</b> |  |
| General revenues:                          |                     |                                   |                         |  |  |  |                       |  |
| Taxes                                      |                     |                                   |                         |  |  |  |                       |  |
| Income taxes                               |                     |                                   |                         |  |  | 228,596  | 228,596               |  |
| Property taxes                             |                     |                                   |                         |  |  | 3,181,197  | 3,181,197             |  |
| Interest and investment earnings           |                     |                                   |                         |  |  | 2,536  | 2,536                 |  |
| Miscellaneous                              |                     |                                   |                         |  |  | 19,809   | 19,809                |  |
| <b>Total General Revenues</b>              |                     |                                   |                         |  |  | <b>3,432,138</b>                                     | <b>3,432,138</b>      |  |
| Transfers in (out)                         |                     |                                   |                         |  |  |  |                       |  |
| Change in Net Position                     |                     |                                   |                         |  |  | 575,092  | 575,092               |  |
| Net Position, beginning of year - restated |                     |                                   |                         |  |  | <b>5,292,705</b>                                     | <b>5,292,705</b>      |  |
| Net Position, end of year                  |                     |                                   |                         |  |  | <b>\$ 5,867,797</b>                                  | <b>\$ 5,867,797</b>   |  |

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

**CITY OF SEAT PLEASANT MARYLAND**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

|  | General<br>Fund            | Total<br>Governmental<br>Funds |
|--|----------------------------|--------------------------------|
| <b>ASSETS</b>  |                            |                                |
| Cash and cash equivalents - unrestricted                                 | \$ 983,564                 | \$ 983,564                     |
| Cash and cash equivalents - restricted                                   | 46,293                     | 46,293                         |
| Investments  | 1,309,700                  | 1,309,700                      |
| Amounts due from other governments                                       | 76,475                     | 76,475                         |
| Other accounts receivable  | 43,110                     | 43,110                         |
| Personal property taxes receivable, net of allowance                     | 406,701                    | 406,701                        |
| Accounts receivable - income tax   | 32,605                     | 32,605                         |
| Prepaid expenses   | 25,403                     | 25,403                         |
| <b>TOTAL ASSETS</b>  | <b><u>2,923,851</u></b>    | <b><u>2,923,851</u></b>        |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                    |                            |                                |
|  | -                          | -                              |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                   | <b><u>\$ 2,923,851</u></b> | <b><u>\$ 2,923,851</u></b>     |
| <b>LIABILITIES</b>   |                            |                                |
| Accounts payable   | \$ 93,429                  | \$ 93,429                      |
| Amounts held in escrow and deposits                                      | 40,245                     | 40,245                         |
| <b>TOTAL LIABILITIES</b>   | <b><u>133,674</u></b>      | <b><u>133,674</u></b>          |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                     |                            |                                |
|  | 117,574                    | 117,574                        |
| <b>FUND BALANCES</b>   |                            |                                |
| Non-spendable  | 25,403                     | 25,403                         |
| Restricted   | 46,293                     | 46,293                         |
| Unassigned   | 2,600,907                  | 2,600,907                      |
| <b>TOTAL FUND BALANCES</b>   | <b><u>2,672,603</u></b>    | <b><u>2,672,603</u></b>        |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b> | <b><u>\$ 2,923,851</u></b> | <b><u>\$ 2,923,851</u></b>     |

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2016**

|  |                            |
|--|----------------------------|
| <i>Total Governmental Fund Balances</i>  | <i>\$ 2,672,603</i>        |
| Receivables pertaining to revenue that is not available in accordance with modified accrual accounting are reported as deferred inflows of resources in the funds. | 117,574                    |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.  | 3,210,505                  |
| Long-term liabilities, including loans payable are not due and payable in the current period and therefore are not reported in the funds.                          | (132,885)                  |
| <i>Net Position of Governmental Activities</i>   | <i><u>\$ 5,867,797</u></i> |

