

POCOMOKE CITY, MARYLAND

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

POCOMOKE CITY, MARYLAND

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INDEPENDENT AUDITORS' REPORT

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pocomoke City, Maryland, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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, the business-type activities, each major fund, and the aggregate remaining fund information of Pocomoke City, Maryland, as of June 30, 2016, 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 and the required supplementary information on pages 3 through 10 and pages 38 through 41 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 September 28, 2016, on our consideration of Pocomoke City, 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 Pocomoke City, Maryland's internal control over financial reporting and compliance.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
September 28, 2016

POCOMOKE CITY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Pocomoke City, Maryland's (the "City") annual report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the City's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four financial parts – *management's discussion and analysis* (this section), the *basic financial statements, required supplementary information*, and an optional section that presents schedules of revenues and expenses. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the City, reporting the City's operations in more detail than the Government-wide financial statements.
 - The *governmental funds* statements tell how general government services like general government, public safety, public works, parks, recreation and culture, and urban development and housing were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer system and the ambulance service.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. In addition to these required elements, we have included schedules of general fund revenues and expenditures.

Government-wide financial statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net position* and how it has changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or position. Also, to assess the overall health of the City you need to consider additional non-financial factors such as changes in the property tax base and the condition of the City's roads and water and sewer systems.

POCOMOKE CITY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide financial statements (continued)

The government-wide financial statements are divided into two categories:

- *Governmental activities* – Most of the City's basic services are included here, such as the legislative and executive government, finance administration, police, fire, public works, parks, golf course and urban development and housing. Property taxes, user fees, income taxes, and intergovernmental transfers finance most of these activities.
- *Business-type activities* – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer departments and ambulance department are included here.

Fund financial statements

The fund financial statements provide more detailed information about the City's most significant *funds* – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has two kinds of funds:

- *Governmental funds* – Most of the City's basic services are included in governmental funds which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that 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. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide financial statements, provide both long- and short-term financial information. In fact, the City's *proprietary funds* are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net position, after depreciation, at June 30, 2016 was \$10,705,000. Of this total, \$13,400,000 is invested in capital assets or restricted for special revenue leaving an unrestricted deficit in net position of \$2,696,000.

The City's net position decreased \$639,000 from June 30, 2015 to June 30, 2016.

POCOMOKE CITY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Of the total revenues of \$7,787,000, property taxes made up 43%, charges for services were 35%, and grants and contributions were 17%.

Total expenses were \$8,426,000, made up of 28% for public safety, 28% for the water/sewer fund, 12% for public works, 12% for general government, and 20% for other departments.

The tables below compare key financial information in a condensed format for the current year and the prior year.

Table 1
Pocomoke City, Maryland's Net Position
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 449	\$ 803	\$ 495	\$ 456	\$ 944	\$ 1,259
Capital assets	5,974	5,918	11,817	12,176	17,791	18,094
Total assets	<u>6,423</u>	<u>6,721</u>	<u>12,312</u>	<u>12,632</u>	<u>18,735</u>	<u>19,353</u>
Deferred outflows of resources	316	152	156	75	472	227
Long-term liabilities	4,075	3,569	4,027	3,828	8,102	7,397
Other liabilities	106	361	113	307	219	668
Total liabilities	<u>4,181</u>	<u>3,930</u>	<u>4,140</u>	<u>4,135</u>	<u>8,321</u>	<u>8,065</u>
Deferred inflows of resources	126	115	56	57	182	172
Net position						
Net investment in capital assets	4,651	4,513	8,737	8,940	13,388	13,453
Restricted	12	10			12	10
Unrestricted (deficit)	(2,231)	(1,695)	(465)	(461)	(2,696)	(2,120)
Total net position	<u>\$ 2,432</u>	<u>\$ 2,828</u>	<u>\$ 8,272</u>	<u>\$ 8,515</u>	<u>\$ 10,704</u>	<u>\$ 11,343</u>

POCOMOKE CITY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Table 2 and the narrative that follows consider the operations of governmental and business-type activities separately.

Table 2
Change in Pocomoke City, Maryland's Net Position
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program services						
Charges for services	\$ 388	\$ 379	\$ 2,322	\$ 2,295	\$ 2,710	\$ 2,674
Operating grants and contributions	439	350	444	392	883	742
Capital grants and contributions		82	12		12	82
General revenues						
Property taxes	3,333	3,208			3,333	3,208
Other taxes and fees	389	359			389	359
Grants	450	450			450	450
Other	10	233		11	10	244
Total revenues	<u>5,009</u>	<u>5,061</u>	<u>2,778</u>	<u>2,698</u>	<u>7,787</u>	<u>7,759</u>
Expenses						
General government	1,007	662			1,007	662
Public Safety	2,372	2,346			2,372	2,346
Public Works	1,041	1,109			1,041	1,109
Parks, recreation and culture	414	515			414	515
Urban development & housing	203	149			203	149
Economic development	62	47			62	47
Interest on long-term debt	64	71			64	71
Water and sewer			2,384	2,377	2,384	2,377
Ambulance			879	857	879	857
Total expenses	<u>5,163</u>	<u>4,899</u>	<u>3,263</u>	<u>3,234</u>	<u>8,426</u>	<u>8,133</u>
Deficiency before transfers	(154)	162	(485)	(536)	(639)	(374)
Transfers	(242)	(219)	242	219		
Change in net position	<u>\$ (396)</u>	<u>\$ (57)</u>	<u>\$ (243)</u>	<u>\$ (317)</u>	<u>\$ (639)</u>	<u>\$ (374)</u>

POCOMOKE CITY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Governmental activities

Net position for the City's governmental activities decreased \$396,000 during the fiscal year. Expenses increased in general government, public safety, and urban development and housing.

In October, 2016, the City will add its 17th officer in the Pocomoke City Police Department. In addition, in FY16, positions and salaries for uniformed personnel were reviewed. Several officers were promoted and all received a salary increase. Effective July 1, 2016, the City also put the uniformed officers into the State's Law Enforcement Officers Pension System at an additional net cost of approximately \$55,000 – to be offset by the reduction in shift overtime due to July 1 change over to a “modified Garcia” 12 hour shift schedule.

Business-type activities

During the fiscal year, the City's net position for business-type activities decreased \$243,000. This decrease was due in part to increase in expenses for salaries and wages, materials and supplies, and utilities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As of June 30, 2016, the City's governmental funds reported a combined fund balance of \$170,000. This is a decrease from last year of \$229,000. The City incurred additional general expenses in catching up on deferred maintenance and the increased use of temporary personnel.

Proprietary Funds

See “Business-type activities” above.

BUDGETARY HIGHLIGHTS

City revenues were relatively stable.

POCOMOKE CITY, MARYLAND

MANAGEMENT’S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets

At the end of the fiscal year, The City had \$17,791,000 (net of depreciation) invested in a broad range of capital assets. This represents a 2% decrease from the prior year.

