

**POCOMOKE CITY, MARYLAND**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2015**

# POCOMOKE CITY, MARYLAND

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## INDEPENDENT AUDITORS' REPORT

To the Mayor and Council  
Pocomoke City, Maryland

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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 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, 2015, 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.

## **Change in Accounting Principle**

As discussed in the notes to the financial statements, in 2015 the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the 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 25, 2015, 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 25, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### POCOMOKE CITY, MARYLAND

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, 2015. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### POCOMOKE CITY, MARYLAND

#### 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 *enterprise 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, 2015 was \$11,307,000. Of this total, \$13,463,000 is invested in capital assets or restricted for special revenue leaving an unrestricted deficit in net position of \$2,115,000.

The City's net position decreased \$374,000 from June 30, 2014 to June 30, 2015.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**POCOMOKE CITY, MARYLAND**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

Of the total revenues of \$7,759,000, property taxes made up 41%, charges for services were 34%, and grants and contributions were 16%.

Total expenses were \$8,133,000, made up of 29% for public safety, 29% for the water/sewer fund, 14% for public works, 11% for ambulance, and 17% 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	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 803	\$ 523	\$ 456	\$ 484	\$ 1,259	\$ 1,007
Capital assets	5,918	6,212	12,176	12,566	18,094	18,778
Total assets	6,721	6,735	12,632	13,050	19,353	19,785
Deferred outflows of resources	152		75		227	
Long-term liabilities	3,569	3,544	3,828	3,952	7,397	7,496
Other liabilities	361	298	343	303	704	601
Total liabilities	3,930	3,842	4,171	4,255	8,101	8,097
Deferred inflows of resources	115	7	57		172	7
Net position						
Invested in capital assets, net of related debt	4,513	4,706	8,940	9,173	13,453	13,879
Restricted	10	10			10	10
Unrestricted (deficit)	(1,695)	(1,830)	(412)	124	(2,156)	(2,208)
Total net position	\$ 2,828	\$ 2,886	\$ 8,479	\$ 8,795	\$ 11,307	\$ 11,681

The 2014 amounts have been restated to reflect the net pension liability as of June 30, 2014 due to the implementation of GASB Statement No. 68.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### POCOMOKE CITY, MARYLAND

#### 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	
	2015	2014	2015	2014	2015	2014
<b>Revenues</b>						
Program services						
Charges for services	\$ 379	\$ 394	\$ 2,295	\$ 2,099	\$ 2,674	\$ 2,493
Operating grants and contributions	350	411	392	422	742	833
Capital grants and contributions	82	57		54	82	111
General revenues						
Property taxes	3,208	3,000			3,208	3,000
Other taxes and fees	359	338			359	338
Grants	450	450			450	450
Special item - gain on sale of property	232		11		243	
Other	1	(3)			1	(3)
Total revenues	<u>5,061</u>	<u>4,647</u>	<u>2,698</u>	<u>2,575</u>	<u>7,759</u>	<u>7,222</u>
<b>Expenses</b>						
General government	662	565			662	565
Public Safety	2,346	2,510			2,346	2,510
Public Works	1,109	1,083			1,109	1,083
Parks, recreation and culture	515	483			515	483
Urban development & housing	149	243			149	243
Economic development	47	45			47	45
Interest on long-term debt	71	53			71	53
Water and sewer			2,377	2,328	2,377	2,328
Ambulance			857	854	857	854
Total expenses	<u>4,899</u>	<u>4,982</u>	<u>3,234</u>	<u>3,182</u>	<u>8,133</u>	<u>8,164</u>
Deficiency before transfers	162	(335)	(536)	(607)	(374)	(942)
Transfers	(219)	(391)	219	391		
Change in net position	<u>\$ (57)</u>	<u>\$ (726)</u>	<u>\$ (317)</u>	<u>\$ (216)</u>	<u>\$ (374)</u>	<u>\$ (942)</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### POCOMOKE CITY, MARYLAND

#### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

##### Governmental activities

Net position for the City's governmental activities decreased \$57,000 during the fiscal year. In FY2015, Pocomoke City Police Department received \$70,000 from the Custom Border Protection Federal Funds I.C.E for the City's portion of confiscated funds for contraband (drugs and cigarettes) received during traffic stops in calendar year 2013. In addition, the City sold Lots 2 and 4 on Broad Street for a gain of \$229,000. Expenses increased in general government, public safety, and public works.

##### Business-type activities

During the fiscal year, the City's net position for business-type activities decreased \$317,000. 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, 2015, the City's governmental funds reported a combined fund balance of \$399,000. This is an increase from last year of \$215,000. This was due to an increase in tax revenues and sales proceeds from the sale of two lots on Broad Street.

##### Proprietary Funds

See "Business-type activities" above.

#### BUDGETARY HIGHLIGHTS

The City experienced a favorable increase in general fund revenues versus the budgeted amounts in taxes, intergovernmental, and miscellaneous revenues.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### POCOMOKE CITY, MARYLAND

#### CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

##### Capital assets

At the end of the fiscal year, The City had \$18,094,000 (net of depreciation) invested in a broad range of capital assets. This represents a 4% decrease from the prior year.

