



City of Taneytown, Maryland

**Financial Statements, Supplementary Information, and
Independent Auditors' Reports**

For the Year Ended June 30, 2017

**City of Taneytown, Maryland
Summary of Elected and Appointed Officials**

As of June 30, 2017

MAYOR

James L. McCarron, Jr.

CITY COUNCIL

Diane Foster, Mayor Pro Tem

Donald Frazier

Judith Fuller

Joseph Vigliotti

Bradley Wantz

CITY MANAGER

Henry C. Heine, Jr.

TREASURER

Bobbi-Jo Cutler Fout

CITY ATTORNEY

Jack A. Gullo, Jr.

City of Taneytown, Maryland
For the Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

Mayor and City Council City of Taneytown, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Taneytown, Maryland, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Taneytown, Maryland's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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.

**City of Taneytown, Maryland
Independent Auditors' Report
Page 2**

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Taneytown, Maryland, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 3 – 8 and 37 – 43 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2018, on our consideration of the City of Taneytown, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Taneytown, Maryland's internal control over financial reporting and compliance.

DeLeon & Stang

**DeLeon and Stang, CPAs and Advisors
Frederick, Maryland
January 9, 2018**

CITY OF TANEYTOWN, MARYLAND MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the City of Taneytown ("the City") offers readers the following narrative overview and analysis of the financial statements and activities of the City for the fiscal year ended June 30, 2017, which includes a comparison with the prior year.

A feature of this year's financial picture is the continued implementation of GASB 65 – refunding of debt and GASB 68 – accounting and reporting for pensions. The statement of net position will continue to show deferred outflows and inflows of resources affecting the total net position.

In addition, the City has continued its ongoing program to replace and upgrade deteriorated and substandard infrastructure such as water and sewer.

FINANCIAL HIGHLIGHTS:

1. The City's government-wide net position increased \$312,848 in fiscal year 2017 as compared to an increase of \$2,801,932 in fiscal year 2016.
2. The assets of the City exceeded its liabilities as of June 30, 2017 as noted below:

Governmental Activities: \$7,627,257 (up \$79,425 from last year)
Business-Type Activities: \$14,684,933 (up \$475,357 from last year)

Of the total net position, \$9,106,615 is unrestricted; \$25,000 is restricted for WWTP loan reserve; and \$13,180,575 is invested in capital assets, net of related debt.
3. Total governmental and business-type capital assets, net were \$5,688,505 and \$22,751,258 respectively.
4. The City's total liabilities as of June 30, 2017 were \$18,768,535 (down \$172,937 from last year). Of that amount \$15,259,188 are debt obligations. Total long-term liabilities for the City as of June 30, 2017 were \$18,053,831 (including the net pension liability of \$2,794,643 per GASB 68).
5. As of June 30, 2017, the City's governmental funds reported a combined ending fund balance of \$5,253,754 (down \$143,590 from last year). Of that amount \$4,833,467 is unassigned and available for spending, \$367,907 is committed for Parks – Open Space, and \$32,511 is assigned to Public Safety - Asset Forfeitures, and \$19,869 is non-spendable due to prepaid health insurance expenses.

CITY OF TANEYTOWN, MARYLAND MANAGEMENT'S DISCUSSION AND ANALYSIS

6. As of June 30, 2017, the City's revenues were as follows: General Fund \$3,895,643 (up \$139,071 or 4% from last year) and Enterprise Fund \$3,488,735 (up \$520,408 or 18% from last year excluding last year's capital grants of \$3,013,548).
7. As of June 30, 2017, the City's expenditures were as follows: General Fund \$4,039,233 (up \$416,210 or 12% from last year) and Enterprise Fund \$2,989,358 (up \$102,807 or 4% from last year).
8. As of June 30, 2017, the City's deferred outflows were as follows: Governmental activities \$888,625 and Business-type activities \$406,931. Within the governmental activities, deferred outflows consisted of the 2017 pension contributions and changes in actuarial assumptions related to the pension plans. In the business-type activities, deferred outflows also included costs associated with debt refunding (\$320,571) that are required to be amortized.
9. As of June 30, 2017, the City's deferred inflows were as follows: Governmental activities \$72,425 and Business-type activities \$29,571. Within the governmental activities and business-type activities, deferred inflows were identified as the difference between the projected and actual investment earnings on pension plan investments.

OVERVIEW OF THE FINANCIAL STATEMENTS:

The discussion and analysis are intended to serve as an introduction to the City of Taneytown's basic financial statements. The City of Taneytown's basic financial statements are comprised of three (3) components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Taneytown's finances, in a manner similar to a Private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

CITY OF TANEYTOWN, MARYLAND MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government (legislative, executive, financial administration, legal, planning and zoning, general services), public safety, public works, parks, recreation, and culture, economic development and other charges. The major business-type activities of the City include water and sewer utilities.

The government-wide financial statements include only the City of Taneytown itself (known as the primary government) and are on pages 9 and 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two (2) categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The city adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget on pages 37 – 40 of this report.

The basic governmental fund financial statements can be found on pages 11 – 13 of this report.

Proprietary funds. The City of Taneytown maintains one proprietary, or enterprise, fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City of Taneytown operates a Sanitary Sewer and Water Enterprise Fund.

**CITY OF TANEYTOWN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The basic proprietary fund financial statements can be found on pages 14 – 17 of this report.

Notes to the Financial Statements. These notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 18 – 36 of this report.

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information.

With all of the aforementioned stated, please review the following data closely for a detailed accounting of the financial activities and assets of the City of Taneytown.

The following table summarizes revenues and expenses for the governmental activities of the City and totals for the government overall.

	Governmental		Total	
	Activities		Government	
	2016	2017	2016	2017
REVENUES				
Program Revenues				
Operating grants and contributions	\$ 397,805	\$ 320,157	397,805	320,157
Charges for services	185,881	211,215	3,021,458	3,546,081
Capital grants and contributions	47,169	37,994	3,060,717	(6,886)
General Revenues				
Taxes	2,761,911	2,917,957	2,761,911	2,917,957
Intergovernmental	345,561	345,727	345,561	345,727
Interest	4,609	17,927	16,587	50,775
Miscellaneous	11,437	42,516	27,735	51,025
Rental Income	2,200	2,150	106,674	114,662
TOTAL REVENUES	3,756,573	3,895,643	9,738,448	7,339,498
PROGRAM EXPENSES				
General government	675,740	753,143	675,740	753,143
Public safety	1,637,743	1,653,518	1,637,743	1,653,518
Public works	1,288,063	1,101,366	1,288,063	1,101,366
Recreation and culture	273,289	329,829	273,289	329,829
Economic development	121,519	149,006	121,519	149,006
Interest	53,611	50,430	53,611	50,430
Business-type activities	-	-	2,886,551	2,989,358
TOTAL PROGRAM EXPENSES	4,049,965	4,037,292	6,936,516	7,026,650
CHANGE IN NET POSITION	\$ (293,392)	\$ (141,649)	\$ 2,801,932	\$ 312,848

CITY OF TANEYTOWN, MARYLAND MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budget Variances

During FY 2017, the Mayor and City Council publicly amended the budget at mid-year (Ordinance No. 18-2016) and again at year-end (Ordinance No. 27-2017). At year's end, actual revenues were \$290,077 more than was budgeted. More specifically, local property taxes were \$26,393 more than expected as a result of conservative budget estimates, local taxes, licenses and permits were \$144,295 more than the budgeted amount, intergovernmental revenues were \$8017 more than budgeted from various sources, and \$111,372 in service charges, fines and forfeitures, and miscellaneous revenues.

Actual General Fund expenditures were \$4,039,233 which is \$34,708 more than budgeted.

Budget Fiscal Year 2018

Replacement and upgrades to deteriorated and substandard infrastructure will continue to be a high priority for the City. The City will seek grant funding to the greatest extent possible, when available.