Table 3
Pocomoke City, Maryland's Capital Assets
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2016	2015	2016	2015	2016	2015	
Land	\$ 1,411	\$ 1,391	\$ 56	\$ 56	\$ 1,467	\$ 1,447	1%
Buildings and improvements	4,649	4,645	195	195	4,844	4,840	0%
Furniture and equipment	1,521	1,438	917	869	2,438	2,307	6%
Automobiles and vehicles	1,171	936	347	396	1,518	1,332	14%
Infrastructure	982	953	16,705	16,672	17,687	17,625	0%
Accumulated depreciation	(3,760)	(3,445)	(6,403)	(6,012)	(10,163)	(9,457)	7%
Total	<u>\$ 5,974</u>	<u>\$ 5,918</u>	<u>\$ 11,817</u>	<u>\$ 12,176</u>	<u>\$ 17,791</u>	<u>\$ 18,094</u>	-2%

This year’s major capital asset additions included:

Business-type activities

1. Programmable logistics controller.
2. Chain link gate with operator equipment.
3. Ambulance.
4. HeartStart Monitor

Governmental activities

1. Five new police vehicles.
2. Two new pickup trucks.
3. 1600 Turbo Wide Area Mower.
4. Honeywell Camera System.
5. Accounting Software
6. Various other furniture and equipment, including new Dell computers, scanners, and printers.

POCOMOKE CITY, MARYLAND

MANAGEMENT’S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY (CONTINUED)

Long-term debt

At the end of the fiscal year, the City had \$4,402,000 in long term loans and capital leases payable. This represents 5% decrease over last year.

Table 4
Pocomoke City, Maryland's Outstanding Debt
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2016	2015	2016	2015	2016	2015	
Long-term loans	\$ 1,276	\$ 1,347	\$ 3,079	\$ 3,236	\$ 4,355	\$ 4,583	-5%
Capital leases payable	47	58			47	58	-19%
Total	<u>\$ 1,323</u>	<u>\$ 1,405</u>	<u>\$ 3,079</u>	<u>\$ 3,236</u>	<u>\$ 4,402</u>	<u>\$ 4,641</u>	-5%

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The City will add the its 17th officer in October 2016. This is a much needed addition. This, and the change in pension system, pay scales, and hours will enhance the City’s law enforcement activities, and create higher morale and increase the longevity of employment.

The City *continues to face* significant expenditures with respect to its Dunn Swamp Wastewater Treatment Plant and its Clarke Avenue Pumping Station. These items involve capital as well as maintenance expenditures. In addressing the MDE noted concerns, the City provided a critical action program to MDE and has completed the plan except for items contained in the major capital projects. Critical spare parts are now maintained to avoid delays which affect the City’s compliance with State standards.

The Maryland Department of the Environment has cited the City for certain violations, and the City is very actively pursuing remediation of those conditions, improving its operations and maintenance protocols, and hopes to add an additional plant operator in the current year. The City and its engineering consultants are cooperating with MDE to restore our wastewater treatment system to full and continuing compliance. The City has applied for grant funding for the Clarke Avenue Pumping Station upgrade and has received an energy grant that will cover about 50% of the cost. The City has applied to the USDA for grants and loans for the balance.

POCOMOKE CITY, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, Pocomoke City, Maryland, PO Box 29, Pocomoke City, Maryland 21851.

POCOMOKE CITY, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 70,328	\$ 146,194	\$ 216,522
Accounts receivable, net	322,407	349,581	671,988
Due from other governments	20,414		20,414
Notes receivable	35,784		35,784
Net capital assets	5,974,488	11,816,791	17,791,279
Total assets	6,423,421	12,312,566	18,735,987
DEFERRED OUTFLOWS OF RESOURCES			
Deferred financing outflow - retirement	316,627	155,951	472,578
LIABILITIES			
Accounts payable and accrued expenses	105,805	112,725	218,530
Long-term liabilities			
Due within one year			
Notes and capital leases payable	96,850	156,782	253,632
Compensated absences	96,437	32,234	128,671
Due in more than one year			
Notes and capital leases payable	1,226,458	2,922,609	4,149,067
Compensated absences	54,805	21,644	76,449
Net pension liability	1,350,284	665,061	2,015,345
Other post-employment benefit obligation	1,250,430	229,529	1,479,959
Total liabilities	4,181,069	4,140,584	8,321,653
DEFERRED INFLOWS OF RESOURCES			
Deferred financing inflow - retirement	113,694	55,998	169,692
Deferred grants	12,760		12,760
Total deferred inflows of resources	126,454	55,998	182,452
NET POSITION			
Net investment in capital assets	4,651,180	8,737,400	13,388,580
Restricted for community development	12,059		12,059
Unrestricted (deficit)	(2,230,714)	(465,465)	(2,696,179)
Total net position	\$ 2,432,525	\$ 8,271,935	\$ 10,704,460

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

POCOMOKE CITY, MARYLAND

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
FUNCTION/PROGRAMS							
GOVERNMENTAL ACTIVITIES							
General government	\$ 938,393	\$ 122,156	50,063	\$	\$ (766,174)	\$	\$ (766,174)
Public safety	2,372,359	50	118,449		(2,253,860)		(2,253,860)
Public works	1,040,897	176,932	150,096		(713,869)		(713,869)
Parks, recreation and culture	392,636	45,820	54,210		(292,606)		(292,606)
Urban development and housing	202,880	647	66,810		(135,423)		(135,423)
Economic development	151,504	51,597			(99,907)		(99,907)
Interest on long-term debt	64,359				(64,359)		(64,359)
Total governmental activities	5,163,028	397,202	439,628		(4,326,198)		(4,326,198)
BUSINESS-TYPE ACTIVITIES							
Water and sewer	2,384,331	1,836,632	27,813		(519,886)		(519,886)
Ambulance	879,324	485,348	416,584	11,787	34,395		34,395
Total business-type activities	3,263,655	2,321,980	444,397	11,787	(485,491)		(485,491)
Total	\$ 8,426,683	\$ 2,719,182	\$ 884,025	\$ 11,787	(4,326,198)		(4,811,689)
GENERAL REVENUES							
Taxes:							
Property taxes, levied for general purposes					3,332,620		3,332,620
State income taxes					206,652		206,652
Public service taxes					128,438		128,438
Franchise fees					53,183		53,183
Grants and contributions not restricted to specific programs					450,000		450,000
Unrestricted investment earnings					1,215		1,215
Gain on sale of property						300	300
Transfers					(242,000)		(242,000)
Total general revenues					3,930,108		4,172,408
Change in net position					(396,090)		(639,281)
NET POSITION, BEGINNING OF YEAR, RESTATED					2,828,615		11,343,741
NET POSITION, END OF YEAR					\$ 2,432,525		\$ 10,704,460

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

POCOMOKE CITY, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2016

ASSETS

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Cash and equivalents	\$ 24,585	\$ 45,743	\$ 70,328
Taxes receivable, net	203,379		203,379
Accounts and notes receivable, other, net	154,812		154,812
Due from other funds	17,528		17,528
Due from other governments	20,414		20,414
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 420,718</u>	<u>\$ 45,743</u>	<u>\$ 466,461</u>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 75,942	\$ 11,746	\$ 87,688
Accrued expenses	113,869		113,869
Due to other funds		17,528	17,528
Total liabilities	<u>189,811</u>	<u>29,274</u>	<u>219,085</u>

DEFERRED INFLOWS OF RESOURCES

Deferred taxes and grants	<u>72,962</u>	<u>4,410</u>	<u>77,372</u>
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FUND BALANCES

Restricted		12,059	12,059
Assigned	34,703		34,703
Unassigned	123,242		123,242
Total fund balances	<u>157,945</u>	<u>12,059</u>	<u>170,004</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 420,718</u>	<u>\$ 45,743</u>	<u>\$ 466,461</u>