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2015	2014	2015	2014	2015	2014	
Land	\$ 1,391	\$ 1,466	\$ 56	\$ 56	\$ 1,447	\$ 1,522	-5%
Buildings and improvements	4,645	4,612	195	135	4,840	4,747	2%
Furniture and equipment	1,438	1,403	869	778	2,307	2,181	6%
Automobiles and vehicles	936	940	396	464	1,332	1,404	-5%
Infrastructure	953	952	16,672	16,669	17,625	17,621	0%
Accumulated depreciation	(3,445)	(3,161)	(6,012)	(5,536)	(9,457)	(8,697)	9%
Total	<u>\$ 5,918</u>	<u>\$ 6,212</u>	<u>\$ 12,176</u>	<u>\$ 12,566</u>	<u>\$ 18,094</u>	<u>\$ 18,778</u>	-4%

This year's major capital asset additions included:

##### Business-type activities

1. Various furniture and equipment, including emergency generator and pumps.
2. Lab/office at wastewater treatment plant
3. Used vehicle.
4. Vinyl shed.

##### Governmental activities

1. Golf course projects including the forward tee, the drain line, and the new fence and gate.
2. Two used vehicles and a used dump truck with snow plow.
3. Various other furniture and equipment, including furniture for council chambers, security cameras, and tasers.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### POCOMOKE CITY, MARYLAND

#### CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY (CONTINUED)

##### Long-term debt

At the end of the fiscal year, the City had \$4,641,000 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
	2015	2014	2015	2014	2015	2014	
Long-term loans	\$ 1,347	\$ 1,424	\$ 3,236	\$ 3,394	\$ 4,583	\$ 4,818	-5%
Capital leases payable	58	82			58	82	-29%
Total	<u>\$ 1,405</u>	<u>\$ 1,506</u>	<u>\$ 3,236</u>	<u>\$ 3,394</u>	<u>\$ 4,641</u>	<u>\$ 4,900</u>	-5%

#### CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

During the Fiscal Year beginning July 1, 2015, the City intends to add an additional officer to the Pocomoke City Police Department, bringing the total number of uniformed personnel to 17. This is a much needed addition and will enhance the City's law enforcement activities.

The City is also facing 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. The City will also keep necessary, critical parts in stock 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.

Funding for the above is intended to come from other savings and adjustments within the current year's budget.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **POCOMOKE CITY, MARYLAND**

#### **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 Coordinator, Pocomoke City, Maryland, PO Box 29, Pocomoke City, Maryland 21851.

**POCOMOKE CITY, MARYLAND**

**STATEMENT OF NET POSITION**

**JUNE 30, 2015**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and equivalents	\$ 314,846	\$ 176,241	\$ 491,087
Accounts receivable, net	374,728	279,666	654,394
Due from other governments	76,069		76,069
Notes receivable	37,393		37,393
Net capital assets	5,918,446	12,175,724	18,094,170
Total assets	<u>6,721,482</u>	<u>12,631,631</u>	<u>19,353,113</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred financing outflow - retirement	<u>152,110</u>	<u>74,920</u>	<u>227,030</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	142,267	163,008	305,275
Long-term liabilities			
Due within one year			
Notes and capital leases payable	102,125	156,135	258,260
Compensated absences	116,400	24,247	140,647
Due in more than one year			
Notes and capital leases payable	1,303,641	3,079,386	4,383,027
Compensated absences	62,766	20,443	83,209
Net pension liability	1,048,101	516,225	1,564,326
Other post-employment benefit obligation	1,154,955	212,004	1,366,959
Total liabilities	<u>3,930,255</u>	<u>4,171,448</u>	<u>8,101,703</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred financing inflow - retirement	<u>114,722</u>	<u>56,504</u>	<u>171,226</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	4,512,680	8,940,202	13,452,882
Restricted for community development	10,287		10,287
Unrestricted (deficit)	<u>(1,694,352)</u>	<u>(461,603)</u>	<u>(2,155,955)</u>
Total net position	<u>\$ 2,828,615</u>	<u>\$ 8,478,599</u>	<u>\$ 11,307,214</u>

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

**POCOMOKE CITY, MARYLAND**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2015**

	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
<b>FUNCTION/PROGRAMS</b>							
<b>GOVERNMENTAL ACTIVITIES</b>							
General government	\$ 661,735	\$ 94,264	\$	\$	\$ (567,471)	\$	\$ (567,471)
Public safety	2,345,898	190	173,621		(2,172,087)		(2,172,087)
Public works	1,109,536	203,270	148,829		(757,437)		(757,437)
Parks, recreation and culture	514,632	37,964	27,136	81,913	(367,619)		(367,619)
Urban development and housing	149,547	1,169			(148,378)		(148,378)
Economic development	47,486	42,206			(5,280)		(5,280)
Interest on long-term debt	70,753				(70,753)		(70,753)
Total governmental activities	4,899,587	379,063	349,586	81,913	(4,089,025)		(4,089,025)
<b>BUSINESS-TYPE ACTIVITIES</b>							
Water and sewer	2,376,837	1,803,165				\$ (573,672)	(573,672)
Ambulance	856,746	491,854	391,647			26,755	26,755
Total business-type activities	3,233,583	2,295,019	391,647			(546,917)	(546,917)
Total	\$ 8,133,170	\$ 2,674,082	\$ 741,233	\$ 81,913	(4,089,025)	(546,917)	(4,635,942)
<b>GENERAL REVENUES</b>							
Taxes:							
Property taxes, levied for general purposes					3,207,864		3,207,864
State income taxes					184,848		184,848
Public service taxes					122,617		122,617
Franchise fees					51,544		51,544
Grants and contributions not restricted to specific programs					450,000		450,000
Unrestricted investment earnings					1,099		1,099
Special item - gain on sale of property					232,067		232,067
Transfers					(218,500)		(218,500)
Total general revenues					4,031,539		4,261,771
Change in net position					(57,486)		(374,171)
<b>NET POSITION, BEGINNING OF YEAR, RESTATED</b>					<b>2,886,101</b>		<b>11,681,385</b>
<b>NET POSITION, END OF YEAR</b>					<b>\$ 2,828,615</b>	<b>\$ 8,478,599</b>	<b>\$ 11,307,214</b>