Management will continue an annual analysis and maintenance report/schedule for all public infrastructure so that the City can properly budget and repair all its infrastructure, buildings, vehicles, and equipment. Major equipment purchases and construction projects that will continue or begin in the next fiscal year include:

General Fund

- Public Works: Paving of streets, Vehicle replacement (1)
- Public Safety: Police vehicle replacements (2)
- Parks, Recreation, and Culture: Memorial Park sign replacement, parking lot repairs, and playground replacement

Enterprise Fund

- Water: Continue infiltration and inflow repairs, water leak repairs, and water billing system replacement
- Sewer: Replacement of clay sewer pipes on Commerce Street, Sewer Jeter replacement, SBR Mixer and float replacement, and Windy Hill lift station panel box and controls replacement

The **General Fund** is expected to experience an increase in property tax receipts a result of the City maintaining its real property tax rate at .37 cent per \$100 of assessed value which was not exempt from the constant yield tax rate provision. This rate is higher than the 0.3644 constant yield tax rate and is based on Ordinance No. 05-2017. Property assessments, other than appeals, should remain static in FY 2018 since we are in the three-year assessment cycle.

The City will continue to receive the following grants in the general fund for FY 2018: Highway User Revenue (HUR) Grant, One-time Capital Grant, and State Aid for Police Protection Grant.

Approved budget for fiscal year 2018 General Fund Revenue was \$4,438,287 and Expenditures \$4,438,287 per Ordinance No. 04-2017.

The **Enterprise Fund** will see a 5% decrease in water and sewer rates for FY 2018. The new water rate will be \$7.42 per every 1,000 gallons and the sewer rate will be at \$14.24 per every 1,000 gallons. The rate decrease is based on Ordinance No. 06-2017, due to the effective management of the system, reduction in operational costs, increase in the accuracy of the metering system, and modest growth in the City.

Approved budget for fiscal year 2018 Enterprise Fund Revenue was \$2,704,200 and Expenditures of \$2,704,200.

Request for more information:

This financial report is designed to provide a general overview of the City of Taneytown's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed during business hours to:

City Manager
17 E. Baltimore Street
Taneytown, MD 21787

CITY OF TANEYTOWN, MARYLAND
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,047,370	\$ 5,184,422	\$ 10,231,792
Restricted cash	433,672	25,545	459,217
Taxes receivable	39,486	-	39,486
Due from other agencies	13,317	-	13,317
Due from customers	-	665,846	665,846
Other receivables	12,165	(1,725)	10,440
Prepaid expenses	19,869	7,435	27,304
Capital assets:			
Land	574,472	182,621	757,093
Buildings and improvements	4,266,629	409,525	4,676,154
Machinery and equipment	2,217,198	1,131,569	3,348,766
Infrastructure	5,870,913	34,874,712	40,745,626
Construction in progress	125,625	91,288	216,913
Total Capital assets	13,054,837	36,689,715	49,744,552
Less: accumulated depreciation	(7,366,332)	(13,938,457)	(21,304,789)
Capital assets, net	5,688,505	22,751,258	28,439,763
Total Assets	11,254,384	28,632,781	39,887,165
Deferred Outflows of Resources	888,625	406,931	1,295,556
Total Assets and Deferred Outflows of Resources	12,143,009	29,039,712	41,182,721
Liabilities			
Accounts payable	182,416	148,938	331,354
Accrued expenses	130,182	189,249	319,431
Developer deposits	63,919	-	63,919
Noncurrent liabilities:			
Bonds and loans due within one year	114,539	692,539	807,078
Bonds and loans due in more than one year	1,371,251	13,080,859	14,452,110
Net pension liability	2,581,020	213,623	2,794,643
Total Liabilities	4,443,327	14,325,208	18,768,535
Deferred Inflows of Resources	72,425	29,571	101,996
Total Liabilities and Deferred Inflows of Resources	4,515,752	14,354,779	18,870,531
Net Position			
Net investment in capital assets	4,202,715	8,977,860	13,180,575
Restricted for specific purposes	-	25,000	25,000
Unrestricted	3,424,542	5,682,073	9,106,615
Total Net Position	\$ 7,627,257	\$ 14,684,933	\$ 22,312,190

The accompanying notes are an integral part of this statement.

CITY OF TANEYTOWN, MARYLAND
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
					Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities							
General government	\$ (753,143)	\$ 146,605	\$ -	\$ 9,300	\$ (597,238)	\$ -	\$ (597,238)
Public safety	(1,653,518)	25,060	108,161	-	(1,520,297)	-	(1,520,297)
Public works	(1,101,366)	-	211,996	-	(889,370)	-	(889,370)
Parks, recreation, and culture	(329,829)	39,550	-	-	(290,279)	-	(290,279)
Economic development	(149,006)	-	-	28,694	(120,312)	-	(120,312)
Interest expense on long-term debt	(50,430)	-	-	-	(50,430)	-	(50,430)
Total Governmental Activities	<u>(4,037,292)</u>	<u>211,215</u>	<u>320,157</u>	<u>37,994</u>	<u>(3,467,926)</u>	<u>-</u>	<u>(3,467,926)</u>
Business-type Activities							
Utility fund	<u>(2,989,358)</u>	<u>3,334,866</u>	<u>-</u>	<u>(44,880)</u>	<u>-</u>	<u>300,628</u>	<u>300,628</u>
Total Primary Government	<u>\$ (7,026,650)</u>	<u>\$ 3,546,081</u>	<u>\$ 320,157</u>	<u>\$ (6,886)</u>	<u>(3,467,926)</u>	<u>300,628</u>	<u>(3,167,298)</u>
General Revenues							
Property taxes					2,252,247	-	2,252,247
Income taxes					661,097	-	661,097
Other local taxes					4,613	-	4,613
County tax distribution					345,727	-	345,727
Rental income					2,150	112,512	114,662
Interest income					17,927	32,848	50,775
Miscellaneous income					42,516	8,509	51,025
Total general revenues					<u>3,326,277</u>	<u>153,869</u>	<u>3,480,146</u>
Change in net position					(141,649)	454,497	312,848
Net position, beginning of year - restated					<u>7,768,906</u>	<u>14,230,436</u>	<u>21,999,342</u>
Net position, end of year					<u>\$ 7,627,257</u>	<u>\$ 14,684,933</u>	<u>\$ 22,312,190</u>

The accompanying notes are an integral part of this statement.

CITY OF TANEYTOWN, MARYLAND
Balance Sheet
Governmental Fund
June 30, 2017

	General	Total Governmental Fund
Assets		
Cash and cash equivalents	\$ 5,047,370	\$ 5,047,370
Restricted cash	433,672	433,672
Taxes receivable	39,486	39,486
Due from other agencies	13,317	13,317
Other receivables - due from developers	12,165	12,165
Prepaid expenses	19,869	19,869
Total Assets	\$ 5,565,879	\$ 5,565,879
Liabilities		
Accounts payable	\$ 182,416	\$ 182,416
Accrued salaries	65,790	65,790
Developer deposits	63,919	63,919
Total Liabilities	312,125	312,125
Fund Balance		
Nonspendable	19,869	19,869
Restricted	-	-
Committed	367,907	367,907
Assigned	32,511	32,511
Unassigned	4,833,467	4,833,467
Total Fund Balance	5,253,754	5,253,754
Total Liabilities and Fund Balance	\$ 5,565,879	\$ 5,565,879

The accompanying notes are an integral part of this statement.