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

**CITY OF SEAT PLEASANT MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|   | General<br>Fund     | Total<br>Governmental<br>Funds |
|---|---------------------|--------------------------------|
| <b>REVENUES</b>   |                     |                                |
| Property taxes  | \$ 3,108,024        | \$ 3,108,024                   |
| Other taxes   | 313,338             | 313,338                        |
| Licenses and permits  | 121,070             | 121,070                        |
| Intergovernmental   | 183,935             | 183,935                        |
| Charges for service   | 275,911             | 275,911                        |
| Fines   | 267,119             | 267,119                        |
| Miscellaneous   | 85,198              | 85,198                         |
| <b>Total Revenues</b>   | <b>4,354,595</b>    | <b>4,354,595</b>               |
| <b>EXPENDITURES</b>   |                     |                                |
| Current Operations  |                     |                                |
| General government  | 1,150,831           | 1,150,831                      |
| Public safety   | 1,002,029           | 1,002,029                      |
| Public works  | 1,179,826           | 1,179,826                      |
| Recreation and culture  | 230,039             | 230,039                        |
| Capital outlays   | 143,929             | 143,929                        |
| Debt Service  |                     |                                |
| Principal   | 43,632              | 43,632                         |
| Interest  | 1,778               | 1,778                          |
| <b>Total Expenditures</b>   | <b>3,752,064</b>    | <b>3,752,064</b>               |
| <b>Excess of revenues over (under)<br/>expenditures and other financing uses</b>                                | <b>602,531</b>      | <b>602,531</b>                 |
| <b>Other financing sources (uses)</b>   |                     |                                |
| Proceeds from long-term debt  | -                   | -                              |
| <b>Total other financing sources (uses)</b>   | <b>-</b>            | <b>-</b>                       |
| <b>Excess of revenue and other financing<br/>sources over (under) expenditures<br/>and other financing uses</b> | <b>602,531</b>      | <b>602,531</b>                 |
| <b>Fund balance, beginning of year - restated</b>   | <b>2,070,072</b>    | <b>2,070,072</b>               |
| <b>Fund balance, end of year</b>  | <b>\$ 2,672,603</b> | <b>\$ 2,672,603</b>            |

**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, 2016**

|   |                   |
|---|-------------------|
| <i>Net Change in Fund Balances - Total Governmental Funds</i>   | <i>\$ 602,531</i> |
| Repayment of debt principal is reported in governmental funds, however, in the statement of activities, it is recorded as a reduction in long-term debt.  |                   |
| This is the amount of principal debt repayment.   | 43,632            |
| Differences in accounting for compensated absences between the accrual basis and the modified accrual basis.  | (9,518)           |
| Decreases in deferred inflows of resources relating to state income taxes do not provide current financial resources and are not reported as revenue in the governmental funds.   | 73,173            |
| 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 as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. | (134,726)         |
| <i>Change in Net Position of Governmental Activities</i>  | <i>\$ 575,092</i> |

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

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

The City of Seat Pleasant, Maryland is a municipal corporation governed by an elected mayor and an elected 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.

The accounting policies of the City of Seat Pleasant 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 and a financial benefit or burden relationship exists. 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. 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 governmental funds include one fund, 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 FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Basis of Accounting**

**Government-Wide Financial Statements**

The Statement of Net Position 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. The City has 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 is the same approach used in the preparation of the proprietary fund financial statements, if any, but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a 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. 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 is self-financing or draws from the general revenues of the City. Net position should be reported as restricted when constraints placed on net position 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.

Separate financial statements are provided for governmental funds, proprietary funds, if any, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds, if any, are reported as separate columns in the fund financial statements.

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Fund Financial Statements**

Fund financial statements report detailed information about the City. The focus of governmental and enterprise financial statements, if any, 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.

**Governmental Funds**

City activities pertaining to general government, public safety, highways and streets, sanitation, recreation, and cable TV 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.

The major governmental fund is:

- General Fund – This is the City's primary operating fund. It is used to account for all financial resources except for those required to be accounted for in another fund.

**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 inflows of resources.

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.

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**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.

**Investments**

Investments held at June 30, 2016 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**

Receivables at June 30, 2016 consist of personal property tax, real estate tax, income tax and highway user. Taxes are deemed collectible in full.

**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. As of June 30, 2016, deferred inflows of resources consisted of income taxes of \$31,844 and business licenses of \$85,730.

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Local Tax Reserve Fund**

At June 30, 2016, the City was advised by the State of Maryland that \$31,844 of the Local Tax Reserve Fund was allocable to the City. The City recorded receivable and deferred inflows of resources in the amount of \$31,844 in the fund financial statements. The change in this amount has been reflected as income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

**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. 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 generally uses restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available; however, some public safety expenditures are paid with unrestricted first.

**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.

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation, compensatory time and sick pay benefits. No liability is reported for unpaid accumulated sick leave. Vacation pay is accrued when incurred and reported as a liability in the government wide financial statements. The total amount of accumulated vacation leave balance at June 30, 2016 is \$106,708.

**Net Position**

The government-wide statement of net position reports \$46,293 of restricted net position which is either restricted by enabling legislation or restrictions determined to be legally enforceable.

**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 Classifications**

Equity is classified as net position 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, and reduced or increased by deferred inflows and outflows attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* – 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 and are reduced by liabilities and deferred inflows of resources related to those constraints.