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

**POCOMOKE CITY, MARYLAND**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**JUNE 30, 2015**

**ASSETS**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Cash and equivalents	\$ 285,881	\$ 28,964	\$ 314,845
Taxes receivable, net	250,190		250,190
Accounts and notes receivable, other, net	161,931		161,931
Due from other funds	17,528		17,528
Due from other governments	76,069		76,069
	<u>791,599</u>	<u>28,964</u>	<u>820,563</u>
Total assets	<u>\$ 791,599</u>	<u>\$ 28,964</u>	<u>\$ 820,563</u>

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

**LIABILITIES**

Accounts payable	\$ 106,940	\$	\$ 106,940
Accrued expenses	150,700		150,700
Due to other funds		17,528	17,528
Total liabilities	<u>257,640</u>	<u>17,528</u>	<u>275,168</u>

**DEFERRED INFLOW OF RESOURCES**

Deferred taxes	<u>146,261</u>		<u>146,261</u>
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**FUND BALANCES**

Restricted		11,436	11,436
Unassigned	<u>387,696</u>		<u>387,696</u>
Total fund balances	<u>387,696</u>	<u>11,436</u>	<u>399,132</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 791,597</u>	<u>\$ 28,964</u>	<u>\$ 820,561</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, 2015**

Total fund balance, governmental funds \$ 399,132

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. 5,918,446

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. 152,110

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 146,261

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 (1,405,766)

Accrued interest payable (1,024)

Compensated absences (62,766)

Deferred financing inflows - retirement (114,722)

Net pension liability (1,048,101)

Other post employment benefits obligation (1,154,955)

Net position, governmental activities \$ 2,828,615

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, 2015**

	General Fund	Special Revenue	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 3,387,946	\$	\$ 3,387,946
Licenses and permits	123,432		123,432
Intergovernmental	930,741		930,741
Charges for services	331,045		331,045
Investment earnings	1,099		1,099
Miscellaneous	48,141	1,169	49,310
Total revenues	4,822,404	1,169	4,823,573
<b>EXPENDITURES</b>			
Current			
General government	471,453		471,453
Public safety	1,589,395		1,589,395
Public works	863,049		863,049
Parks, recreation and culture	353,310		353,310
Urban development and housing	106,823	20	106,843
Employee benefits	963,372		963,372
Miscellaneous	86,986		86,986
Debt service	170,318		170,318
Capital outlay	91,589		91,589
Total expenditures	4,696,295	20	4,696,315
Revenues over expenditures	126,109	1,149	127,258
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(218,500)		(218,500)
Proceeds from sale of assets	306,488		306,488
Net other financing uses	87,988		87,988
Net change in fund balances	214,097	1,149	215,246
<b>FUND BALANCES, BEGINNING OF YEAR</b>	173,599	10,287	183,886
<b>FUND BALANCES, END OF YEAR</b>	\$ 387,696	\$ 11,436	\$ 399,132

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, 2015**

Net change in fund balances - total governmental funds:	\$	215,246
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 outlays (\$91,589) was less than depreciation expense (\$308,548) in the current period.		(216,959)
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		
		152,110
Deferred financing outflows related to the retirement plan are reported in the Statement of Activities but are not reported in the governmental funds: Change in deferred financing outflows - retirement		
		(76,716)
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		7,254
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.		
		99,931
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		390
Change in long-term compensated absences		(2,577)
Change in deferred financing inflows - retirement		(114,722)
Change in net pension liability		(30,193)
Change in other post-employment benefit obligation		(91,250)
Change in net position of governmental activities	\$	<u><u>(57,486)</u></u>

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

**POCOMOKE CITY, MARYLAND**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**JUNE 30, 2015**

	Enterprise Funds		
	Water and Sewer Fund	Ambulance Fund	Total
<b>ASSETS</b>			
Current assets			
Cash and equivalents	\$ 5,780	\$ 170,462	\$ 176,242
Accounts receivable, net	236,911	42,755	279,666
Total current assets	<u>242,691</u>	<u>213,217</u>	<u>455,908</u>
Non-current assets			
Capital assets, at cost	17,551,462	636,221	18,187,683
Less accumulated depreciation	(5,618,668)	(393,291)	(6,011,959)
Total non-current assets	<u>11,932,794</u>	<u>242,930</u>	<u>12,175,724</u>
Total assets	<u>12,175,485</u>	<u>456,147</u>	<u>12,631,632</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred financing outflow - retirement	<u>45,407</u>	<u>29,513</u>	<u>74,920</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	138,880	11,922	150,802
Compensated absences	14,272	9,975	24,247
Accrued interest payable	12,207		12,207
Current portion of long term liabilities	135,113	21,024	156,137
Total current liabilities	<u>300,472</u>	<u>42,921</u>	<u>343,393</u>
Non-current liabilities			
Compensated absences	13,389	7,054	20,443
Notes and bonds payable	2,999,975	79,409	3,079,384
Net pension liability	312,864	203,361	516,225
Other post-employment benefit obligation	82,474	129,530	212,004
Total non-current liabilities	<u>3,408,702</u>	<u>419,354</u>	<u>3,828,056</u>
Total liabilities	<u>3,709,174</u>	<u>462,275</u>	<u>4,171,449</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred financing inflow - retirement	<u>34,245</u>	<u>22,259</u>	<u>56,504</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	8,797,706	142,496	8,940,202
Unrestricted (deficit)	(320,233)	(141,370)	(461,603)
Total net position	<u>\$ 8,477,473</u>	<u>\$ 1,126</u>	<u>\$ 8,478,599</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, 2015**