CITY OF TANEYTOWN, MARYLAND
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2017

	General	Total Governmental Fund
Revenues		
Local property taxes	\$ 2,252,247	\$ 2,252,247
Local income taxes	661,097	661,097
Other local taxes	4,613	4,613
Licenses and permits	103,730	103,730
Intergovernmental revenues	703,878	703,878
Service charges	65,117	65,117
Fines and forfeitures	42,368	42,368
Miscellaneous revenues	62,593	62,593
Total Revenues	3,895,643	3,895,643
Expenditures		
General government	687,976	687,976
Public safety	1,527,630	1,527,630
Public works	1,142,500	1,142,500
Parks, recreation, and culture	376,868	376,868
Economic development	143,918	143,918
Debt service	160,341	160,341
Total Expenditures	4,039,233	4,039,233
Deficiency of Revenues over Expenditures	(143,590)	(143,590)
Fund Balance - July 1, 2016	5,397,344	
Fund Balance - June 30, 2017	\$ 5,253,754	
Adjustments for the Statement of Activities		
Capital outlay		521,128
Depreciation expense		(394,842)
Debt service expenditures		109,119
Change in accrued interest		792
Compensated absences		16,794
Loss on disposal		(7,329)
Net pension adjustment		(243,721)
Change in Net Position of Governmental Activities		\$ (141,649)

The accompanying notes are an integral part of this statement.

CITY OF TANEYTOWN, MARYLAND
Reconciliation of Fund Balance to Net Position of Governmental Activities
June 30, 2017

Fund balance - governmental fund	\$	5,253,754
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Capital assets, net		5,688,505
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Deferred outflows of resources		888,625
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued interest payable		(13,052)
Compensated absences		(51,340)
Long-term debt		(1,485,790)
Net pension liability		<u>(2,581,020)</u>

Deferred inflows of resources		<u>(72,425)</u>
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Net position - governmental activities	\$	<u><u>7,627,257</u></u>
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CITY OF TANEYTOWN, MARYLAND

Statement of Net Position

Proprietary Fund

June 30, 2017

	<u>Utility Fund</u>	<u>Total Proprietary Fund</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,184,422	\$ 5,184,422
Restricted cash	25,545	25,545
Due from customers	665,846	665,846
Other receivables	(1,725)	(1,725)
Prepaid expenses	7,435	7,435
Total Current Assets	<u>5,881,523</u>	<u>5,881,523</u>
Capital Assets		
Land	182,621	182,621
Infrastructure	34,874,712	34,874,712
Buildings and improvements	409,525	409,525
Machinery and equipment	1,131,569	1,131,569
Construction in progress	91,288	91,288
Total Capital Assets	36,689,715	36,689,715
Less: accumulated depreciation	<u>(13,938,457)</u>	<u>(13,938,457)</u>
Total Capital Assets, net	<u>22,751,258</u>	<u>22,751,258</u>
Total Assets	28,632,781	28,632,781
Deferred Outflows of Resources	406,931	406,931
Total Assets and Deferred Outflows of Resources	<u>29,039,712</u>	<u>29,039,712</u>
Liabilities		
Current Liabilities		
Accounts payable	148,938	148,938
Accrued expenses	189,249	189,249
Current portion of bond and loans payable	692,539	692,539
Total Current Liabilities	<u>1,030,726</u>	<u>1,030,726</u>
Noncurrent Liabilities		
Noncurrent portion of bond and loans payable	13,080,859	13,080,859
Net pension liability	213,623	213,623
Total Noncurrent Liabilities	<u>13,294,482</u>	<u>13,294,482</u>
Total Liabilities	14,325,208	14,325,208
Deferred Inflows of Resources	29,571	29,571
Total Liabilities and Deferred Inflows of Resources	<u>14,354,779</u>	<u>14,354,779</u>
Net Position		
Net investment in capital assets	8,977,860	8,977,860
Restricted for specific purposes	25,000	25,000
Unrestricted	5,682,073	5,682,073
Total Net Position	<u>\$ 14,684,933</u>	<u>\$ 14,684,933</u>

The accompanying notes are an integral part of this statement.

CITY OF TANEYTOWN, MARYLAND
Statement of Revenues, Expenses, and Change in Net Position
Proprietary Fund
For the Year Ended June 30, 2017

	Utility Fund	Total Proprietary Fund
Operating Revenues		
Charges for services	\$ 3,334,866	\$ 3,334,866
Rental income	112,512	112,512
Miscellaneous income	8,509	8,509
Total Operating Revenues	3,455,887	3,455,887
 Operating Expenses		
Salaries	491,706	491,706
Professional fees	166,148	166,148
Heat, light, and power	219,685	219,685
Employee benefits	173,308	173,308
Supplies	165,652	165,652
Depreciation	1,216,182	1,216,182
Insurance	36,104	36,104
Maintenance	60,218	60,218
Office	16,563	16,563
Miscellaneous	1,067	1,067
Total Operating Expenses	2,546,633	2,546,633
 Operating Income	 909,254	 909,254
 Nonoperating Revenues (Expenses)		
Interest income	32,848	32,848
Interest expense and fiscal agent fees	(442,725)	(442,725)
Total Nonoperating Revenues (Expenses)	(409,877)	(409,877)
 Net income before capital grants	 499,377	 499,377
 Capital grants	 (44,880)	 (44,880)
 Change in Net Position	 454,497	 454,497
Total Net Position, beginning of year , restated	14,230,436	14,230,436
 Total Net Position, end of year	 \$ 14,684,933	 \$ 14,684,933

The accompanying notes are an integral part of this statement.

CITY OF TANEYTOWN, MARYLAND
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Fund
	Utility Fund
Cash Flows from Operating Activities	
Cash receipts from customers	\$ 3,428,042
Cash receipts from rental income	112,512
Cash receipts - miscellaneous	3,064
Cash payments to suppliers for goods and services	(734,463)
Cash payments to employees for services	(470,740)
Net cash provided by operating activities	2,338,415
Cash Flows from Capital and Related Financing Activities	
Principal paid on loans payable	(678,326)
Acquisition and construction of capital assets	(80,651)
Proceeds on sale of capital assets	1,702
Interest paid on capital debt	(420,512)
Capital grant	634,586
Net cash used in capital and related financing activities	(543,200)
Cash Flows from Investing Activities	
Withdrawal of funds held by custodian	96,467
Interest income	32,848
Net cash provided by investing activities	129,315
Net increase in cash and cash equivalents	1,924,530
Cash and cash equivalents - beginning of year	3,285,437
Cash and cash equivalents - end of year	\$ 5,209,967

The accompanying notes are an integral part of this statement.

CITY OF TANEYTOWN, MARYLAND
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2017

	Utility Fund
Reconciliation of Operating Income to	
Net Cash provided by Operating Activities	
Operating income	\$ 909,254
Depreciation expense	1,216,182
Amortization of premium	(3,743)
Gain on disposal of capital asset	(1,702)
Net changes in operating assets and liabilities:	
Customer receivables	93,558
Other receivables	(383)
Prepaid expenses	2,804
Accounts payable	100,998
Deferred outflows	(32,029)
Deferred inflows	27,134
Accrued expenses	10,233
Net pension liability	16,109
Net cash provided by operating activities	\$ 2,338,415
 Non-cash & non-operating expense:	
Amortization of debt refinancing cost	\$ 29,143

CITY OF TANEYTOWN, MARYLAND
Notes to the Financial Statements
June 30, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Taneytown, Maryland (the City) was incorporated in 1884, pursuant to authority of Article XIE of the Constitution of Maryland and Article 23A of the Annotated Code of Maryland. The City operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety, highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services. The accompanying basic financial statements conform to accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board Codification Section 2100 have been considered and there are no agencies or entities which should be presented with the City.

The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 62, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the City has elected not to apply non-GASB pronouncements issued on or after November 30, 1989.

Government-wide and Fund Financial Statements

The City's basic financial statements include both government-wide (based on the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's public safety, public works, recreation and culture, economic development, debt service and general government services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods and services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program.

Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and managerial requirements.

The following is a brief description of the specific funds used by the City for the year ended June 30, 2017:

Governmental Fund Types

General Fund – This fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund accounts for the normal recurring activities of the City (i.e., public safety, public works, parks and recreation, and general government activities, etc.). These activities are funded principally by property and income taxes on individuals and businesses, and grants from other governmental units.

Proprietary Fund Types

Enterprise Fund – The Utility fund accounts for the revenues generated from the charges for distribution of water and charges for sewer services provided to residential and commercial users of the City.

NOTE 1- **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This approach 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 the governmental fund.

Net position is reported as restricted when constraints placed on net position use are externally imposed by grantors or contributors. 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 they are needed. The city has \$25,000 of net position restricted by debt covenants.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be "available" when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues as available if they are collected within 60 days after year-end. Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Investments

For purposes of the statement of cash flows, the City considers cash on hand, demand deposits, and all highly liquid investments and debt instruments with maturities of three months or less from the date of acquisition to be cash and cash equivalents. In some instances, cash resources of the individual funds are combined to form a pool of cash and investments. Investments are carried at market value in all funds. Investment income earned as a result of pooling is distributed to the appropriate funds based on the average balance of cash and investments of each fund.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid items. Prepaid items are equally offset by a fund balance reserve which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets.

Receivables

Significant receivables include amounts from customers for utility services and various taxes. These receivables are due within one year. For the year ended June 30, 2017, the City had an allowance for personal property taxes receivable of \$25,265.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet. Short-term interfund loans are classified as “interfund receivables/payables.”

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an estimated useful life in excess of one year and a cost of \$5,000 or more. Capital assets purchased or acquired are recorded at cost or, if donated, at the estimated fair market value upon receipt. Depreciation of property and equipment is computed on the straight-line method for financial reporting purposes.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is provided for over the following estimated useful lives of the assets:

Infrastructure	25 – 50 years
Buildings and Improvements	20 – 40 years
Equipment	5 – 10 years

Budgets and Budgetary Accounting

The City prepares an annual operating budget for the General Fund and Utility Fund on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts are subject to amendment during the fiscal year.

Compensated Absences

Full-time employees are eligible for paid annual leave, and all leave time must be earned before being taken. The amount employees accrue is based on their number of continuous service years. Employees will receive all of their unused earned vacation leave upon termination. Vacation leave can be carried over to subsequent calendar years, with a maximum of 80 hours. Employees who do not use their accrued leave by the end of the calendar year shall forfeit all annual leave in excess of 80 hours.

Full-time employees shall accrue four hours of sick leave per pay period. There is no maximum of sick leave that may be carried over to subsequent years. When leaving the employment of the City, the amount of accrued sick leave shall be applied to the employee's years of service under the formula and parameters as provided by the State Retirement System.

The vested annual leave is expensed as incurred in the appropriate funds.

Fund Balance

The City has implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, for its governmental funds. Under GASB Statement No. 54, fund balances are required to be reported according to the following classifications:

Nonspendable fund balance – Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted fund balance – Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).

Committed fund balance – Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the City’s highest level of decision-making authority, the Mayor and Council. The City’s committed fund balance consists of open space / park impact fees as of June 30, 2017.

Assigned fund balance – Amounts that are constrained by the City’s intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the Mayor and Council. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances. The amount of assigned funds is related to police asset forfeitures and the remaining lease obligations on a non-cancelable capital lease.

Unassigned fund balance – This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, plus any proceeds remaining in cash and investments. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments exists when, in the event of the failure of the counterparty to a transaction, a government may be unable to recover the value of investment or collateral securities that are in the possession of an outside party. As of year-end, the total amount of the City's bank balances were \$10,859,420, the carrying amount of deposits was \$10,690,659, and cash on hand was \$350.

The City maintains deposits at two financial institutions. As of June 30, 2017, all deposits were covered by the Federal Deposit Insurance Corporation and securities held by the pledging financial institution's trust department in the City's name.

The City's cash and cash equivalents as of June 30, 2017, reconciled to the total presented in the Statement of Net Position, are as follows:

	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Cash on hand	\$ 350	\$ -	\$ 350
Bank deposits	<u>5,480,692</u>	<u>5,209,967</u>	<u>10,690,659</u>
	<u>\$ 5,481,042</u>	<u>\$ 5,209,967</u>	<u>\$ 10,691,009</u>

NOTE 2 **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**
(Continued)

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation.

The City shall invest only in the following types of securities, which are authorized by the State:

- Obligations of U.S. governmental agencies
- Fully collateralized certificates of deposit
- Bankers acceptances with the highest quality letter and numerical rating
- Municipal securities with the highest quality letter and numerical rating
- Money market mutual funds containing securities of U.S. governmental agencies
- Local Government Investment Pool administered by the State Treasurer

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer, not applicable to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools or other pooled investments.

Restricted Cash

Cash is restricted for the following purposes as of June 30, 2017:

	Governmental	Business-Type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Developer deposits	\$ 65,765	\$ -	\$ 65,765
Open space/park impact	367,907	-	367,907
Loan reserve fund	-	25,545	25,545
	<u>\$ 433,672</u>	<u>\$ 25,545</u>	<u>\$ 459,217</u>

NOTE 3 **PROPERTY TAXES**

The City's property taxes are levied each July 1 at rates enacted by the Mayor and Council on the total assessed value as determined by the Maryland State Department of Assessments and Taxation.

CITY OF TANEYTOWN, MARYLAND
Notes to the Financial Statements (Continued)
June 30, 2017

NOTE 3 **PROPERTY TAXES** (Continued)

Property taxes become delinquent on October 1. Interest accrues at 0.5% monthly for delinquent property taxes. Total assessable base on which levies were made for the year ended June 30, 2017, was \$572,332,679 and the property tax rate was \$0.37 per \$100 of assessed value.

NOTE 4 **CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 was as follows:

Primary Government:

<u>Governmental Activities:</u>	Balance July 1, 2016	Additions	Dispositions	Transfers	Balance June 30, 2017
Capital assets, not depreciated					
Land	\$ 565,726	\$ -	\$ -	\$ 8,746	\$ 574,472
Construction in progress	148,359	794	-	(23,528)	125,625
Total capital assets, not depreciated	<u>714,085</u>	<u>794</u>	<u>-</u>	<u>(14,782)</u>	<u>700,097</u>
Capital assets, depreciated					
Buildings and improvements	4,266,629	-	-	-	4,266,629
Machinery and equipment	2,048,984	297,169	(128,956)	-	2,217,197
Infrastructure	5,633,063	228,462	(94)	9,483	5,870,914
Total capital assets, depreciated	11,948,676	525,631	(129,050)	9,483	12,354,740
Accumulated depreciation	<u>(7,093,211)</u>	<u>(394,842)</u>	<u>121,721</u>	<u>-</u>	<u>(7,366,332)</u>
Governmental activities -					
Capital assets, net	<u>\$ 5,569,550</u>	<u>\$ 131,583</u>	<u>\$ (7,329)</u>	<u>\$ (5,299)</u>	<u>\$ 5,688,505</u>

Depreciation expense was charged to each function as follows:

General government	\$ 55,515
Public safety	80,472
Public works	167,953
Parks, recreation, and culture	<u>90,902</u>
	<u>\$ 394,842</u>

CITY OF TANEYTOWN, MARYLAND
Notes to the Financial Statements (Continued)
June 30, 2017

NOTE 4 CAPITAL ASSETS (Continued)