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

POCOMOKE CITY, MARYLAND

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

JUNE 30, 2016

Total fund balance, governmental funds \$ 170,004

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 5,974,488

Certain expenditures that reduce current financial resources are reported as expenditures in the fund financial statements, but are reported as deferred outflows of resources in the governmental activities of the Statement of Net Position. 316,627

Certain revenues that do not provide current financial resources are reported as deferred inflows of resources in the fund financial statements, but are reported as revenue in the governmental activities of the Statement of Net Position:

Deferred taxes 64,612

Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position:

Notes and capital leases payable (1,323,308)
Accrued interest payable (685)
Compensated absences (54,805)
Deferred financing inflows - retirement (113,694)
Net pension liability (1,350,284)
Other post-employment benefits obligation (1,250,430)

Net position, governmental activities \$ 2,432,525

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

POCOMOKE CITY, MARYLAND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Special Revenue	Total Governmental Funds
REVENUES			
Taxes	\$ 3,623,491	\$	\$ 3,623,491
Licenses and permits	152,352		152,352
Intergovernmental	896,605	66,810	963,415
Charges for services	237,527		237,527
Investment earnings	1,215		1,215
Miscellaneous	111,943	647	112,590
Total revenues	5,023,133	67,457	5,090,590
EXPENDITURES			
Current			
General government	631,060		631,060
Public safety	1,594,736		1,594,736
Public works	797,547		797,547
Parks, recreation and culture	240,181		240,181
Urban development and housing	92,783	66,834	159,617
Economic development	105,794		105,794
Employee benefits	912,242		912,242
Miscellaneous	121,112		121,112
Debt service	169,819		169,819
Capital outlay	371,023		371,023
Total expenditures	5,036,297	66,834	5,103,131
Revenues over (under) expenditures	(13,164)	623	(12,541)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	25,413		25,413
Transfers out	(242,000)		(242,000)
Net other financing uses	(216,587)		(216,587)
Net change in fund balances	(229,751)	623	(229,128)
FUND BALANCES, BEGINNING OF YEAR	387,696	11,436	399,132
FUND BALANCES, END OF YEAR	\$ 157,945	\$ 12,059	\$ 170,004

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

POCOMOKE CITY, MARYLAND

**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

Net change in fund balances, total governmental funds:	\$ (229,128)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. However, in the statement of activities, the cost of these assets is allocated over their estimated lives and reported as depreciation expense:	
This is the amount by which capital outlay (\$371,023) was greater than depreciation expense (\$314,980) in the current period.	56,043
Some expenditures reported in the governmental funds require the use of current financial resources and these are not reported as expenses in the Statement of Activities: Change in deferred financing outflows - retirement	164,517
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned:	
Change in deferred taxes	(81,651)
Proceeds from the issuance of long-term debt is reported in the governmental funds as a source of financing. On the other hand, loan proceeds are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.	(25,413)
Governmental funds report repayment of bond, debt and capital lease principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.	107,872
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Change in accrued interest payable	339
Change in long-term compensated absences	7,961
Change in deferred financing inflows - retirement	1,028
Change in net pension liability	(302,183)
Change in other post-employment benefit obligation	(95,475)
Change in net position, governmental activities	<u>\$ (396,090)</u>

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

POCOMOKE CITY, MARYLAND

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2016

	Enterprise Funds		
	Water and Sewer Fund	Ambulance Fund	Total
ASSETS			
Current assets			
Cash and equivalents	\$ 33	\$ 146,161	\$ 146,194
Accounts receivable, net	294,425	55,156	349,581
Total current assets	<u>294,458</u>	<u>201,317</u>	<u>495,775</u>
Non-current assets			
Capital assets, at cost	17,630,207	589,565	18,219,772
Less accumulated depreciation	(6,118,296)	(284,685)	(6,402,981)
Total non-current assets	<u>11,511,911</u>	<u>304,880</u>	<u>11,816,791</u>
Total assets	<u>11,806,369</u>	<u>506,197</u>	<u>12,312,566</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred financing outflow - retirement	<u>94,517</u>	<u>61,434</u>	<u>155,951</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	91,927	8,590	100,517
Compensated absences	21,181	11,053	32,234
Accrued interest payable	12,208		12,208
Current portion of long-term liabilities	135,040	21,742	156,782
Total current liabilities	<u>260,356</u>	<u>41,385</u>	<u>301,741</u>
Non-current liabilities			
Compensated absences	13,178	8,466	21,644
Notes and bonds payable	2,864,941	57,668	2,922,609
Net pension liability	403,068	261,993	665,061
Other post-employment benefit obligation	89,291	140,238	229,529
Total non-current liabilities	<u>3,370,478</u>	<u>468,365</u>	<u>3,838,843</u>
Total liabilities	<u>3,630,834</u>	<u>509,750</u>	<u>4,140,584</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred financing inflow - retirement	<u>33,938</u>	<u>22,060</u>	<u>55,998</u>
NET POSITION			
Net investment in capital assets	8,511,930	225,470	8,737,400
Unrestricted (deficit)	(275,816)	(189,650)	(465,466)
Total net position	<u>\$ 8,236,114</u>	<u>\$ 35,820</u>	<u>\$ 8,271,934</u>

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

POCOMOKE CITY, MARYLAND

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds		
	Water and Sewer Fund	Ambulance Fund	Total
OPERATING REVENUES			
Charges for services	\$ 1,778,474	\$ 485,348	\$ 2,263,822
Operating grants and donations		416,584	416,584
Miscellaneous and late charges	58,158		58,158
Total operating revenues	<u>1,836,632</u>	<u>901,932</u>	<u>2,738,564</u>
OPERATING EXPENSES			
Salaries and wages	371,024	489,189	860,213
Employee benefits	283,004	188,580	471,584
Contract labor	247,437		247,437
Insurance	17,319	11,745	29,064
Materials and supplies	285,517	85,239	370,756
Heat, light and power	225,737	6,156	231,893
Maintenance - facility	268,381	9,747	278,128
Vehicle operating expenses	30,570	45,186	75,756
Telephone	6,369	2,538	8,907
Bad debt expense (recovery)		(7,769)	(7,769)
Depreciation	499,628	45,585	545,213
Total operating expenses	<u>2,234,986</u>	<u>876,196</u>	<u>3,111,182</u>
Operating income (loss)	<u>(398,354)</u>	<u>25,736</u>	<u>(372,618)</u>
NON-OPERATING REVENUES (EXPENSES)			
Capital grants		11,787	11,787
Interest expense	(121,532)	(3,129)	(124,661)
Gain on disposal of assets		300	300
Net non-operating revenues (expenses)	<u>(121,532)</u>	<u>8,958</u>	<u>(112,574)</u>
Income (loss) before transfers	(519,886)	34,694	(485,192)
Transfers in	<u>242,000</u>		<u>242,000</u>
Change in net position	(277,886)	34,694	(243,192)
NET POSITION,			
BEGINNING OF YEAR, RESTATED	<u>8,514,000</u>	<u>1,126</u>	<u>8,515,126</u>
NET POSITION, END OF YEAR	<u>\$ 8,236,114</u>	<u>\$ 35,820</u>	<u>\$ 8,271,934</u>