	Enterprise Funds		
	Water and Sewer Fund	Ambulance Fund	Total
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,743,516	\$ 491,854	\$ 2,235,370
Operating grants and donations		389,435	389,435
Miscellaneous and late charges	59,649		59,649
Total operating revenues	<u>1,803,165</u>	<u>881,289</u>	<u>2,684,454</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	467,522	465,080	932,602
Employee benefits	247,871	168,376	416,247
Contract labor	127,540		127,540
Insurance	17,803	11,251	29,054
Materials and supplies	272,455	69,438	341,893
Heat, light and power	317,024	7,766	324,790
Maintenance - facility	257,527	7,938	265,465
Vehicle operating expenses	41,833	63,111	104,944
Telephone	6,862	3,764	10,626
Bad debt expense		6,596	6,596
Depreciation	498,933	47,376	546,309
Total operating expenses	<u>2,255,370</u>	<u>850,696</u>	<u>3,106,066</u>
Operating income (loss)	<u>(452,205)</u>	<u>30,593</u>	<u>(421,612)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest expense	(121,468)	(3,837)	(125,305)
Gain on disposal of assets		11,732	11,732
Net non-operating revenues (expenses)	<u>(121,468)</u>	<u>7,895</u>	<u>(113,573)</u>
Income (loss) before transfers	(573,673)	38,488	(535,185)
Transfers in	218,500		218,500
Change in net position	(355,173)	38,488	(316,685)
<b>NET POSITION,</b>			
<b>BEGINNING OF YEAR, RESTATED</b>	<u>8,832,646</u>	<u>(37,362)</u>	<u>8,795,284</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 8,477,473</u>	<u>\$ 1,126</u>	<u>\$ 8,478,599</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, 2015**

	Enterprise Funds		
	Water and Sewer Fund	Ambulance Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 1,736,734	\$ 486,262	\$ 2,222,996
Other operating receipts	59,649	389,435	449,084
Payments to suppliers	(1,165,993)	(340,588)	(1,506,581)
Payments to employees	(447,873)	(443,921)	(891,794)
	<u>182,517</u>	<u>91,188</u>	<u>273,705</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Payments for capital acquisitions	(245,099)	(8,309)	(253,408)
Proceeds from capital grants	109,438		109,438
Principal paid on long-term debt	(138,094)	(20,315)	(158,409)
Interest paid on long-term debt	(121,924)	(3,837)	(125,761)
Net cash used by capital and related financing activities	<u>(395,679)</u>	<u>(32,461)</u>	<u>(428,140)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Transfers between funds	<u>218,500</u>		<u>218,500</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of capital assets		<u>11,732</u>	<u>11,732</u>
Net increase in cash	5,338	70,459	75,797
<b>CASH, BEGINNING OF YEAR</b>	442	100,003	100,445
<b>CASH, END OF YEAR</b>	<u>\$ 5,780</u>	<u>\$ 170,462</u>	<u>\$ 176,242</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (452,205)	\$ 30,593	\$ (421,612)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	498,933	47,376	546,309
Change in allowance for bad debts		6,595	6,595
Deferred financing outflow - retirement	(45,407)	(29,513)	(74,920)
Deferred financing inflow - retirement	34,245	22,259	56,504
(Increase) decrease in assets:			
Accounts receivable	(6,782)	(5,592)	(12,374)
Increase (decrease) in liabilities:			
Accounts payable	134,084	(1,689)	132,395
Accrued expenses—other	19,649	21,159	40,808
Net cash provided by operating activities	<u>\$ 182,517</u>	<u>\$ 91,188</u>	<u>\$ 273,705</u>

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

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**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 enterprise funds, each displayed in a separate column. Any remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**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 (Enterprise fund)—This fund accounts for the operation and management of the water and sewer departments.

Ambulance Fund (Enterprise 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, 2015**

**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, 2015 are as follows:

Taxes	\$	15,177
Water and sewer charges	\$	14,277
Ambulance services	\$	48,481
Other receivables	\$	169,901

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, 2015

#### 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:

- *Invested in capital assets, net of related debt*—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.
- *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.

**POCOMOKE CITY, MARYLAND**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental fund balances (continued)

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.

Change in accounting principles

During 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Adoption of this statement requires the City to provide additional information in the financial statements related to cost sharing pension plans. Implementation of GASB Statement No. 68 resulted in a restatement of the net position as of June 30, 2014 as follows:

	Government-wide		Funds	
	Governmental Activities	Business-type Activities	Water and Sewer Fund	Ambulance Fund
Net position, June 30, 2014, as originally reported	\$ 3,904,009	\$ 9,296,638	\$ 9,136,497	\$ 160,141
Adjustment for net pension liability at June 30, 2014	<u>(1,017,908)</u>	<u>(501,354)</u>	<u>(303,851)</u>	<u>(197,503)</u>
Net position, beginning of year, as restated	<u>\$ 2,886,101</u>	<u>\$ 8,795,284</u>	<u>\$ 8,832,646</u>	<u>\$ (37,362)</u>

**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, 2015, \$320,339 of the City's deposits at Calvin B. Taylor Bank were exposed to custodial credit risk. These amounts were not covered by Federal Deposit Insurance Corporation (FDIC) but were collateralized with securities held by the pledging financial institution's trust department but not in the City's name.

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**CAPITAL ASSETS**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. 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.