<u><i>Business-type Activities</i></u>	Balance July 1, 2016	Additions	Dispositions	Transfers	Balance June 30, 2017
Capital assets, not depreciated					
Land	\$ 182,621	\$ -	\$ -	\$ -	\$ 182,621
Construction in progress	41,852	67,834	-	(18,398)	91,288
Total capital assets, not depreciated	<u>224,473</u>	<u>67,834</u>	<u>-</u>	<u>(18,398)</u>	<u>273,909</u>
Capital assets, depreciated					
Buildings and improvements	409,525	-	-	-	409,525
Machinery and equipment	1,143,140	31,214	(42,786)	-	1,131,568
Infrastructure	34,874,712	-	-	-	34,874,712
Total capital assets, depreciated	36,427,377	31,214	(42,786)	-	36,415,805
Accumulated depreciation	<u>(12,765,060)</u>	<u>(1,216,182)</u>	<u>42,786</u>	<u>-</u>	<u>(13,938,456)</u>
Business-type activities					
Capital assets, net	<u>\$23,886,790</u>	<u>\$ (1,117,134)</u>	<u>\$ -</u>	<u>\$ (18,398)</u>	<u>\$ 22,751,258</u>

Depreciation expense was charged to each function as follows:

Water services	\$ 387,349
Sewer services	<u>828,833</u>
	<u>\$1,216,182</u>

CITY OF TANEYTOWN, MARYLAND
Notes to the Financial Statements (Continued)
June 30, 2017

NOTE 5 DEBT OBLIGATIONS

Debt outstanding as of June 30, 2017 is as follows for:

Governmental Activities:

<u>Purpose</u>	<u>Rate</u>	<u>Amount</u>
\$400,000 Infrastructure Financing Bonds - 2004 Series A; Due in annual principal installments of \$7,600 - \$23,600 plus semi annual interest payments. The bonds mature on May 1, 2034.	4.6% Avg.	\$ 283,800
\$436,698 2012 Refunding of the General Obligation Bond, Series 2009; Due in annual principal installments of \$17,909 - \$35,297 plus semiannual interest payments. The bonds mature on March 15, 2029.	4.24%	339,052
\$894,783 General Obligations Bonds, 2011 Series A; Due in annual principal installments of \$33,000 - \$138,000, plus semi annual interest payments. The bonds mature on December 1, 2021.	2.55%	710,000
\$333,000 General Obligation Bond, 2011 Series B; Due in annual principal installments of \$34,000 - \$39,000 plus semi annual interest payments. The bond matures on November 1, 2020.	2.50%	<u>152,938</u>
Total governmental activities		<u>\$1,485,790</u>

CITY OF TANEYTOWN, MARYLAND
Notes to the Financial Statements (Continued)
June 30, 2017

NOTE 5 **DEBT OBLIGATIONS** (Continued)

<u>Purpose</u>	<u>Rate</u>	<u>Amount</u>
\$5,270,995 Water Quality Bond, Series 1998; semiannual interest payments due and annual principal payments of \$226,956 - \$331,322; annual administrative fee of \$16,191; bond matures on February 1, 2019.	2.35%	\$ 560,278
\$552,110 Water Quality Bond, Series 2001; semiannual interest payments and annual principal payments of \$23,386 - \$31,604; annual administrative fee of \$1,515; bond matures on February 1, 2021.	1.90%	94,403
\$1,186,279 General Obligation Bonds, 2011 Series A; Due in annual principal installments of \$33,000 - \$138,000 plus semiannual interest payments. The bonds mature on December 1, 2021.	2.55%	1,077,000
\$3,206,000 loan for Baltimore Street Water Main Extension; semiannual interest payments and annual principal payments of \$134,843 - \$208,749; annual administrative fee of \$10,323; loan matures on February 1, 2029.	2.50%	2,194,831
\$2,253,000 General Obligation Bonds, York Street Sanitary Sewer Improvements Project, 2012 Series (USDA); Due in quarterly principal and interest installments of \$20,503. The bonds mature on June 28, 2052.	2.00%	2,057,534
\$805,000 Drinking Water Bond, 2012 Series; Due in annual principal installments of \$39,350 - \$45,419 plus semi-annual interest payments. The bond matures on February 1, 2032.	0.80%	644,701
\$6,356,974 Infrastructure Financing Bonds, 2014 Series A-1; Due in annual principal installments of \$111,974 - \$590,000, starting in 2019, plus semiannual interest payments. The bonds mature on May 1, 2032. Includes unamortized bond premium of \$56,151.	3.48% Avg.	6,413,125
\$826,713 Infrastructure Financing Bonds, 2014 Series A-2; Due in annual principal installments of \$26,187 - \$56,000 plus semiannual interest payments. The bonds mature on May 1, 2034.	3.54% Avg.	<u>731,526</u>
Total business-type activities		<u>\$ 13,773,398</u>

Debt service requirements are as follows:

	<u>Principal</u>	<u>Interest & Fees</u>	<u>Total</u>
2018	\$ 807,078	\$ 454,164	\$ 1,261,242
2019	827,880	435,360	1,263,240
2020	853,764	400,571	1,254,335
2021	883,359	381,789	1,265,148
2022	871,360	359,874	1,231,234
2023-2027	4,725,474	1,440,907	6,166,381
2028-2032	4,650,985	678,376	5,329,361
2033-2037	525,062	134,731	659,793
2038-2042	318,774	91,286	410,060
2043-2047	352,270	57,790	410,060
2048-2052	387,031	22,812	409,843

CITY OF TANEYTOWN, MARYLAND
Notes to the Financial Statements (Continued)
June 30, 2017

NOTE 5 **DEBT OBLIGATIONS** (Continued)

Changes in Non-Current Liabilities

During the year ended June 30, 2017, the following changes in debt obligations occurred:

	July 1, 2016	Additions	Reductions	June 30, 2017	Due within One year
Bonds 2004, Series A	\$ 294,700	\$ -	\$ (10,900)	\$ 283,800	\$ 11,400
Bonds 2012 Refunding	360,272	-	(21,220)	339,052	22,139
Bonds 2011, Series B	190,938	-	(38,000)	152,938	44,000
Bonds 2011, Series A	1,880,000	-	(93,000)	1,787,000	92,000
USDA 2012	2,098,257	-	(40,723)	2,057,534	41,059
MWQFA WTP/BNR upgrade	883,993	-	(323,715)	560,278	331,322
Sewer interceptor bond	124,273	-	(29,870)	94,403	30,437
Baltimore St. Water Main Ext.	2,350,047	-	(155,216)	2,194,831	159,097
Drinking Water Bond	685,003	-	(40,302)	644,701	40,624
2014 Series A-1 Bonds	6,356,974	-	-	6,356,974	-
2014 Series A-2 Bonds	766,026	-	(34,500)	731,526	35,000
Total debt obligations	<u>\$ 15,990,483</u>	<u>\$ -</u>	<u>\$ (787,446)</u>	<u>\$ 15,203,037</u>	<u>\$ 807,078</u>
Unamortized bond premium				56,151	
Total carrying value of debt obligations				<u>\$ 15,259,188</u>	

As of June 30, 2017, the current debt obligations are recorded as follows:

Governmental activities	\$ 114,539
Business-type activities	<u>692,539</u>
Total current obligations	<u>\$ 807,078</u>

Interest Expense

For the year ended June 30, 2017, total interest costs were \$590,950 and reported as follows: interest expense of \$50,430 for governmental activities and \$442,725 for business-type activities. Cash paid for interest for business-type activities was \$420,512.

NOTE 6 **PENSION BENEFITS**

Cost-sharing Multiple Employer Pension Plan:

Plan description

All permanent employees of the City who are expected to work at least 500 hours in the fiscal year are provided retirement benefits through the Maryland State Retirement and Pension System through two separate plans: Employee's Contributory Pension System ("Pension System") and the Law Enforcement Officers Pension System (LEOPS).

The Pension System is a defined benefit plan and multiple employer system. The plan involves state-wide participation of employees from numerous other state and local governmental units. The system is administered by the Maryland State Retirement Agency pursuant to the Annotated Code of Maryland.