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

POCOMOKE CITY, MARYLAND

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds		
	Water and Sewer Fund	Ambulance Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,720,960	\$ 480,716	\$ 2,201,676
Other operating receipts	58,158	416,584	474,742
Payments to suppliers	(1,424,177)	(384,642)	(1,808,819)
Payments to employees	(267,305)	(417,359)	(684,664)
	<u>87,636</u>	<u>95,299</u>	<u>182,935</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments for capital acquisitions	(78,745)	(107,535)	(186,280)
Proceeds from capital grants		11,787	11,787
Principal paid on long-term debt	(135,107)	(21,024)	(156,131)
Interest paid on long-term debt	(121,531)	(3,129)	(124,660)
Net cash used by capital and related financing activities	<u>(335,383)</u>	<u>(119,901)</u>	<u>(455,284)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers between funds	<u>242,000</u>		<u>242,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of capital assets		<u>300</u>	<u>300</u>
Net decrease in cash	(5,747)	(24,302)	(30,049)
CASH, BEGINNING OF YEAR	<u>5,780</u>	<u>170,462</u>	<u>176,242</u>
CASH, END OF YEAR	<u>\$ 33</u>	<u>\$ 146,160</u>	<u>\$ 146,193</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (398,354)	\$ 25,736	\$ (372,618)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	499,628	45,585	545,213
Change in allowance for bad debts		(7,769)	(7,769)
Deferred financing outflow - retirement	(49,110)	(31,921)	(81,031)
Deferred financing inflow - retirement	(307)	(199)	(506)
(Increase) decrease in assets:			
Accounts receivable	(57,514)	(4,632)	(62,146)
Increase (decrease) in liabilities:			
Accounts payable	(10,426)	(3,331)	(13,757)
Accrued expenses	103,719	71,830	175,549
Net cash provided by operating activities	<u>\$ 87,636</u>	<u>\$ 95,299</u>	<u>\$ 182,935</u>

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

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Pocomoke City, Maryland (the “City”) conform to generally accepted accounting principles applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting standards. The following is a summary of the City’s significant accounting policies.

Reporting entity

The basic criteria for including component units in the City’s financial statements are the exercise of oversight responsibility over such units by the City’s elected officials. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. Based upon criteria set forth by the Governmental Accounting Standards Board, Pocomoke City has no component units.

Basis of presentation

Government-wide statements: The statement of net position and the statement of activities display information about the City. These statements include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the City. For the most part, the effect on interfund activity has been removed from these statements. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund financial statements: The fund financial statements provide information about the City’s funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. Any remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as grants and investment earnings, result from nonexchange transactions.

The City reports the following major funds:

General Fund (Governmental fund)—This is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Water and Sewer Fund (Proprietary fund)—This fund accounts for the operation and management of the water and sewer departments.

Ambulance Fund (Proprietary fund)—This fund accounts for the operation and management of the ambulance service.

The City reports the following non-major funds:

Special Revenue Fund (Governmental fund)—This fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Measurement focus, basis of accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all the eligibility requirements have been satisfied.

The governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes, charges for services, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and budgetary accounting

The City Council adopts an annual budget as set forth in the City Charter. The annual budget for the general fund is prepared in accordance with the basis of accounting utilized by those funds. No budget is prepared for the special revenue fund. The budgets for all other funds are adopted under a basis consistent with GAAP, except that depreciation is not considered. All budget transfers must be approved by the Council before becoming effective. All appropriations lapse at the end of the budget year.

Cash and cash equivalents

The City considers cash and cash equivalents in proprietary funds to be all investments with a maturity of three months or less.

Allowance for uncollectible accounts

Provision is made for estimated uncollectible personal property and ordinary business corporation property taxes, water and sewer charges, ambulance services and other receivables based upon the City's determination of individual accounts not likely to be collected. Allowances for uncollectible accounts as of June 30, 2016 are as follows:

Taxes	\$	27,738
Water and sewer charges	\$	14,277
Ambulance services	\$	40,712
Other receivables	\$	205,169

Deferred inflows of resources

The City may report a separate section for deferred inflows of resources. This separate financial element reflects an increase in net assets that applies to a future period. The City has three types of items that qualify for reporting in this category: deferred property taxes which are not recognized until available (collected not later than 60 days after the end of the City's fiscal year), deferred retirement, and deferred grants which are not recognized until a future event occurs.

Deferred outflows of resources

The City may report decreases in net assets that relate to a future period as deferred outflows of resources in a separate section of its government-wide and proprietary statements of net position or the governmental funds balance sheet. The City has one item that qualifies for reporting in this category: deferred outflow retirement contributions.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Maryland State Retirement and Pension System (MSRPS), and additions to/deductions from MSRPS's fiduciary net position have been determined on the same basis as they are reported by MSRPS.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for compensated absences

The City has recorded its liability for amounts due to employees in the future for unused vacation pay in the government-wide and proprietary fund statements. Sick pay days are not included because the right to collect these unused paydays does not vest with the employees of the City.

Property taxes

Property taxes are levied on July 1 and attach an enforceable lien on the property immediately. Taxes are payable upon receipt of bill. Worcester County, Maryland bills and collects the City's property taxes, which it then remits to the City on a monthly basis. After accumulation of two years taxes in arrears, the County will force collection by tax sales.

Government-wide and proprietary net position

Government-wide and proprietary net position are divided into three major categories:

- *Net investment in capital assets*—consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- *Restricted*—consists of assets that are restricted by the City's creditors, enabling legislation, grantors, or other contributors.
- *Unrestricted*—all other not reported in the above categories.

When an expense is incurred that can be paid using either restricted or unrestricted net positions, the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Governmental fund balances

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

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of the City charter, state or federal laws, or externally imposed conditions by grantors or creditors.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the City Council ordinance or resolution.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund balances (continued)

- *Assigned fund balance*—amounts that are designated by the Mayor and Council for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval by the City Council.
- *Unassigned fund balance*—all amounts not included in other spendable classifications.

In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less restrictive classifications (committed and then assigned fund balances) before using unassigned fund balances.

CASH AND CASH EQUIVALENTS

The City follows the State of Maryland laws related to types of deposits and investments, selection of depositories, and collateral requirements. The Annotated Code of Maryland requires that deposits with financial institutions be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2016, all of the City's deposits were covered by the Federal Deposit Insurance Corporation (FDIC).

CAPITAL ASSETS

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' useful lives are not capitalized. General infrastructure assets, such as streets, curbs, gutters, storm drains, traffic lighting systems and similar assets, acquired after June 30, 2003 are capitalized in the government-wide financial statements.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

CAPITAL ASSETS (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Asset Class	Estimated Useful Lives
Buildings	40
Equipment	5 – 20
Improvements	8 – 60

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

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated</i>				
Land	\$ 1,390,942	\$ 19,905		\$ 1,410,847
<i>Capital assets being depreciated</i>				
Building and improvements	4,645,679	4,050		4,649,729
Furniture and equipment	1,438,247	82,837		1,521,084
Automobiles and vehicles	935,758	234,979		1,170,737
Infrastructure	952,836	29,252		982,088
Total capital assets being depreciated	7,972,520	351,118	-	8,323,638
Less accumulated depreciation for:				
Buildings and improvements	1,151,665	110,875		1,262,540
Furniture and equipment	1,050,481	89,847		1,140,328
Automobiles and vehicles	684,843	96,298		781,141
Infrastructure	558,028	17,960		575,988
Total accumulated depreciation	3,445,017	314,980	-	3,759,997
Total capital assets being depreciated, net	4,527,503	36,138	-	4,563,641
Governmental activities, capital assets, net	\$ 5,918,445	\$ 56,043	\$ -	\$ 5,974,488

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

CAPITAL ASSETS (Continued)

