

**CITY OF MOUNT RAINIER, MARYLAND**

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**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTAL INFORMATION  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED JUNE 30, 2013**

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**Murphy & Murphy, CPA, LLC**

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**Murphy & Murphy, CPA, LLC**  
**Certified Public Accountants**

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**INDEPENDENT AUDITOR'S REPORT**

To the Mayor and City Council  
City of Mount Rainier, Maryland

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of the City of Mount Rainier, Maryland (the "City"), as of and for the year ended June 30, 2013, 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.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the City of Mount Rainier, Maryland as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 – 10 and 34 – 43, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2014, on our consideration of the City of Mount Rainier, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Mount Rainier, Maryland's internal control over financial reporting and compliance.

Murphy & Murphy, CPA, LLC

La Plata, Maryland  
February 7, 2014

CITY OF MOUNT RAINIER, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

This section of the City of Mount Rainier, Maryland's annual financial report presents management's discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2013. Please read it with the City's financial statements, which immediately follow this section.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$6,209,247 (net position).
- The City's total net position increased by \$670,385.
- As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$3,371,068, an increase of \$177,912.

**Overview of the Financial Statements**

This Management's Discussion and Analysis is intended to serve as an introduction to the basic financial statements, which consists of the following three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

This report also contains other supplementary information in addition to the basic financial statements.

**Government-Wide Statements**

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

The Statement of Net Position includes all of the City's non-fiduciary assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave, etc.).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Governmental activities include general government, public safety, education, public works, and community development. The City does not have business-type activities.

The government-wide financial statements can be found on pages 11 and 12 of this report.

### **Fund Financial Statements**

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

- Government funds
- Proprietary funds
- Fiduciary funds

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

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

The City has two governmental funds, the general fund and the special revenue fund. Both of these funds are considered major funds by the City. The basic governmental fund financial statements can be found on pages 13 and 15 of this report. The City does not maintain proprietary funds or fiduciary funds.

### **Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 33 of this report.

## Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and special revenue fund, which can be found on pages 34 through 43 of this report.

## Government-wide Financial Analysis

### Net Position

Net position may serve over time as a useful indicator of a government's financial position. The City's combined assets exceeded liabilities by \$6,209,247 at the close of the most recent fiscal year.

The City's combined net position increased by \$670,385, which came from the City's governmental activities. This increase is primarily a result of increases in tax and grant revenues.

The following table presents a summary of the statement of net position for the City as of June 30, 2013 and 2012.

	<u>Governmental Activities</u>		<u>Percentage</u>
	<u>2013</u>	<u>2012</u>	<u>Change</u>
Assets:			
Current and other assets	\$ 4,153,610	\$ 4,087,947	1.6%
Capital assets	<u>4,945,730</u>	<u>4,622,993</u>	7.0%
Total assets	<u>\$ 9,099,340</u>	<u>\$ 8,710,940</u>	4.5%
Liabilities:			
Noncurrent liabilities	\$ 2,077,036	\$ 2,582,113	(19.6)%
Other liabilities	<u>813,057</u>	<u>589,965</u>	37.8%
Total liabilities	<u>\$ 2,890,093</u>	<u>\$ 3,172,078</u>	(8.9)%
Net position:			
Invested in capital assets, net of related debt	\$ 2,424,124	\$ 2,256,969	7.4%
Restricted	487,139	660,837	(26.2)%
Unrestricted	<u>3,297,984</u>	<u>2,621,056</u>	25.8%
Total net position	<u>\$ 6,209,247</u>	<u>\$ 5,538,862</u>	12.1%

### Changes in Net Position

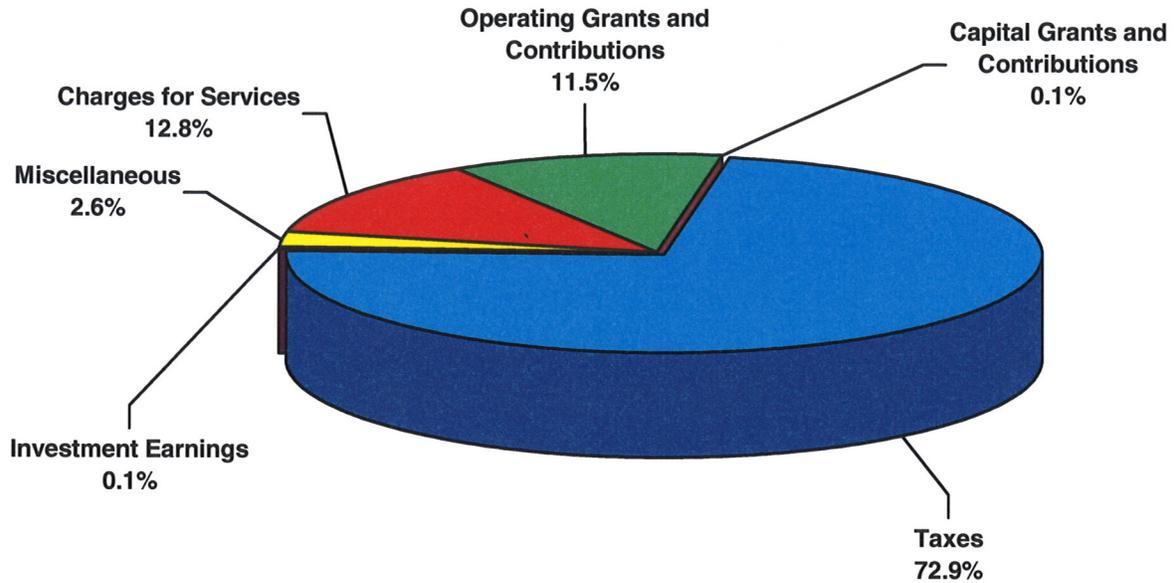
The City's revenue totaled \$5,281,470. Of the City's revenue, 61.7% comes from property taxes and 72.9 cents (\$.729) of every dollar comes from some type of tax.