Under the Pension System, members may retire after 30 years of service or the attainment of age 62 with five years of service, age 63 with four years of service, age 64 with three years of service or age 65 or over with two years of service.

LEOPS provides retirement allowances and other benefits for State and local law enforcement officers. This system includes both retirement plan and pension plan provisions which are applicable to separate portions of the State System's membership. The retirement plan provisions are applicable to those members who, on the date they elected to participate in LEOPS, were members of the Employees' Retirement System. The State System's pension plan provisions are applicable to all other participating law enforcement officers.

A member of LEOPS is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 25 years of eligibility service regardless of age.

The Maryland State Retirement and Pension System does not prepare or maintain separate actuarial reports for the participating governmental units. The Maryland State Retirement and Pension System issues a comprehensive annual financial report. The report can be obtained from the agency's offices at:

Maryland State Retirement and Pension Systems
120 East Baltimore Street
Baltimore, Maryland 21202

Funding policy

Obligations to contribute to the plans were established under Titles 22 and 23 of the State Personnel and Pensions Article of the Maryland Code.

CITY OF TANEYTOWN, MARYLAND
Notes to the Financial Statements (Continued)
June 30, 2017

NOTE 6 **PENSION BENEFITS** (Continued)

Members of the Pension System contribute 2% of their gross employee compensation and members of LEOPS contribute 7%. The total contributions from the employees for the fiscal years ended June 30 were as follows:

2017	\$ 64,760
2016	63,567
2015	60,691
2014	58,509
2013	55,170
2012	49,335

The City also contributed to the System, in amounts equal to 100% of the required contributions for both Plans. The amounts contributed for the years ended June 30 were as follows:

2017	\$ 234,205
2016	230,745
2015	232,333
2014	217,818
2013	188,155
2012	216,705

Total pension expense for the year ended June 30, 2017 was \$489,140; \$443,001 for governmental activities and \$46,139 for business-type activities.

Key actuarial methods and assumptions:

Actuarial	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Inflation	2.75% general, 3.2% wage
Salary increases	3.30% to 9.2% including inflation
Discount rate	7.55%
Investment rate of return	7.55%
Mortality	RP-2014 Mortality tables
Actuarial valuation date	June 30, 2016

NOTE 6 PENSION BENEFITS (Continued)

Discount rate

A single discount rate of 7.55% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.55%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate of 1-percentage-point lower or 1-percentage-point higher:

System:	1% decrease 6.55%	NPL at 7.55%	1% increase 8.55%
Employees' Pension	\$ 1,025,976	\$ 773,002	\$ 559,543
LEOPS	2,706,341	2,021,646	1,448,794
	<u>\$ 3,732,317</u>	<u>\$2,794,648</u>	<u>\$ 2,008,337</u>

NOTE 7 **DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES**

For the year ended June 30, 2017, the City reported deferred outflows and inflows of resources related to the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of pension assumptions	\$ 85,198	\$ -
Net difference between projected and actual earnings on pension plan investments	655,582	101,996
City contributions subsequent to the measurement date	<u>234,205</u>	<u>-</u>
	974,985	<u>\$ 101,996</u>
Other deferred outflows:		
Unamortized cost related to debt refunding	<u>320,571</u>	
	<u>\$ 1,295,556</u>	

Deferred outflows of resources of \$234,205 related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2018	\$151,781
2019	151,781
2020	183,293
2021	134,225
2022	<u>17,704</u>
	<u>\$ 638,784</u>

NOTE 8 **GRANTS FROM GOVERNMENTAL UNITS**

Federal and state governmental units represent an important source of supplementary funding used to finance construction, maintenance, employment programs, and other activities beneficial to the community. The grants received by the City specify the purpose for which the grant funds are to be used, and such grants are subject to audit by the granting agency or its representative if Federal expenditures for the fiscal year exceed \$750,000. The City's federal grant expenditures were less than \$750,000; therefore, they were not subject to the Single Audit Act for fiscal year 2017.

NOTE 9 LEASE OBLIGATIONS

In October 2013, the City entered into a non-cancelable operating lease for equipment. The lease requires monthly lease payments of \$934. The lease term ends in January 2019. Future lease payments are as follows:

2018	\$ 11,208
2019	6,538

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although it is believed by management that such disallowances will be immaterial.

NOTE 11 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance coverage for these types of losses, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 PRIOR PERIOD ADJUSTMENT

Deferred outflows of resources relating to changes in the City's proportionate share of the Net Pension Liability of the Maryland State Retirement and Pension System were inadvertently omitted for the year ended June 30, 2016 (based on the application of paragraph 54 of GASB No. 68).

The effect on the currently presented financial statements is a restatement of the beginning net position of both governmental and business-type activities, as follows:

	Governmental	Business-Type
	<u>Activities</u>	<u>Activities</u>
Net position, beginning of year	\$ 7,547,832	\$ 14,209,576
Change in proportionate share of NPL	<u>221,074</u>	<u>20,860</u>
Net position, beginning of year - restated	<u>\$ 7,768,906</u>	<u>\$ 14,230,436</u>

NOTE 13 SUBSEQUENT EVENTS

Subsequent events are defined as events or transactions that occur after the Statement of Net Position date through the date that the financial statements are available to be issued. The City performed an evaluation as of January 9, 2018, the date the financial statements were available to be issued. There were no subsequent events that required recording or disclosure in these financial statements.

CITY OF TANEYTOWN, MARYLAND
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual - General Fund

For the year ended June 30, 2017	Original Budget	Final Appropriated Budget	Actual	Variance with Final Budget Positive (Negative)
Local Property Taxes				
Real property	\$ 2,078,924	\$ 2,078,924	\$ 2,116,681	\$ 37,757
Personal property	132,530	132,530	120,305	(12,225)
Penalties and interest	14,400	14,400	15,261	861
Total Local Property Taxes	<u>2,225,854</u>	<u>2,225,854</u>	<u>2,252,247</u>	<u>26,393</u>
Local Income Taxes	<u>528,810</u>	<u>528,810</u>	<u>661,097</u>	<u>132,287</u>
Other Local Taxes				
Admissions and amusement taxes	<u>6,505</u>	<u>6,505</u>	<u>4,613</u>	<u>(1,892)</u>
Total Other Local Taxes	<u>6,505</u>	<u>6,505</u>	<u>4,613</u>	<u>(1,892)</u>
Licenses and Permits				
Alcoholic beverages	2,390	2,390	2,335	(55)
Trader's licenses	13,000	13,000	11,851	(1,149)
Building permits	2,240	2,240	1,776	(464)
Cable franchise fees	72,000	72,000	87,718	15,718
Other	<u>200</u>	<u>200</u>	<u>50</u>	<u>(150)</u>
Total Licenses and Permits	<u>89,830</u>	<u>89,830</u>	<u>103,730</u>	<u>13,900</u>
Intergovernmental Revenues				
State aid for police protection	108,757	108,757	104,393	(4,364)
Highway user revenues	224,020	224,020	211,996	(12,024)
County tax differential	345,046	345,046	340,971	(4,075)
Financial corporations	1,282	1,282	-	(1,282)
Road levy	4,756	4,756	4,756	-
State grants	<u>43,500</u>	<u>12,000</u>	<u>41,762</u>	<u>29,762</u>
Total Intergovernmental Revenues	<u>727,361</u>	<u>695,861</u>	<u>703,878</u>	<u>8,017</u>
Service Charges				
Zoning fees	1,710	1,710	2,317	607
Park impact fees	-	-	32,875	32,875
Non-refundable developer fees	4,000	4,000	2,500	(1,500)
Public safety charges	10,000	10,000	11,335	1,335
Public parking facilities	6,710	6,710	7,565	855
Recreation charges	7,000	7,000	6,675	(325)
Other	<u>18</u>	<u>18</u>	<u>1,850</u>	<u>1,832</u>
Total Service Charges	<u>29,438</u>	<u>29,438</u>	<u>65,117</u>	<u>35,679</u>

The accompanying notes are an integral part of this statement.