Business-type activities:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<u>Water and Sewer:</u>				
<i>Capital assets not being depreciated</i>				
Land	\$ 56,517	\$	\$	\$ 56,517
<i>Capital assets being depreciated</i>				
Buildings	74,701			74,701
Infrastructure	16,671,807	32,844		16,704,651
Equipment	748,437	45,901		794,338
Total capital assets being depreciated	<u>17,494,945</u>	<u>78,745</u>		<u>17,573,690</u>
Less accumulated depreciation for:				
Buildings	13,632	1,715		15,347
Infrastructure	5,243,766	427,983		5,671,749
Equipment	361,271	69,929		431,200
Total accumulated depreciation	<u>5,618,669</u>	<u>499,627</u>		<u>6,118,296</u>
Total capital assets being depreciated, net	<u>11,876,276</u>	<u>(420,882)</u>		<u>11,455,394</u>
Water and sewer, capital assets, net	<u>11,932,793</u>	<u>(420,882)</u>	<u>-</u>	<u>11,511,911</u>
<u>Ambulance:</u>				
<i>Capital assets being depreciated</i>				
Building	120,004			120,004
Equipment	120,123	28,105		148,228
Automobiles and vehicles	396,094	79,430	154,191	321,333
Total capital assets being depreciated	<u>636,221</u>	<u>107,535</u>	<u>154,191</u>	<u>589,565</u>
Less accumulated depreciation for:				
Building	12,003	3,003		15,006
Equipment	91,946	8,093		100,039
Automobiles and vehicles	289,342	34,489	154,191	169,640
Total accumulated depreciation	<u>393,291</u>	<u>45,585</u>	<u>154,191</u>	<u>284,685</u>
Total capital assets being depreciated, net	<u>242,930</u>	<u>61,950</u>		<u>304,880</u>
Ambulance, capital assets, net	<u>242,930</u>	<u>61,950</u>		<u>304,880</u>
Business-type activities, capital assets, net	<u>\$ 12,175,723</u>	<u>\$ (358,932)</u>	<u>\$ -</u>	<u>\$ 11,816,791</u>

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

CAPITAL ASSETS (Continued)

Depreciation expense of governmental activities was charged to functions as follows:

General government	\$	12,490
Public safety		109,720
Public works		81,775
Parks, recreation and culture		73,277
Urban development and housing		647
Economic development		37,071
		\$ 314,980
		\$ 314,980

LINE OF CREDIT

The City has an available line of credit of \$300,000. Interest is due in quarterly payments at a variable interest rate. Activity in the line of credit for the year ended June 30, 2016 was as follows:

Borrowed	\$	150,000
Payments		(150,000)
Balance, end of year		\$

INTERNAL BALANCES/TRANSFERS

Balances due to/from other funds at June 30, 2016, consist of the following:

Due to the general fund from the special revenue fund	\$	<u>17,528</u>
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The balance due to the general fund from the special revenue fund is not expected to be repaid within one year.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

LONG-TERM DEBT

Changes in long-term liabilities for the year ended June 30, 2016 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Notes payable	\$ 1,347,373	\$	\$ (71,152)	\$ 1,276,221
Capital leases	<u>58,393</u>	<u>25,413</u>	<u>(36,719)</u>	<u>47,087</u>
	<u>\$ 1,405,766</u>	<u>\$ 25,413</u>	<u>\$ (107,871)</u>	<u>\$ 1,323,308</u>
Business-type activities:				
Water and Sewer				
Notes payable	\$ 3,135,087	\$	\$ (135,106)	\$ 2,999,981
Ambulance				
Notes payable	<u>100,433</u>	<u></u>	<u>(21,023)</u>	<u>79,410</u>
	<u>\$ 3,235,520</u>	<u>\$ -</u>	<u>\$ (156,129)</u>	<u>\$ 3,079,391</u>

Notes payable consist of the following:

Governmental activities

Maryland Industrial Land Act. To purchase Broad Street property. Secured by a lien on property. Original obligation is dated December 28, 1992 in the amount of \$79,705. Payable in 12 quarterly payments of interest only at 5.93% and 108 quarterly installments of principal and interest with a maturity date of September 28, 2016.

\$ 2,778

Maryland Department of Housing and Community Development. To defray costs of installing new storm drains and repave streets. Secured by future tax revenues. Original obligation is dated April 15, 1997, in the amount of \$447,272. Payable in semi-annual interest payments at 5.523% and annual principal payments with a maturity date of May 1, 2017.

35,340

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

LONG-TERM DEBT (Continued)

Governmental activities (continued)

United States Department of Agriculture. For refinance of mortgage on police building and improvements to the building. Original obligation is dated March 25, 2013 for \$1,110,000 and is secured by a lien on the property. Payable in 160 quarterly installments of \$12,668 including interest at 3.375% through March 26, 2053. 1,062,089

Calvin B. Taylor Bank. For purchase of restaurant equipment secured by the equipment purchased. Original obligation of \$200,000 is dated February 22, 2013 and is payable in monthly installments of \$1,209 at 3.125%. Maturity date is March 9, 2031. 176,014

Total notes payable \$ 1,276,221

Business-type activities

Rural Economic and Community Development. For reconstruction of the City's water system. Original obligation is dated May 23, 1996 for \$3,605,800. Payable in 160 equal installments of principal and interest at 4.5% beginning August 2, 1996. Maturity date is May 23, 2036. \$ 2,560,218

Maryland Department of the Environment. For biological nutrient removal at the wastewater treatment plant. Original obligation is dated September 3, 2003 in the amount of \$495,446. Interest rate at .4%. Annual principal and interest payments beginning February 1, 2005 through February 1, 2024. 202,937

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

LONG-TERM DEBT (Continued)

Business-type activities (continued)

Maryland Department of the Environment. For construction of a new pumping station to provide public sewer service for the Maryland Visitors Center. Original obligation is dated April 1, 2005 for \$275,000. Payable in semi-annual interest payments at .4% and annual principal payments with a maturity date of February 1, 2025. 112,720

Calvin B. Taylor Bank. For payments of water line improvements. Original obligation is dated March 20, 2010 for \$89,966. A demand loan is currently being paid over 40 quarterly installments of principal and interest at 3.94% beginning June 29,2010. 37,952

Maryland Department of the Environment. For ultraviolet disinfection improvement project at the wastewater treatment plant. The amount advanced was \$94,833. Payable in semi-annual payments of interest only and annual payments of principal totaling \$5,895 at an interest rate of 1.1% with a maturity date of February 1, 2031. 71,417

United States Department of Agriculture. For purchase of a new ambulance and is secured by a lien on the ambulance. Original obligation is dated October 19, 2012 for \$150,000. Payments are due in 28 quarterly installments of \$6,038 including interest of 3.375% with a maturity date of October 19, 2019. 79,410

Maryland Department of the Environment. For water meter upgrades. Original obligation is dated March 22, 2013 with an amount available of \$17,688. Payable in semi-annual payments of interest only and annual payments of principal totaling \$1,009 at an interest rate of 0.8% with a maturity date of February 2, 2033. 14,737

Total notes payable \$ 3,079,391

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

LONG-TERM DEBT (Continued)

Capital leases

The City leases property under capital leases expiring in 2019. The asset and liability under the capital lease is recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over their estimated useful lives. Depreciation of the asset under a capital lease is included in depreciation expense. Following is a summary of the cost of property held under a capital lease:

Trash truck	\$ 136,900
Mower	25,413
Total	<u>\$ 162,313</u>

Interest expense

Interest incurred in the enterprise funds during the year was \$123,181. The full amount was charged to expense.