*Unrestricted net position* – consist of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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.

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Governmental Fund Balances**

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

1. Non-Spendable Fund Balance – amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
2. Restricted Fund Balance – amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the City Charter, City Code or enabling legislation.
3. Committed Fund Balance – amounts that can be used only for specific purposes determined by a formal action by City Council, the City's highest level of decision-making authority, ordinance or resolution.
4. Assigned Fund Balance – amounts that are constrained by the City's intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the City Charter, the City Manager and the City council are authorized to assign amounts for specific purposes.
5. Unassigned Fund Balance – all amounts not included in other spendable classifications.

The City considers restricted fund balances to be spent for governmental expenditures first when both restricted and unrestricted resources are available. The City also considers committed fund balances to spend first when other unrestricted fund balance classifications are available for use.

**Prior Period Restatement**

There were prior period accounting errors by the City, resulting in an understatement of previously reported equity and revenue. As a result of the errors, the City has restated beginning Net Position by \$56,799, from \$5,235,906 to \$5,292,705 and beginning Fund Balance in the general fund by \$56,799 from \$2,013,273 to \$2,070,072.

**NOTE 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 2016. For day-to-day management control, expenditures may not exceed budget at the department level. The City prepares an annual operating budget on a basis not consistent with generally accepted accounting principles.

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**Deposit Policies**

The City is authorized 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 by FDIC or secured by a surety bond or collateralized with securities held the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City.

**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 a surety bond or collateral valued 102 percent of principal and accrued interest. Collateral is to be held by the City, its agent, or by the pledging institution's trust department or agent in the name of the City.

At year-end, the carrying amounts of the City's deposits were \$1,029,257 and the bank balances totaled \$1,074,377. Of the bank balances, only \$250,000 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.

**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.

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 – DEPOSITS AND INVESTMENTS – continued**

**Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City has no policy regarding 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 is for collateral to be held by the City, its agent, or by the pledging institution's trust department or agent in the name of the City.

Generally, the City's investing activities are managed by the treasurer with approval of the City Council. Investing is performed in accordance with investment policies adopted by the City Council complying with State Statutes and the City Charter. The City funds may be invested in: 1) secured certificates of deposit issued by Maryland banks; and 2) the Maryland Local Government Investment Pool (MLGIP).

**Investments**

The City has invested at June 30, 2016, \$1,036,294 in the State of Maryland Local Government Investment Pool (MLGIP) and \$273,406 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 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.

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 – DEPOSITS AND INVESTMENTS – continued**

As of June 30, 2016, the City had the following investments:

| <u>Types of Investments</u> | <u>Fair Value/<br/>Carrying Amount</u> | <u>Cost</u>         | <u>Average<br/>Credit Quality/<br/>Ratings</u> |
|-----------------------------|--|---------------------|--|
| MLGIP                       | \$ 1,036,294                           | \$ 1,036,294        | AAAm   |
| CD:                         |  |                     |  |
| NationsBank                 | <u>273,406</u>                         | <u>273,406</u>      | N/A  |
| Total Investments           | <u>\$ 1,309,700</u>                    | <u>\$ 1,309,700</u> |  |

Note: Ratings are provided where applicable to indicate associated Credit Risk.  
 N/A indicates not applicable.

**NOTE 4 - RECEIVABLES**

Accounts receivable are comprised of the following as of June 30, 2016:

|                       |                          |
|-----------------------|--------------------------|
| Personal property tax | \$ 406,701               |
| Real estate tax       | 43,110                   |
| Income tax            | 32,605                   |
| Highway user          | 76,475                   |
|                       | <u><u>\$ 558,891</u></u> |

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 5 – PROPERTY TAX**

Real estate and personal property taxes are levied as of July 1 on property values as of the same date. City residents pay all property taxes directly to the County. The County then forwards all payments made to the City office. Tax billings are considered past due after September 30. The real and personal property tax rates for the year ended June 30, 2016 were \$0.58 per \$100 and \$11 per \$100 of assessed value, respectively.