CITY OF TANEYTOWN, MARYLAND
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual - General Fund

For the year ended June 30, 2017	Original Budget	Final Appropriated Budget	Actual	Variance with Final Budget Positive (Negative)
Fines and Forfeitures				
Parking and code enforcement fines	22,000	22,000	42,368	20,368
Total Fines and Forfeitures	<u>22,000</u>	<u>22,000</u>	<u>42,368</u>	<u>20,368</u>
Miscellaneous Revenues				
Interest income	2,068	2,068	17,927	15,859
Rental income	2,200	2,200	2,150	(50)
Contributions and donations	-	-	100	100
Sale of property (other than tax sale)	3,000	3,000	3,550	550
Other	-	-	38,866	38,866
Total Miscellaneous Revenues	<u>7,268</u>	<u>7,268</u>	<u>62,593</u>	<u>55,325</u>
Total Revenues	<u>3,637,066</u>	<u>3,605,566</u>	<u>3,895,643</u>	<u>290,077</u>
General Government				
Legislative				
Mayor and Council salaries	13,800	13,800	13,800	-
Fringe benefits	2,080	2,080	1,426	654
Total salaries and fringe benefits	15,880	15,880	15,226	654
Other operating	15,415	15,415	24,479	(9,064)
Total Legislative	<u>31,295</u>	<u>31,295</u>	<u>39,705</u>	<u>(8,410)</u>
Executive				
City Manager salaries	52,571	52,571	62,539	(9,968)
Fringe benefits	6,849	6,849	8,091	(1,242)
Total salaries and fringe benefits	59,420	59,420	70,630	(11,210)
Other operating	9,592	9,592	13,707	(4,115)
Total Executive	<u>69,012</u>	<u>69,012</u>	<u>84,337</u>	<u>(15,325)</u>
Financial Administration				
Finance salaries	53,797	79,384	73,130	6,254
Clerk salaries	39,296	45,362	39,446	5,916
Fringe benefits	31,630	31,630	38,286	(6,656)
Total salaries and fringe benefits	124,723	156,376	150,862	5,514
Independent accounting and auditing	24,000	24,000	20,395	3,605
Other operating	31,451	31,451	24,977	6,474
Total Financial Administration	<u>180,174</u>	<u>211,827</u>	<u>196,234</u>	<u>15,593</u>
Legal	<u>48,200</u>	<u>48,200</u>	<u>66,099</u>	<u>(17,899)</u>

The accompanying notes are an integral part of this statement.

CITY OF TANEYTOWN, MARYLAND
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual - General Fund

For the year ended June 30, 2017	Original Budget	Final Appropriated Budget	Actual	Variance with Final Budget Positive (Negative)
Planning and Zoning				
Salaries	49,712	49,712	49,903	(191)
Fringe benefits	24,819	24,819	23,257	1,562
Total salaries and fringe benefits	74,531	74,531	73,160	1,371
Other operating	21,151	21,151	12,972	8,179
Total Planning and Zoning	95,682	95,682	86,132	9,550
General Services				
Municipal Buildings				
Other operating	107,018	107,018	102,458	4,560
Total Municipal Buildings	107,018	107,018	102,458	4,560
IT Department				
Salaries	41,863	41,863	33,840	8,023
Fringe benefits	15,057	15,057	18,320	(3,263)
Total salaries and fringe benefits	56,920	56,920	52,160	4,760
Other operating	65,950	65,950	51,551	14,399
Capital outlay	-	10,000	9,300	700
Total IT Department	122,870	132,870	113,011	19,859
Total General Services	229,888	239,888	215,469	24,419
Total General Government	654,251	695,904	687,976	7,928
Public Safety				
Police Department				
Salaries	795,268	795,268	794,191	1,077
Fringe benefits	374,117	374,117	373,802	315
Total salaries and fringe benefits	1,169,385	1,169,385	1,167,993	1,392
Other operating	286,082	286,082	201,853	84,229
Capital outlay	65,000	93,717	157,784	(64,067)
Total Public Safety	1,520,467	1,549,184	1,527,630	21,554
Public Works				
Highways and Streets				
Regular	91,464	91,464	225,998	(134,534)
Fringe benefits	34,282	34,282	49,816	(15,534)
Total salaries and fringe benefits	125,746	125,746	275,814	(150,068)
Other operating	287,072	287,072	233,849	53,223
Capital outlay	209,500	164,500	209,736	(45,236)
Total Highways and Streets	622,318	577,318	719,399	(142,081)
Waste collection	450,000	450,000	423,101	26,899
Total Public Works	1,072,318	1,027,318	1,142,500	(115,182)

The accompanying notes are an integral part of this statement.

CITY OF TANEYTOWN, MARYLAND
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual - General Fund

For the year ended June 30, 2017	Original Budget	Final Appropriated Budget	Actual	Variance with Final Budget Positive (Negative)
Parks, Recreation, and Culture				
Regular	89,769	89,769	65,642	24,127
Fringe benefits	28,233	28,233	34,857	(6,624)
Total salaries and fringe benefits	118,002	118,002	100,499	17,503
Other operating	139,745	139,745	132,061	7,684
Capital outlay	150,000	193,800	144,308	49,492
Total Parks, Recreation, and Culture	<u>407,747</u>	<u>451,547</u>	<u>376,868</u>	<u>74,679</u>
Economic Development				
Salaries	48,022	48,022	48,206	(184)
Fringe benefits	28,380	28,380	30,685	(2,305)
Total salaries and fringe benefits	76,402	76,402	78,891	(2,489)
Other operating	43,806	43,806	65,027	(21,221)
Total Economic Development	<u>120,208</u>	<u>120,208</u>	<u>143,918</u>	<u>(23,710)</u>
Debt Service				
Principal payments	109,119	109,119	109,119	-
Interest payments	51,245	51,245	51,222	23
Total Debt Service	<u>160,364</u>	<u>160,364</u>	<u>160,341</u>	<u>23</u>
Total Expenditures	<u>3,935,355</u>	<u>4,004,525</u>	<u>4,039,233</u>	<u>(34,708)</u>
Excess (Deficiency) of Revenues over (under) Expenditures	(298,289)	(398,959)	(143,590)	255,369
Other Financing Sources (Uses)				
Budgeted use of fund balance	298,289	398,959	-	(398,959)
Total Other Financing Sources (Uses)	<u>298,289</u>	<u>398,959</u>	<u>-</u>	<u>(398,959)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (143,590)</u>	<u>\$ (143,590)</u>

The accompanying notes are an integral part of this statement.

CITY OF TANEYTOWN, MARYLAND
Schedule of the City's Proportionate Share of the Net Pension Liability

For the year ended June 30, 2017	Employees' Pension System	Law Enforcement Officers' Pension System	Total
City's proportion of the net pension liability	0.003276261%	0.008568465%	0.011844727%
City's proportionate share of the net pension liability	<u>\$ 773,002</u>	<u>\$ 2,021,646</u>	<u>\$ 2,794,648</u>
Covered-employee payroll	\$ 897,386	\$ 697,193	\$ 1,594,579
City's proportionate share of net pension liability as a percentage of its covered-employee payroll	<u>86.14%</u>	<u>289.97%</u>	<u>175.26%</u>
Plan Fiduciary Net Position as a % of total pension liability			<u>65.79%</u>

CITY OF TANEYTOWN, MARYLAND
Schedule of Contributions and Related Ratios

For the year ended June 30, 2017	Employees' Pension System	Law Enforcement Officers' Pension System	Total
Contractually required contribution	\$ 64,487	\$ 169,718	\$ 234,205
Actual contribution	<u>(64,487)</u>	<u>(169,718)</u>	<u>(234,205)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 897,386	\$ 697,193	\$ 1,594,579
Contributions as a percentage of covered-employee payroll	7.19%	24.34%	14.69%

The accompanying notes are an integral part of this schedule.