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, 2015 was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated</i>				
Land	\$ 1,465,942	\$	\$ 75,000	\$ 1,390,942
<i>Capital assets being depreciated</i>				
Building and improvements	4,611,997	33,682		4,645,679
Furniture and equipment	1,402,873	35,374		1,438,247
Automobiles and vehicles	939,737	22,534	26,513	935,758
Infrastructure	952,836			952,836
Total capital assets being depreciated	7,907,443	91,589	26,513	7,972,520
Less accumulated depreciation for:				
Buildings and improvements	1,041,760	109,905		1,151,665
Furniture and equipment	946,890	103,590		1,050,480
Automobiles and vehicles	632,425	77,214	24,796	684,843
Infrastructure	540,189	17,839		558,028
Total accumulated depreciation	3,161,264	308,548	24,796	3,445,016
Total capital assets being depreciated, net	4,746,179	(216,959)	1,717	4,527,504
Governmental activities, capital assets, net	\$ 6,212,121	\$ (216,959)	\$ 76,717	\$ 5,918,446

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**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	14,799	59,902		74,701
Infrastructure	16,669,298	2,509		16,671,807
Equipment	663,564	84,873		748,437
Total capital assets being depreciated	<u>17,347,661</u>	<u>147,284</u>		<u>17,494,945</u>
Less accumulated depreciation for:				
Buildings	13,460	172		13,632
Infrastructure	4,810,886	432,880		5,243,766
Equipment	295,389	65,881		361,270
Total accumulated depreciation	<u>5,119,735</u>	<u>498,933</u>		<u>5,618,668</u>
Total capital assets being depreciated, net	<u>12,227,926</u>	<u>(351,649)</u>		<u>11,876,277</u>
Water and sewer, capital assets, net	<u>12,284,443</u>	<u>(351,649)</u>	<u>-</u>	<u>11,932,794</u>
<u>Ambulance:</u>				
<i>Capital assets being depreciated</i>				
Building	120,004			120,004
Equipment	114,314	5,809		120,123
Automobiles and vehicles	463,594	2,500	70,000	396,094
Total capital assets being depreciated	<u>697,912</u>	<u>8,309</u>	<u>70,000</u>	<u>636,221</u>
Less accumulated depreciation for:				
Building	9,000	3,003		12,003
Equipment	84,790	7,157		91,947
Automobiles and vehicles	322,125	37,216	70,000	289,341
Total accumulated depreciation	<u>415,915</u>	<u>47,376</u>	<u>70,000</u>	<u>393,291</u>
Total capital assets being depreciated, net	<u>281,997</u>	<u>(39,067)</u>		<u>242,930</u>
Ambulance, capital assets, net	<u>281,997</u>	<u>(39,067)</u>		<u>242,930</u>
Business-type activities, capital assets, net	<u>\$ 12,566,440</u>	<u>\$ (390,716)</u>	<u>\$ -</u>	<u>\$ 12,175,724</u>

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**CAPITAL ASSETS (Continued)**

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

General government	\$ 12,343
Public safety	101,400
Public works	75,478
Parks, recreation and culture	81,523
Urban development and housing	732
Economic development	37,072
	<u>\$ 308,548</u>

**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. There was no activity in the line of credit for the year ended June 30, 2015.

**INTERNAL BALANCES/TRANSFERS**

Balances due to/from other funds at June 30, 2015, consist of the following:

Due to the general fund from the special revenue fund	\$ 17,528
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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, 2015**

**LONG-TERM DEBT**

Changes in long-term liabilities for the year ended June 30, 2015 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Notes payable	\$ 1,423,617	\$	\$ (76,244)	\$ 1,347,373
Capital leases	82,081		(23,688)	58,393
	<u>\$ 1,505,698</u>	<u>\$ -</u>	<u>\$ (99,932)</u>	<u>\$ 1,405,766</u>
<b>Business-type activities:</b>				
<b>Water and Sewer</b>				
Notes payable	\$ 3,273,182	\$	\$ (138,094)	\$ 3,135,088
<b>Ambulance</b>				
Notes payable	120,749		(20,316)	100,433
	<u>\$ 3,393,931</u>	<u>\$ -</u>	<u>\$ (158,410)</u>	<u>\$ 3,235,521</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.

\$ 8,344

**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.

68,820

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**LONG-TERM DEBT (Continued)**

Governmental activities (continued)

**Calvin B. Taylor Bank.** For purchase of street sweeper. Original obligation is dated January 23, 2009 for \$110,000 and is secured by a lien on the vehicle. Payable in 28 equal quarterly installments of principal and interest at 4.09% beginning February 21, 2009. Maturity date is February 23, 2016. 9,506

**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. 1,077,350

**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. 183,353

Total notes payable \$ 1,347,373

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. 2,637,608

**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. 227,852

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**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. 126,494

**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. 47,153

**Calvin B. Taylor Bank.** For purchase of new sewer jet. Original obligation is dated February 27, 2009 for \$38,900 and is secured by a lien on the sprayer. A demand loan is currently being paid over 84 equal monthly installments of principal and interest at 4.09% beginning March 27, 2009. 4,198

**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. 76,214

**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. 100,433

**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. 15,569

Total notes payable \$ 3,235,521

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**LONG-TERM DEBT (Continued)**

Capital leases

The City is the lessee of property under a capital lease expiring in 2017. 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 asset is depreciated over its estimated useful life. 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	\$ <u>136,900</u>
-------------	-------------------

Interest expense

Interest incurred in the enterprise funds during the year was \$125,305. The full amount was charged to expense.