Debt service requirements

Debt service requirements on long-term debt at June 30, 2016 are as follows:

Year ending June 30	Governmental Activities			
	Notes payable		Capital leases	
	Principal	Interest	Principal	Interest
2017	\$ 62,336	\$ 43,055	\$ 34,514	\$ 1,433
2018	25,022	40,157	6,445	304
2019	25,853	39,326	6,128	108
2020	26,713	38,467		
2021	27,600	37,579		
2022-2026	152,387	173,509		
2027-2031	175,451	146,455		
2032-2036	137,267	121,097		
2037-2041	156,476	96,894		
2042-2046	185,109	68,261		
2047-2051	218,981	34,389		
2052-2053	83,026	2,918		
	<u>\$ 1,276,221</u>	<u>\$ 842,107</u>	<u>\$ 47,087</u>	<u>\$ 1,845</u>

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

LONG-TERM DEBT (Continued)

Debt service requirements (continued)

Year ending June 30	Business-type Activities	
	Notes payable	
	Principal	Interest
2017	\$ 156,782	\$ 119,888
2018	161,831	114,837
2019	167,091	109,578
2020	157,738	104,149
2021	142,210	99,379
2021-2025	705,238	422,989
2026-2030	719,008	281,052
2031-2035	869,493	106,242
	\$ 3,079,391	\$ 1,358,114

FUND BALANCES

Assigned fund balances are funds set aside for computer software.

Restricted fund balances are grant funds restricted for revolving loans for housing rehabilitation.

OPERATING LEASE

The City rents a restaurant building to SMMR Inc. The lease term is for a period of five years with automatic renewals for three additional periods of five years unless terminated by either party. The lease calls for basic rent of \$250 per month plus a percentage of gross sales. No basic rent was due for the first year of the lease. The percentage of gross sales increases annually over the first five years of the lease from .71% to 4.29%. The restaurant opened for business in July, 2012. Total lease payments received in fiscal year 2015 were \$36,761.

Future minimum basic lease payments to be received are:

Year ended June 30:	
2017	\$ 2,750

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

RETIREMENT AND PENSION PLANS

General information about the pension plan

Plan description. Certain employees of the City are covered by the Pension System for Employees of the State of Maryland or the Employees' Retirement System of the State of Maryland. These systems are part of the Maryland State Retirement and Pension System (MSRPS), and are cost-sharing multiple-employer public employee retirement systems. The plan is administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the MSRPS is vested in a 15-member Board of Trustees. The MSRPS was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issued a publicly available financial report that includes basic financial statements and required supplementary information for the MSRPS. This report can be found www.sra.state.md.us/Agency/Downloads/CAFR/CAFR-2015.pdf.

Benefits provided. The MSRPS provides retirement, disability and death benefits. Retirement allowances for members of the City are based on the highest five consecutive years average Annual Compensation (AFC) and the actual years of accumulated credited services. Employees of the City may retire with reduced benefits after attaining age 60 with at least 15 years of eligible service. Permanent disability benefits are available after five years of service and approximate 25% of AFC. Death benefits are equal to employee salary at the time of death plus all member contributions and interest.

Contributions. The State Personnel and Pensions Article requires active members to contribute to the MSRPS at the rate of 4%, 5% or 7% of their covered salary depending upon the retirement option selected. The City is required to contribute at an actuarially determined rate. Contributions to the plan from the City for the past three years were as follows:

Fiscal Year Ending	Annual Pension Cost	Percentage Funded
6/30/2014	\$ 205,415	100%
6/30/2015	\$ 204,401	100%
6/30/2016	\$ 177,212	100%

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2016, the City reported a liability of \$2,015,345 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. At June 30, 2015, the City's proportion was .0097%.

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

RETIREMENT AND PENSION PLANS (Continued)

For the year ended June 30, 2016, the City recognized pension expense of \$196,574. At June 30, 2016, the City reported deferred outflows of resources or deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows Resources
Changes of assumptions	\$ 117,856	\$
Net difference between projected and actual earnings on pension plan investments	177,510	169,692
Contributions subsequent to measurement date	177,212	
	\$ 472,578	\$ 169,692

The City's contribution subsequent to the measurement date of \$177,212, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.87 years. The 2014 deferred outflows not related to investment activity are being amortized over the remaining service life of 5 years. The net difference in investment earnings for both 2015 and 2014 is being amortized over a closed five year period. The following table shows the amortization of these balances:

Year Ended June 30	Deferred Outflows	Deferred Inflows
2017	\$ 70,765	\$ 51,284
2018	70,765	51,284
2019	70,766	51,282
2020	65,066	8,477
2021	18,004	7,365
Total	\$ 295,366	\$ 169,692

Actuarial assumptions. The actuarial assumption for the Pension Plan as a whole and based on the June 30, 2015 annual actuarial valuation report for Maryland Municipal Corporation are as follows:

Inflation	2.95% general, 3.45% wage
Salary increases	3.2% to 8.95%, including inflation
Investment rate of return	7.55%

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

RETIREMENT AND PENSION PLANS (Continued)

Mortality rates were based on the RP-2014 Combined Healthy Mortality table projected to the year 2025.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statements No. 25 and 67 of the Governmental Accounting Standards Board (GASB).

Discount rate. The discount rate used to measure the total pension liability was 7.55%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contribution from the municipalities will be made at contractually required rates, actuarially determined.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.55%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.55%) or 1-percentage point higher (8.55%) than the current rate:

1% Decrease (6.55%)	\$ 2,849,061
Current discount rate (7.55%)	\$ 2,015,345
1% Increase (8.55%)	\$ 1,324,908

Pension plan fiduciary net position. Detailed information about the plan's fiduciary net position is available in the System's separately issued financial report.

OTHER POST-EMPLOYMENT BENEFITS

Plan description

The City administers a single-employer defined benefit healthcare plan (the "Plan"). The Plan provides group hospitalization insurance and group life insurance premiums for eligible retirees through the City's group insurance plans, which cover both active and retired members. General employees or police officers are eligible for benefit if they retire at age 62 ½ with 25 years of service. Elected officials are eligible for benefit if they retire at age 62 ½ with 12 years of service. The Plan does not issue a publicly available financial report.

Benefits provided

Health Insurance Benefit. Pre Medicare retirees can buy insurance on the market and the City will pay a percent of the premium into an HRA account to be used towards the premium. Percent of premium paid is determined by when the person retires and how many years of service they have at retirement. Anyone retiring after July 1, 2014 will have the amount paid into the HRA capped at \$5,500 for retiree and \$4,200 for spouses. In order for the spouse to be eligible for the HRA, the spouse has to be 57 ½ years

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

OTHER POST-EMPLOYMENT BENEFITS (Continued)

old and have been enrolled for five years in the city’s health plan. Spouse benefit is only until age 65. When a retiree turns age 65, he is eligible to re-join the City’s health plan with Medicare being primary and the City’s plan being secondary. The Prescription Drug Reimbursements are capped at \$6,000.

Other Benefits. City pays for Long Term Care insurance for the retirees. The benefit is \$1,000 a month, capped at three years. The amount paid by the City for this insurance is \$6 a month for life of the retiree.

Funding policy

The plan is funded on a pay-as-you-go basis. An actuarial valuation was performed as of June 30, 2015 to determine the Net OPEB obligation. The plan is not funded. The valuation used the projected unit cost method, with linear pro-ration to assumed benefit commencement.