CITY OF TANEYTOWN, MARYLAND
Schedule of the City's Proportionate Share of the Net Pension Liability

For the year ended June 30, 2016	Employees' Pension System	Law Enforcement Officers' Pension System	Total
City's proportion of the net pension liability	0.003576500%	0.007446398%	0.011022898%
City's proportionate share of the net pension liability	<u>\$ 743,258</u>	<u>\$ 1,547,489</u>	<u>\$ 2,290,747</u>
Covered-employee payroll	\$ 864,298	\$ 689,996	\$ 1,554,294
City's proportionate share of net pension liability as a percentage of its covered-employee payroll	<u>86.00%</u>	<u>224.28%</u>	<u>147.38%</u>
Plan Fiduciary Net Position as a % of total pension liability			<u>68.78%</u>

CITY OF TANEYTOWN, MARYLAND
Schedule of Contributions and Related Ratios

For the year ended June 30, 2016	Employees' Pension System	Law Enforcement Officers' Pension System	Total
Contractually required contribution	\$ 63,824	\$ 166,921	\$ 230,745
Actual contribution	<u>(63,824)</u>	<u>(166,921)</u>	<u>(230,745)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 864,298	\$ 689,996	\$ 1,554,294
Contributions as a percentage of covered-employee payroll	7.38%	24.19%	14.85%

The accompanying notes are an integral part of this schedule.

CITY OF TANEYTOWN, MARYLAND
Schedule of the City's Proportionate Share of the Net Pension Liability

For the year ended June 30, 2015	Employees' Pension System	Law Enforcement Officers' Pension System	Total
City's proportion of the net pension liability	0.002822655%	0.006524311%	0.009346966%
City's proportionate share of the net pension liability	<u>\$ 500,929</u>	<u>\$ 1,157,852</u>	<u>\$ 1,658,781</u>
Covered-employee payroll	\$ 831,293	\$ 653,911	\$ 1,485,204
City's proportionate share of net pension liability as a percentage of its covered-employee payroll	<u>60.26%</u>	<u>177.07%</u>	<u>111.69%</u>
Plan Fiduciary Net Position as a % of total pension liability			<u>71.87%</u>

CITY OF TANEYTOWN, MARYLAND
Schedule of Contributions and Related Ratios

For the year ended June 30, 2015	Employees' Pension System	Law Enforcement Officers' Pension System	Total
Contractually required contribution	\$ 75,008	\$ 156,950	\$ 231,958
Actual contribution	<u>(75,008)</u>	<u>(156,950)</u>	<u>(231,958)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 831,293	\$ 653,911	\$ 1,485,204
Contributions as a percentage of covered-employee payroll	9.02%	24.00%	15.62%

The accompanying notes are an integral part of this schedule.



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

Mayor and City Council
City of Taneytown, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Taneytown, Maryland, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Taneytown, Maryland's basic financial statements and have issued our report thereon dated January 9, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Taneytown, Maryland's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Taneytown, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Taneytown, Maryland's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

**City of Taneytown, Maryland
Independent Auditors' Report
Page 2**

We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, see Finding 2017-001 and Finding 2017-002.

Compliance and Other Matters

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

City of Taneytown, Maryland's Response to Findings

City of Taneytown, Maryland's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Taneytown, Maryland's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DeLeon & Stang

**DeLeon and Stang, CPAs and Advisors
Frederick, Maryland
January 9, 2018**

CITY OF TANEYTOWN, MARYLAND
Schedule of Findings and Responses
For the Year Ended June 30, 2017

Finding 2017-001: Internal Controls over Payroll

- Criteria:** Per the City’s process narrative on payroll procedures, it is the City’s policy for the “Register Prior to Processing” report, the “Preprocess Labor” report, and timesheets to be given to the City Manager for review. The City Manager is responsible for reviewing these reports to ensure that the amounts entered agreed to the timesheets provided. This review is indicated by the City Manager’s initials on the final page of the report.
- Condition:** During our payroll testing, we noted that the “Preprocess Labor” report was not initialed by the City Manager for the entire first quarter of fiscal year 2017.
- The payroll periods selected for testing in the subsequent quarters of the fiscal year, were reviewed by the City Manager as indicated by his initials on the “Preprocess Labor” report.
- Effect:** Without the review of the City Manager, it is possible that timesheets could be misstated and/or the payroll information entered into KTBS Payroll would not match the actual time attestation by the individual employees.
- Cause:** Per inquiry, there was a change in responsibility for timesheet review late in the fourth quarter of fiscal year 2016, which may have caused the lapse in timesheet review for the beginning of fiscal year 2017.
- Recommendation:** We recommend that management follow its stated policies regarding the review of the payroll reports and employee timesheets to ensure payroll costs are accurately reported.
- Response:** After the first quarter, during which responsibilities were changed, review and approval procedures have been and are currently being followed.

CITY OF TANEYTOWN, MARYLAND
Schedule of Findings and Responses
For the Year Ended June 30, 2017

Finding 2017-002: Internal Controls over Bank Reconciliations

Criteria: The City’s process over bank reconciliations states, “Bank reconciliations including review of bank statement balances and general ledger report balances are being performed monthly by the Treasurer and reviewed by the Treasurer, who is also an authorized check signer.”

Condition: The procedures as currently designed do not allow for the proper segregation of duties over bank reconciliations.

Effect: Without an additional review of the bank reconciliations, the City is inherently at risk for the bank reconciliations to be misstated.

Cause: The City had previously hired the accounting firm Rager, Lehman, and Houck to provide review and oversight of certain accounting functions, including bank reconciliations. The City disengaged their service as of July 1, 2016.

Recommendation: We strongly recommend that the City implement a policy where the bank reconciliations are prepared and reviewed by two separate employees. The City needs to ensure that there is proper segregation of duties and authorized check signers are not solely in control of the preparation and review of bank reconciliations.

Response: We are developing a procedure and checklist so that the City Manager can review and approve completed bank reconciliations as soon as they are available. We expect to have the checklist implemented by February 1, 2018.

CITY OF TANEYTOWN, MARYLAND
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2017

Finding 2016-001: Allocation of costs

Criteria: When allocating costs to various City activities and departments, budget estimates do not qualify as support for charges. Budget estimates may be used for interim financial reporting but there must be a process in place to validate that the final costs are fairly representative of the actual level of effort.

Condition: During fiscal year 2016, we noted that the City allocated personnel costs based on the percentages in the adopted budget rather than the employee's actual level of effort.

Effect: During the audit, management recalculated the applicable salary and fringe costs based on the labor distribution report. For the year ended June 30, 2016, an audit adjustment was made to move \$307,601 of costs from the general fund to the utility fund.

Cause: Using the budget as a basis of allocation was believed to be a fair representation of costs.

Recommendation: We recommend that management implement a process where employee's time is recorded to the various departments based on their level of effort. Without changes to the current approach of recording personnel costs, there is the risk of material misstatement, as noted above.

Response: Management will redesign our time sheets to reflect the allocation of costs for both management and hourly. Management will instruct on the need to keep a weekly accounting of time. In most cases it is difficult to account on a daily basis. This will be implemented within 60 days.

Status: Hourly employees report actual time per department. Management is developing an exception time log for salary employees to capture any significant amount of time not conforming to current allocations which will be reviewed quarterly and adjusted as necessary. We expect to have the exception time log implemented by March 1, 2018.