Debt service requirements

Debt service requirements on long-term debt at June 30, 2015 are as follows:

Year ending June 30	Governmental Activities			
	Notes payable		Capital leases	
	Principal	Interest	Principal	Interest
2016	\$ 71,990	\$ 47,947	\$ 30,135	\$ 1,846
2017	62,336	44,329	28,258	939
2018	25,022	40,157		
2019	25,853	39,326		
2020	26,713	38,467		
2021-2025	147,484	178,411		
2026-2030	173,683	152,216		
2031-2035	141,607	125,601		
2036-2040	151,305	102,065		
2041-2045	178,991	61,949		
2046-2050	211,744	41,626		
2051-2053	130,645	19,163		
	<u>\$ 1,347,373</u>	<u>\$ 891,257</u>	<u>\$ 58,393</u>	<u>\$ 2,785</u>

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**LONG-TERM DEBT (Continued)**

Debt service requirements (continued)

Year ending June 30	Business-type Activities	
	Notes payable	
	Principal	Interest
2016	\$ 156,135	\$ 124,824
2017	156,782	119,888
2018	161,831	114,837
2019	167,091	109,578
2020	157,533	104,149
2021-2025	720,097	448,267
2026-2030	693,937	311,798
2031-2035	832,414	144,769
2036-2040	189,501	143,378
	\$ 3,235,321	\$ 1,621,488

**FUND BALANCES**

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 \$23,711.

Future minimum basic lease payments to be received are:

Year ended June 30:		
	2016	3,000
	2017	2,750

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**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 12-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-2014.pdf](http://www.sra.state.md.us/Agency/Downloads/CAFR/CAFR-2014.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:

<u>Fiscal Year</u> <u>Ending</u>	<u>Pension</u> <u>Cost</u>	<u>Percentage</u> <u>Funded</u>
6/30/2013	\$ 173,423	100%
6/30/2014	\$ 205,415	100%
6/30/2015	\$ 204,401	100%

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

At June 30, 2015, the City reported a liability of \$1,564,326 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2014, the City's proportion was .0088%.

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**RETIREMENT AND PENSION PLANS (Continued)**

For the year ended June 30, 2015, the City recognized pension expense of \$45,064. At June 30, 2015, 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	\$ 22,629	\$
Net difference between projected and actual earnings on pension plan investments		171,226
Contributions subsequent to measurement date	204,401	
	\$ 227,030	\$ 171,226

The City's contribution subsequent to the measurement date of \$204,401, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be amortized over five years and recognized in pension expense at \$37,087 per year through June 30, 2019.

*Actuarial assumptions.* The actuarial assumption for the Pension Plan as a whole and based on the June 30, 2014 annual actuarial valuation report for Maryland Municipal Corporation are as follows:

Inflation	2.90% general, 3.4% wage
Salary increases	3.4% to 11.9%, including inflation
Investment rate of return	7.65%

Mortality rates were based on the RP-2000 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).

Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The actuary performed an experience study of MSRPS for the period 2006-2010 after completion of the June 30, 2010 valuations. Certain assumptions from the experience study including mortality rates, retirement rates, withdrawal rates, disability rates and rates of salary increase were adopted by the Board for first use in the actuarial valuation as of June 30, 2012. The Board adopted new economic assumptions for the June 30, 2013

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**RETIREMENT AND PENSION PLANS (Continued)**

valuation, in particular, an investment return assumption of 7.70% and an inflation assumption of 2.95%. The ultimate assumptions of a 7.55% investment return and 2.80% inflation assumption are being phased in over a four-year period. As a result, an investment return assumption of 7.65% and an inflation assumption of 2.90% were used for the June 30, 2014 valuation. The COLA, salary increase and payroll growth assumptions have also changed as a result of the change in the inflation assumption.

*Discount rate.* The discount rate used to measure the total pension liability was 7.65%. 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 7.65%, 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 (6.65%) or 1-percentage point higher (8.65%) than the current rate:

1% Decrease (6.65%)	\$ 2,254,391
Current discount rate (7.65%)	\$ 1,564,326
1% Increase (8.65%)	\$ 986,310

*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 old and have been enrolled for five years in the city's health plan. Spouse benefit is only until age 65.

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**OTHER POST-EMPLOYMENT BENEFITS (Continued)**

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, 2014 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	\$	188,000
Interest on net OPEB obligation		50,000
Adjustment to annual required contribution		<u>(55,000)</u>
Annual OPEB cost (expense)		183,000
Less: payments to retirees		<u>(75,000)</u>
Increase in net OPEB obligation		108,000
Net OPEB obligation, beginning of year		1,258,959
Net OPEB obligation, end of year	\$	<u><u>1,366,959</u></u>

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, 2015 were as follows.

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 376,706	4%	\$ 975,676
2014	\$ 300,105	6%	\$ 1,258,959
2015	\$ 183,000	40%	\$ 1,366,959

**POCOMOKE CITY, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**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 \$2,258,000. The covered payroll (annual payroll of active employees covered by the plan) was \$2,741,391 and the ratio of the UAAL to the covered payroll was 121 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. As of the date of this report, the City may be obligated to repay a portion of a grant received by the police department. The amount of the repayment has not been determined.

The City has received notice from the Attorney General of Maryland for alleged environmental violations at the Dunn Swamp wastewater treatment plant and the Clarke Avenue pumping station. The City could be required to pay "per diem" penalties for any periods of non-compliance.