Annual OPEB cost and net OPEB obligation

The City’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize and unfunded actuarial liabilities (or funding excess) over a period not exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation.

Annual required contribution	\$	200,000
Interest on net OPEB obligation		55,000
Adjustment to annual required contribution		(62,000)
Annual OPEB cost (expense)		193,000
Less: payments to retirees		(80,000)
Increase in net OPEB obligation		113,000
Net OPEB obligation, beginning of year		1,366,959
Net OPEB obligation, end of year	\$	1,479,959

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the three years ending June 30, 2016 were as follows.

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 300,105	6%	\$ 1,258,959
2015	\$ 183,000	40%	\$ 1,366,959
2016	\$ 193,000	41%	\$ 1,479,959

POCOMOKE CITY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

OTHER POST-EMPLOYMENT BENEFITS (Continued)

Funded status and funding progress

As of June 30, 2015, the most recent actuarial valuation date, the plan was 0% funded. The unfunded actuarial accrued liability (UAAL) is \$2,364,000. The covered payroll (annual payroll of active employees covered by the plan) was \$2,823,716 and the ratio of the UAAL to the covered payroll was 84 percent.

CONTINGENT LIABILITIES

The City is the recipient of various federal and State grants. The City may be under obligation to repay these grant funds if, upon final review by the respective granting agencies, the funds expended did not meet the established program objectives. The City is not aware of any repayment requests.

The City has received notice of claims filed with the EEOC alleging unlawful discrimination which are being defended by the insurance company. The City believes that the claims are without merit.

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 joined with other municipalities in the State to form the Local Government Insurance Trust (LGIT), a public entity risk pool currently operating as a common risk management and insurance program for member municipalities. The City pays an annual premium to LGIT for its general insurance coverage. The Agreement for Formation of the LGIT provides that it will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for liability claims. The City continues to carry commercial insurance for its workers' compensation and some vehicle liability coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage since formation of LGIT.

PRIOR PERIOD ADJUSTMENT

Net position in the water and sewer fund and the business-type activities at the beginning of the year was restated to correct an overstatement of \$36,527 of accrued expenses in the prior year. There was no effect on current year revenue and expenses.

REQUIRED SUPPLEMENTARY INFORMATION

POCOMOKE CITY, MARYLAND

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes	\$ 3,407,700	\$ 3,407,700	\$ 3,623,491	\$ 215,791
Licenses and permits	111,700	111,700	152,352	40,652
Intergovernmental	909,968	909,968	896,605	(13,363)
Charges for services	268,150	268,150	237,527	(30,623)
Investment earnings	1,000	1,000	1,215	215
Miscellaneous	52,100	52,100	111,943	59,843
Total revenues	<u>4,750,618</u>	<u>4,750,618</u>	<u>5,023,133</u>	<u>272,515</u>
EXPENDITURES				
Current				
General government	351,043	469,929	631,060	(161,131)
Public safety	1,505,628	1,525,753	1,594,736	(68,983)
Public works	775,331	770,455	797,547	(27,092)
Parks, recreation and culture	277,675	278,445	240,181	38,264
Urban housing and development	105,352	105,352	92,783	12,569
Economic development	103,763	103,763	105,794	(2,031)
Employee benefits	877,632	863,671	912,242	(48,571)
Miscellaneous	232,025	194,765	121,112	73,653
Debt service	186,817	186,817	169,819	16,998
Capital outlay	393,530	415,271	371,023	44,248
Total expenditures	<u>4,808,796</u>	<u>4,914,221</u>	<u>5,036,297</u>	<u>(122,076)</u>
Revenues over (under) expenditures	<u>(58,178)</u>	<u>(163,603)</u>	<u>(13,164)</u>	<u>150,439</u>
OTHER FINANCING SOURCES (USES)				
Prior year surplus	206,928	206,928		
Loan proceeds			25,413	25,413
Transfers out	<u>(148,750)</u>	<u>(43,325)</u>	<u>(242,000)</u>	<u>(198,675)</u>
Net other financing uses	<u>58,178</u>	<u>163,603</u>	<u>(216,587)</u>	<u>(380,190)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ (229,751)</u>	<u>\$ (229,751)</u>

POCOMOKE CITY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

**MARYLAND STATE RETIREMENT AND PENSION SYSTEM
(UNAUDITED)**

	2016	2015
City's proportion of the net pension liability	0.009698%	0.008815%
City's proportionate share of the net pension liability	\$ 2,015,345	\$ 1,564,326
City's covered-employee payroll	\$ 2,307,186	\$ 2,174,057
City's proportionate share of the net pension liability as a percentage of its covered payroll	87.35%	71.95%
Plan fiduciary net position as a percentage of the total pension liability	68.78%	71.95%

POCOMOKE CITY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S CONTRIBUTIONS

**MARYLAND STATE RETIREMENT AND PENSION SYSTEM
(UNAUDITED)**

	2016	2015
Contractually required contribution	\$ 177,212	\$ 204,401
Contributions in relation to the contractually required contribution	(177,212)	(204,401)
Contribution deficiency (excess)	\$	\$
City's covered-employee payroll	\$ 2,307,186	\$ 2,174,057
Contributions as a percentage of covered-employee payroll	7.68%	9.40%

POCOMOKE CITY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS
(UNAUDITED)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2013	\$ 0	\$ 5,308,214	\$ 5,308,214	0.00%	\$ 2,629,207	202%
6/30/2014	\$ 0	\$ 4,194,859	\$ 4,194,859	0.00%	\$ 2,707,404	155%
6/30/2015	\$ 0	\$ 2,258,000	\$ 2,258,000	0.00%	\$ 2,741,391	82%
6/30/2016	\$ 0	\$ 2,364,000	\$ 2,364,000	0.00%	\$ 2,823,716	84%

SUPPLEMENTARY INFORMATION



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PKF INTERNATIONAL

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Mayor and Council
Pocomoke City, Maryland

Report on Supplementary Information

Our report on our audit of the financial statements that collectively comprise Pocomoke City, Maryland's basic financial statements as of June 30, 2016, appears on pages one and two. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pocomoke City, Maryland's basic financial statements. The supplementary information presented on pages 43 through 47 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Matter

The prior year comparative information has been derived from the City's 2015 and 2014 financial statements and, in our reports dated September 25, 2015 and October 6, 2014, respectively, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
September 28, 2016

POCOMOKE CITY, MARYLAND

**SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)**

	2016	2015	2014
REVENUES			
Taxes	\$ 3,623,491	\$ 3,387,946	\$ 3,197,445
Licenses and permits	152,352	123,432	110,055
Intergovernmental	896,605	930,741	937,813
Charges for services	237,527	331,045	307,549
Investment earnings	1,215	1,099	881
Miscellaneous	111,943	48,141	30,479
Total revenues	5,023,133	4,822,404	4,584,222
EXPENDITURES			
Current			
General government	631,060	397,535	367,839
Public safety	1,594,736	1,589,395	1,601,594
Public works	797,547	863,049	796,295
Parks, recreation and culture	240,181	323,471	285,441
Urban housing and development	92,783	106,823	100,538
Economic development	105,794	107,424	89,780
Employee benefits	912,242	963,372	908,213
Miscellaneous	121,112	83,319	101,450
Debt service	169,819	170,318	159,869
Capital outlay	371,023	91,589	164,569
Total expenditures	5,036,297	4,696,295	4,575,588
Revenues over (under) expenditures	(13,164)	126,109	8,634
OTHER FINANCING SOURCES (USES)			
Loan proceeds	25,413		
Proceeds from sale of assets		306,488	
Transfers out	(242,000)	(218,500)	(391,315)
Net other financing sources (uses)	(216,587)	87,988	(391,315)
Net change in fund balance	\$ (229,751)	\$ 214,097	\$ (382,681)