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2016 was as follows:

|                             | Beginning<br>Balance | Increases           | Decreases   | Ending<br>Balance   |
|-----------------------------|----------------------|---------------------|-------------|---------------------|
| Governmental activities:    |                      |                     |             |                     |
| Not being depreciated:      |                      |                     |             |                     |
| Land                        | \$ 628,830           | \$ -                | \$ -        | \$ 628,830          |
| Art/historical treasures    | 518                  | - -                 | -           | 518                 |
| Subtotal                    | <u>629,348</u>       | <u>-</u>            | <u>-</u>    | <u>629,348</u>      |
| Depreciable capital assets: |                      |                     |             |                     |
| Buildings                   | 4,329,017            | - -                 | -           | 4,329,017           |
| Equipment                   | 1,928,549            | 143,929             | - -         | 2,072,478           |
| Furniture and fixtures      | 159,708              | - -                 | -           | 159,708             |
| Subtotal                    | <u>6,417,274</u>     | <u>143,929</u>      | <u>- -</u>  | <u>6,561,203</u>    |
| Total capital assets        | 7,046,622            | 143,929             | - -         | 7,190,551           |
| Accumulated depreciation:   |                      |                     |             |                     |
| Buildings                   | 2,155,048            | 116,714             | - -         | 2,271,762           |
| Equipment                   | 1,335,524            | 144,497             | - -         | 1,480,021           |
| Furniture and fixtures      | 210,819              | 17,444              | - -         | 228,263             |
| Subtotal,                   |                      |                     |             |                     |
| accumulated depreciation    | 3,701,391            | 278,655             | - -         | 3,980,046           |
| Net capital assets          | <u>\$ 3,345,231</u>  | <u>\$ (134,726)</u> | <u>\$ -</u> | <u>\$ 3,210,505</u> |

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION – continued**

Depreciation was charged to functions as follows:

|                          |                          |
|--------------------------|--------------------------|
| Governmental activities: |                          |
| General government       | \$ 72,501                |
| Public safety            | 98,076                   |
| Public works             | 108,078                  |
| <b>Total</b>             | <b><u>\$ 278,655</u></b> |

The City has no material construction commitments as of June 30, 2016.

**NOTE 7 – LONG-TERM OBLIGATIONS**

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, 2016 was \$26,177.

| Governmental activities:     | July 31, 2015            | Additions               | Retirements             | June 30, 2016            | Amount Due              |              |
|------------------------------|--------------------------|-------------------------|-------------------------|--------------------------|-------------------------|--------------|
|                              |                          |                         |                         |                          | Within 1 Year           | After 1 Year |
| SunTrust Lease Dated 1/14/11 | \$ 69,809                | \$ -                    | \$ 43,632               | \$ 26,177                | \$ 26,177               |              |
| Compensated absences         | 97,190                   | 12,657                  | 3,139                   | 106,708                  |                         | -            |
| <b>Total</b>                 | <b><u>\$ 166,999</u></b> | <b><u>\$ 12,657</u></b> | <b><u>\$ 46,771</u></b> | <b><u>\$ 132,885</u></b> | <b><u>\$ 26,177</u></b> |              |

Interest costs charged to expense during the year ended June 30, 2016 was \$1,778.

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

| Year ended June 30, | Principal              | Interest            | Total                  |
|---------------------|------------------------|---------------------|------------------------|
| 2017                | \$26,177               | \$312               | \$26,489               |
| <b>Total</b>        | <b><u>\$26,177</u></b> | <b><u>\$312</u></b> | <b><u>\$26,489</u></b> |

**NOTE 8 – POST RETIREMENT BENEFITS**

The City does not provide and has no liability for post-retirement benefits as of June 30, 2016.

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – DEFERRED COMPENSATION PLAN**

The City of Seat Pleasant offers its full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all full-time employees and permits them to defer a portion of their current salary until future years. The plan provides for employer contributions of 5% of the annual base compensation of full time participants employed each pay period. The City's contributions become fully vested between five and seven years of employment service.

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. Management's involvement with the plan is limited to transferring amounts withheld from payroll to the trustee and administrator, "ICMA-RC." Management has little administrative involvement with the plan and does not perform the investing function for the plan. Investments designated for compensation benefits are no longer reported on the City's balance sheet. Accordingly, the fair value of the plan assets at June 30, 2016 is not reflected in the City's financial statements. All taxes are deferred on those contributions and related earnings until the participant terminates the plan.

**NOTE 10 – 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. For property, general, and health and dental insurance, the City is covered through commercial insurance carriers subject to deductibles and to annual aggregate/per occurrence dollar limits.

The City also has an insurance agreement with the Local Government Insurance Trust (LGIT), a public entity risk pool. LGIT provides the City's excess environmental liability 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 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, 2016 and the amounts of settlements have not exceeded coverage for each of the past three years.

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 11 – CONCENTRATIONS**

The City derives most of its revenues from the citizens of the City. The City is located in Prince George's County, Maryland.

**NOTE 12 – 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.

**Litigation**

In the normal course of business, the City is a defendant in several lawsuits which management is vigorously defending. No contingency has been established because neither the outcome of the cases nor the amount of an award, if any, can be determined. The City's attorney and the insurance carrier are defending these matters.