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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**POCOMOKE CITY, MARYLAND**

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

**FOR THE YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 3,279,510	\$ 3,279,510	\$ 3,387,946	\$ 108,436
Licenses and permits	103,719	103,719	123,432	19,713
Intergovernmental	845,938	845,938	930,741	84,803
Charges for services	293,118	293,118	331,045	37,927
Investment earnings	1,000	1,000	1,099	99
Miscellaneous	33,050	33,050	48,141	15,091
Total revenues	<u>4,556,335</u>	<u>4,556,335</u>	<u>4,822,404</u>	<u>266,069</u>
<b>EXPENDITURES</b>				
Current				
General government	432,473	432,473	471,453	(38,980)
Public safety	1,516,646	1,516,646	1,589,395	(72,749)
Public works	731,929	731,929	863,049	(131,120)
Parks, recreation and culture	253,821	253,821	353,310	(99,489)
Urban housing and development	90,906	90,906	106,823	(15,917)
Employee benefits	966,482	966,482	963,372	3,110
Miscellaneous	140,161	140,161	86,986	53,175
Debt service	222,905	222,905	170,318	52,587
Capital outlay	201,012	201,012	91,589	109,423
Total expenditures	<u>4,556,335</u>	<u>4,556,335</u>	<u>4,696,295</u>	<u>(139,960)</u>
Revenues over expenditures			<u>126,109</u>	<u>126,109</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out			(218,500)	(218,500)
Proceeds from sale of assets			306,488	306,488
Net other financing uses			<u>87,988</u>	<u>87,988</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ 214,097</u>	<u>\$ 214,097</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)**

	2015
City's proportion of the net pension liability	0.008815%
City's proportionate share of the net pension liability	\$ 1,564,326
City's covered-employee payroll	\$ 2,174,057
City's proportionate share of the net pension liability as a percentage of its covered payroll	71.95%
Plan fiduciary net position as a percentage of the total pension liability	71.87%

**POCOMOKE CITY, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE CITY'S CONTRIBUTIONS**

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

	2015
Contractually required contribution	\$ 204,401
Contributions in relation to the contractually required contribution	(204,401)
Contribution deficiency (excess)	\$
City's covered-employee payroll	\$ 2,174,057
Contributions as a percentage of covered-employee payroll	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)
6/30/2012	\$ 0	\$ 3,806,766	\$ 3,806,766	0.00%	\$ 2,540,228	150%
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%

## **SUPPLEMENTARY INFORMATION**



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DELAWARE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

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, 2015, 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 2014 and 2013 financial statements and, in our reports dated October 6, 2014 and October 4, 2013, 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 25, 2015

**POCOMOKE CITY, MARYLAND**

**SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2015  
(WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>REVENUES</b>			
Taxes	\$ 3,387,946	\$ 3,197,445	\$ 3,243,810
Licenses and permits	123,432	110,055	103,598
Intergovernmental	930,741	937,813	1,076,945
Charges for services	331,045	307,549	241,406
Investment earnings	1,099	881	773
Miscellaneous	48,141	30,479	29,440
Total revenues	<u>4,822,404</u>	<u>4,584,222</u>	<u>4,695,972</u>
<b>EXPENDITURES</b>			
Current			
General government	471,453	428,832	413,031
Public safety	1,589,395	1,601,594	1,539,590
Public works	863,049	796,295	808,113
Parks, recreation and culture	353,310	307,717	364,538
Urban housing and development	106,823	100,538	112,384
Employee benefits	963,372	908,213	1,030,532
Miscellaneous	86,986	107,961	105,314
Debt service	170,318	159,869	916,302
Capital outlay	91,589	164,569	440,033
Total expenditures	<u>4,696,295</u>	<u>4,575,588</u>	<u>5,729,837</u>
Revenues over (under) expenditures	<u>126,109</u>	<u>8,634</u>	<u>(1,033,865)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Loan proceeds			1,446,900
Proceeds from sale of assts	306,488		306,488
Transfers in (out)	(218,500)	(391,315)	(109,140)
Insurance proceeds			90,054
Net other financing sources (uses)	<u>87,988</u>	<u>(391,315)</u>	<u>1,734,302</u>
Net change in fund balance	<u>\$ 214,097</u>	<u>\$ (382,681)</u>	<u>\$ 700,437</u>

**POCOMOKE CITY, MARYLAND**

**SCHEDULE OF REVENUES  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2015  
(WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>REVENUES</b>			
Taxes			
Real property	\$ 2,495,139	\$ 2,331,654	\$ 2,304,926
Personal property	670,454	634,783	737,222
Interest, discounts, and credits	35,016	44,270	27,085
Local taxes	<u>187,337</u>	<u>186,738</u>	<u>174,577</u>
Total taxes	<u>3,387,946</u>	<u>3,197,445</u>	<u>3,243,810</u>
Other revenues			
Licenses and permits	123,432	110,055	103,598
Intergovernmental			
Federal Government	13,025	101,025	376,087
State of Maryland	304,589	243,305	121,288
Worcester County	613,127	593,483	579,570
Service charges for current services			
Trash removal fees	160,954	168,606	161,614
Recreation user fees	37,777	67,226	62,368
Other service charges	132,314	71,717	17,424
Investment earnings	1,099	881	773
Miscellaneous			
Rental income	42,206	29,493	27,062
Other	<u>5,935</u>	<u>986</u>	<u>2,378</u>
Total other revenues	<u>1,434,458</u>	<u>1,386,777</u>	<u>1,452,162</u>
Total revenues	<u>4,822,404</u>	<u>4,584,222</u>	<u>4,695,972</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (out)	(218,500)	(391,315)	(109,140)
Proceeds from sale of assets	306,488		306,488
Loan proceeds			1,446,900
Insurance proceeds			<u>90,054</u>
Net other financing sources (uses)	<u>87,988</u>	<u>(391,315)</u>	<u>1,734,302</u>
<b>TOTAL</b>	<u>\$ 4,910,392</u>	<u>\$ 4,192,907</u>	<u>\$ 6,430,274</u>