POCOMOKE CITY, MARYLAND

**SCHEDULE OF REVENUES
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES			
Taxes			
Real property	\$ 2,515,428	\$ 2,495,139	\$ 2,331,654
Personal property	869,531	670,454	634,783
Interest, discounts, and credits	29,313	35,016	44,270
Local taxes	209,219	187,337	186,738
Total taxes	<u>3,623,491</u>	<u>3,387,946</u>	<u>3,197,445</u>
Other revenues			
Licenses and permits	152,352	123,432	110,055
Intergovernmental			
Federal Government		13,025	101,025
State of Maryland	273,735	304,589	243,305
Worcester County	622,870	613,127	593,483
Service charges for current services			
Trash removal fees	156,163	160,954	168,606
Recreation user fees	45,436	37,777	67,226
Other service charges	35,928	132,314	71,717
Investment earnings	1,215	1,099	881
Miscellaneous			
Rental income	51,597	42,206	29,493
Other	60,346	5,935	986
Total other revenues	<u>1,399,642</u>	<u>1,434,458</u>	<u>1,386,777</u>
Total revenues	<u>5,023,133</u>	<u>4,822,404</u>	<u>4,584,222</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	(242,000)	(218,500)	(391,315)
Proceeds from sale of assets		306,488	
Loan proceeds	25,413		
Net other financing sources (uses)	<u>(216,587)</u>	<u>87,988</u>	<u>(391,315)</u>
Total revenues and other financing sources (uses)	<u>\$ 4,806,546</u>	<u>\$ 4,910,392</u>	<u>\$ 4,192,907</u>

POCOMOKE CITY, MARYLAND

**SCHEDULE OF EXPENDITURES
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)**

	2016	2015	2014
EXPENDITURES			
General government			
Legislative	\$ 93,049	\$ 79,678	\$ 67,457
Executive	235,198	114,392	109,254
Financial administration	140,656	99,008	100,774
Law	28,766	28,615	32,384
Planning and zoning	10,184	8,888	9,798
General services	117,151	64,839	46,004
Other general government	6,056	2,115	2,168
Total general government	<u>631,060</u>	<u>397,535</u>	<u>367,839</u>
Public safety			
Police department	1,400,378	1,406,405	1,446,821
Fire department	194,358	182,990	154,773
Total public safety	<u>1,594,736</u>	<u>1,589,395</u>	<u>1,601,594</u>
Public works			
General services	67,637	59,362	51,152
Sanitation and waste removal	276,632	273,663	295,326
Highways and streets	453,278	530,024	449,817
Total public works	<u>797,547</u>	<u>863,049</u>	<u>796,295</u>
Parks, recreation and culture			
Golf course	168,103	171,562	154,321
Parks and docks	65,513	146,495	124,698
Other	6,565	5,414	6,422
Total parks, recreation and culture	<u>240,181</u>	<u>323,471</u>	<u>285,441</u>
Urban development and housing	<u>92,783</u>	<u>106,823</u>	<u>100,538</u>
Economic Development	<u>105,794</u>	<u>107,424</u>	<u>89,780</u>
Miscellaneous			
Employee benefits	912,242	963,372	908,213
General insurance	61,705	57,710	54,979
Other	59,407	25,609	46,471
Total miscellaneous	<u>1,033,354</u>	<u>1,046,691</u>	<u>1,009,663</u>
Debt service	<u>169,819</u>	<u>170,318</u>	<u>159,869</u>
Capital outlay	<u>371,023</u>	<u>91,589</u>	<u>164,569</u>
Total expenditures	<u>\$ 5,036,297</u>	<u>\$ 4,696,295</u>	<u>\$ 4,575,588</u>

POCOMOKE CITY, MARYLAND

**SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER AND SEWER FUND**

**FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)**

	2016	2015	2014
OPERATING REVENUES			
Charges for services	\$ 1,778,474	\$ 1,743,516	\$ 1,629,100
Operating grants and donations			44,100
Miscellaneous and late charges	58,158	59,649	57,137
Total operating revenues	1,836,632	1,803,165	1,730,337
OPERATING EXPENSES			
Salaries and wages	371,024	467,522	454,331
Employee benefits*	283,004	247,871	292,433
Contract labor	247,437	127,540	23,294
Insurance	17,319	17,803	15,940
Materials and supplies	285,520	272,455	232,518
Heat, light and power	225,737	317,024	220,149
Maintenance - facility	268,378	257,527	405,493
Vehicle operating expenses	30,570	41,833	30,826
Telephone	6,369	6,862	6,233
Depreciation	499,628	498,933	493,112
Total operating expenses	2,234,986	2,255,370	2,174,329
Operating loss	(398,354)	(452,205)	(443,992)
NON-OPERATING REVENUES (EXPENSES)			
Capital grants			54,007
Interest expense	(121,532)	(121,468)	(154,144)
Net non-operating revenues (expenses)	(121,532)	(121,468)	(100,137)
Loss before transfers	(519,886)	(573,673)	(544,129)
Transfers in	242,000	218,500	391,315
Change in net position	\$ (277,886)	\$ (355,173)	\$ (152,814)

* The 2014 accounts have not been adjusted for the effect on GASB Statement No. 68.

POCOMOKE CITY, MARYLAND

**SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
AMBULANCE FUND**

**FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015 AND 2014)**

	2016	2015	2014
OPERATING REVENUES			
Charges for services	\$ 485,348	\$ 491,854	\$ 412,833
Operating grants and donations	416,584	389,435	378,170
Total operating revenues	901,932	881,289	791,003
OPERATING EXPENSES			
Salaries and wages	489,189	465,080	455,829
Employee benefits*	188,580	168,376	178,869
Insurance	11,745	11,251	10,736
Materials and supplies	85,239	69,438	65,714
Heat, light and power	6,156	7,766	7,483
Maintenance - facility	9,747	7,938	8,689
Vehicle operating expenses	45,186	63,111	52,188
Telephone	2,538	3,764	3,966
Bad debt expense (recovery)	(7,769)	6,596	
Depreciation	45,585	47,376	66,109
Total operating expenses	876,196	850,696	849,583
Operating income (loss)	25,736	30,593	(58,580)
NON-OPERATING REVENUES (EXPENSES)			
Capital grants	11,787		
Interest expense	(3,129)	(3,837)	(4,484)
Gain on disposal of assets	300	11,732	
Net non-operating revenues (expenses)	8,958	7,895	(4,484)
Change in net position	\$ 34,694	\$ 38,488	\$ (63,064)

* The 2014 accounts have not been adjusted for the effect on GASB Statement No. 68.

GOVERNMENT AUDITING STANDARDS REPORT



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PKF INTERNATIONAL

**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***

To the Mayor and City Council
Pocomoke City, 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, each major fund, and the aggregate remaining fund information of Pocomoke City, Maryland (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Pocomoke City, Maryland's basic financial statements and have issued our report thereon dated September 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 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.

Internal Control over Financial Reporting (Continued)

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 these 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*.

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.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
September 28, 2016