**NOTE 13 – COMPTROLLER OF THE TREASURY OF MARYLAND V. WYNNE**

In 2015, in *Comptroller of the Treasury of Maryland v. Wynne*, the Supreme Court invalidated a portion of Maryland's personal income tax scheme after determining that it inherently burdened the earnings of individuals who resided in one state but earned income in another.

In response, Maryland has enacted corrective legislation allowing a credit for Maryland residents against personal income tax for income taxed by other states. The Court had ruled that the failure of Maryland law to allow such a credit rendered Maryland's personal income tax scheme unconstitutional.

As of June 2016, the Comptroller's Office has not identified any returns in the City that were amended as a result of the Wynne case. As taxpayers have three years to amend their returns, the City could be impacted in future years.

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 14 – FUND BALANCE REPORTING**

Fund balances for the City's governmental funds consisted of the following as of June 30, 2016:

**Non-spendable Fund Balance**

The non-spendable fund balance of \$25,403 and related net position is non-spendable for prepaid expenses.

**Restricted Fund Balance**

The restricted fund balance of \$46,293 and related net position resulting from speed camera revenue is restricted for public safety expenditures.

**Unassigned Fund Balance**

All remaining fund balances in the General Fund are unassigned. At June 30, 2016, this amount was \$2,600,907.

**CITY OF SEAT PLEASANT, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 15 – NEW ACCOUNTING PRONOUNCEMENTS**

The GASB has issued the following statements:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, issued June 2015, effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, effective for financial statements for fiscal years beginning after June 15, 2017.

Statement No. 77, *Tax Abatement Disclosures*, issued August 2015, effective for financial statements for fiscal years beginning after December 15, 2015.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, issued December 2015, effective for financial statements for fiscal years beginning after December 15, 2015.

Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, issued March 2016, effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016, effective for financial statements for fiscal years beginning after December 15, 2016.

Statement No. 82, *Pension Issues – an amendment of GASB States No. 67, No. 68, and No. 73*, issued March 2016, effective for financial statements for fiscal years beginning after June 15, 2016.

The City will implement these statements as necessary as of their effective dates. While the City is still in the process of determining the effect of implementing these GASB statements, they are not expected to have a material effect on the financial position of the City.

**CITY OF SEAT PLEASANT MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                           | <b>Governmental Funds</b>  |                            |                            |                            |
|---------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|                           | <b>Original<br/>Budget</b> | <b>Final Budget</b>        | <b>Actual</b>              | <b>Variance</b>            |
| <b>Revenues</b>           |                            |                            |                            |                            |
| Property taxes            | \$ 2,394,535               | \$ 2,394,535               | \$ 3,108,024               | \$ 713,489                 |
| Other taxes               | 209,425                    | 209,425                    | 313,338                    | 103,913                    |
| Licenses and permits      | 48,385                     | 48,385                     | 121,070                    | 72,685                     |
| Intergovernmental         | 537,564                    | 537,564                    | 183,935                    | (353,629)                  |
| Charges for service       | 325,902                    | 325,902                    | 275,911                    | (49,991)                   |
| Fines                     | 120,000                    | 120,000                    | 267,119                    | 147,119                    |
| Miscellaneous             | 1,510,110                  | 1,510,110                  | 85,198                     | (1,424,912)                |
| <b>Total Revenues</b>     | <b><u>\$ 5,145,921</u></b> | <b><u>\$ 5,145,921</u></b> | <b><u>\$ 4,354,595</u></b> | <b><u>\$ (791,326)</u></b> |
| <b>Expenditures</b>       |                            |                            |                            |                            |
| General government        | \$ 2,248,799               | \$ 2,248,799               | \$ 1,150,831               | \$ 1,097,968               |
| Public safety             | 1,247,791                  | 1,247,791                  | 1,002,029                  | 245,762                    |
| Public works              | 1,516,656                  | 1,516,656                  | 1,179,826                  | 336,830                    |
| Recreation and culture    | 132,675                    | 132,675                    | 230,039                    | (97,364)                   |
| Capital outlays           | -                          | -                          | 143,929                    | (143,929)                  |
| Debt service              |                            |                            |                            |                            |
| Principal                 | -                          | -                          | 43,632                     | (43,632)                   |
| Interest                  | -                          | -                          | 1,778                      | (1,778)                    |
| <b>Total Expenditures</b> | <b><u>\$ 5,145,921</u></b> | <b><u>\$ 5,145,921</u></b> | <b><u>\$ 3,752,064</u></b> | <b><u>\$ 1,393,857</u></b> |