**POCOMOKE CITY, MARYLAND**

**SCHEDULE OF EXPENDITURES  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2015  
(WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>EXPENDITURES</b>			
General government			
Legislative	\$ 79,678	\$ 67,457	\$ 69,017
Executive	114,392	109,254	101,811
Financial administration	99,008	100,774	97,991
Law	28,615	32,384	13,916
Planning and zoning	8,888	9,798	6,606
General services	64,839	46,004	67,700
Other general government	76,033	63,161	55,990
Total general government	<u>471,453</u>	<u>428,832</u>	<u>413,031</u>
Public safety			
Police department	1,406,405	1,446,821	1,384,295
Fire department	182,990	154,773	155,295
Total public safety	<u>1,589,395</u>	<u>1,601,594</u>	<u>1,539,590</u>
Public works			
General services	59,362	51,152	53,049
Sanitation and waste removal	273,663	295,326	279,692
Highways and streets	530,024	449,817	475,372
Total public works	<u>863,049</u>	<u>796,295</u>	<u>808,113</u>
Parks, recreation and culture			
Golf course	171,562	154,321	192,560
Parks and docks	146,495	124,698	140,180
Other	35,253	28,698	31,798
Total parks, recreation and culture	<u>353,310</u>	<u>307,717</u>	<u>364,538</u>
Urban development and housing	<u>106,823</u>	<u>100,538</u>	<u>112,384</u>
Miscellaneous			
Employee benefits	963,372	908,213	1,030,532
General insurance	57,710	54,979	44,903
Other	29,276	52,982	60,411
Total miscellaneous	<u>1,050,358</u>	<u>1,016,174</u>	<u>1,135,846</u>
Debt service	<u>170,318</u>	<u>159,869</u>	<u>916,302</u>
Capital outlay	<u>91,589</u>	<u>164,569</u>	<u>440,033</u>
Total expenditures	<u>\$ 4,696,295</u>	<u>\$ 4,575,588</u>	<u>\$ 5,729,837</u>

**POCOMOKE CITY, MARYLAND**

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

**FOR THE YEAR ENDED JUNE 30, 2015  
(WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

	2015	2014	2013
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,743,516	\$ 1,629,100	\$ 1,650,734
Operating grants and donations		44,100	
Miscellaneous and late charges	59,649	57,137	57,173
Total operating revenues	1,803,165	1,730,337	1,707,907
<b>OPERATING EXPENSES</b>			
Salaries and wages	467,522	454,331	431,804
Employee benefits*	247,871	292,433	323,869
Contract labor	127,540	23,294	25,461
Insurance	17,803	15,940	14,181
Materials and supplies	272,455	232,518	259,775
Heat, light and power	317,024	220,149	215,276
Maintenance - facility	257,527	405,493	186,396
Vehicle operating expenses	41,833	30,826	29,408
Telephone	6,862	6,233	6,314
Depreciation	498,933	493,112	468,520
Total operating expenses	2,255,370	2,174,329	1,961,004
Operating loss	(452,205)	(443,992)	(253,097)
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Capital grants		54,007	203,631
Interest expense	(121,468)	(154,144)	(137,838)
Loss on disposal of assets			(11,150)
Net non-operating revenues (expenses)	(121,468)	(100,137)	54,643
Loss before transfers	(573,673)	(544,129)	(198,454)
Transfers in	218,500	391,315	
Change in net position	\$ (355,173)	\$ (152,814)	\$ (198,454)

\* The 2014 and 2013 amounts have not been adjusted for the effect of GASB Statement No. 68.

**POCOMOKE CITY, MARYLAND**

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

**FOR THE YEAR ENDED JUNE 30, 2015  
(WITH COMPARATIVE TOTALS FOR 2014 AND 2013)**

	2015	2014	2013
<b>OPERATING REVENUES</b>			
Charges for services	\$ 491,854	\$ 412,833	\$ 419,035
Operating grants and donations	389,435	378,170	429,299
Total operating revenues	881,289	791,003	848,334
<b>OPERATING EXPENSES</b>			
Salaries and wages	465,080	455,829	460,777
Employee benefits*	168,376	178,869	231,917
Insurance	11,251	10,736	9,076
Materials and supplies	69,438	65,714	118,686
Heat, light and power	7,766	7,483	6,433
Maintenance - facility	7,938	8,689	8,865
Vehicle operating expenses	63,111	52,188	59,734
Telephone	3,764	3,966	3,856
Bad debt expense	6,596		
Depreciation	47,376	66,109	61,600
Total operating expenses	850,696	849,583	960,944
Operating income (loss)	30,593	(58,580)	(112,610)
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Capital grants			63,063
Interest expense	(3,837)	(4,484)	(3,069)
Gain on disposal of assets	11,732		
Net non-operating revenues (expenses)	7,895	(4,484)	59,994
Income (loss) before transfers	38,488	(63,064)	(52,616)
Transfers in			109,140
Change in net position	\$ 38,488	\$ (63,064)	\$ 56,524

\*The 2014 and 2013 amounts have not been adjusted for the effect of 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, 2015, 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 25, 2015.

**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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the following paragraphs.

The City has received notice from the Attorney General of Maryland for alleged environmental violations at a site located in the City. The City acknowledges there were issues of non-compliance and is working with the Maryland Department of the Environment to resolve the matter. The City could be required to pay "per diem" penalties for any periods of non-compliance.

The City may be required to return a portion of a grant awarded by the U.S. Department of Justice, if the Department concludes that the City did not comply with the terms and conditions of the grant. The Department is currently conducting an audit and the City is working with them to resolve the matter.

## **Pocomoke City, Maryland's Response to Findings**

Pocomoke City, Maryland's response to the findings identified in our audit are described above. The City'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.

*PKS & Company, P.A.*

**CERTIFIED PUBLIC ACCOUNTANTS**

Salisbury, Maryland  
September 25, 2015