The total cost of all programs and services was \$4,611,085. The City's expenses cover a range of services, with about 47% related to public safety.

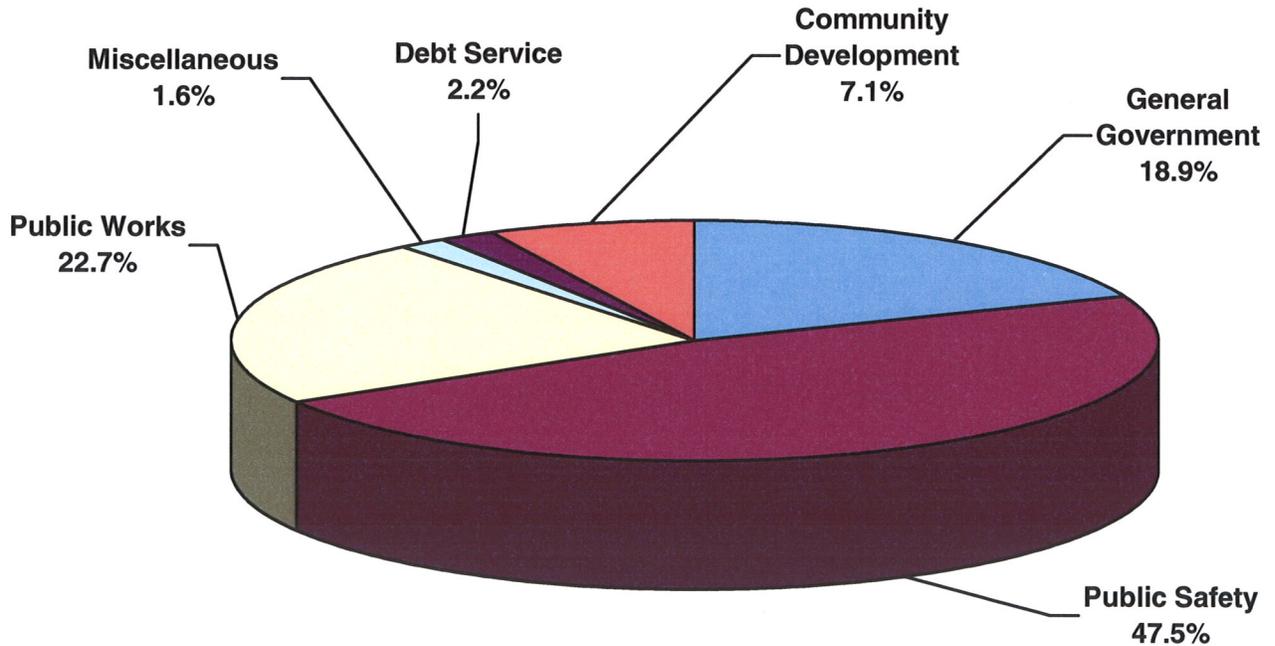
The following table presents a summary of the Statement of Activities for the City for the years ended June 30, 2013 and 2012:

	<u>Government Activities</u>		<u>Percentage</u>
	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 675,412	\$ 959,469	(29.6)%
Operating grants	609,491	695,894	(12.4)%
Capital grants	4,120	191,963	(97.8)%
General revenues:			
Property taxes	3,261,025	3,142,731	3.7%
Income taxes	561,083	545,605	2.8%
Other taxes	28,706	24,811	15.7%
Interest earnings	3,783	3,309	14.3%
Other	<u>137,850</u>	<u>78,119</u>	76.5%
Total revenues	<u>5,281,470</u>	<u>5,641,901</u>	(6.4)%
Expenses:			
General government	870,550	851,899	2.2%
Public safety	2,190,054	2,414,872	(9.3)%
Public works	1,047,505	1,020,600	2.6%
Community development	328,953	556,298	(40.9)%
Miscellaneous	72,866	83,551	(12.8)%
Interest on long-term debt	<u>101,157</u>	<u>109,911</u>	(8.0)%
Total expenses	<u>4,611,085</u>	<u>5,037,131</u>	(8.5)%
Increase in net position	670,385	604,770	10.8%
Net position - beginning of year	<u>5,538,862</u>	<u>4,934,092</u>	12.2%
Net position - end of year	<u>\$ 6,209,247</u>	<u>\$ 5,538,862</u>	12.1%

## Sources of Revenues for Fiscal Year 2013



## Functional Expenses for Fiscal Year 2013



## **Fund Financial Statement Analysis**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. The unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the governmental funds reported combined fund balance of \$3,371,068, an increase of \$177,912. Of this total amount, \$2,333,355, represents unassigned fund balance. The remainder of the fund balance consists of nonspendable for prepaid items of \$70,445, restricted for public safety of \$487,139, restricted for capital expenditures of \$13,025, and assigned for subsequent expenditures of \$467,104.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$2,333,355, while total general fund balance was \$3,352,964. During fiscal year 2013, fund balance for the City's general fund increased by \$184,822. The special revenue fund balance decreased by \$6,910 during the current fiscal year.

### **General Fund Budgetary Highlights**

Most of the budget variances were due to greater than expected revenues.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

The City's investment in capital assets for its governmental activities as of June 30, 2013 was \$4,945,730 (net of accumulated depreciation). The investment in capital assets includes land/construction in progress, land improvements, buildings and improvements, and equipment and vehicles. The following is a summary of the capital assets net of depreciation.

#### **Capital Assets Net of Depreciation**

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Land/construction in progress	\$ 2,193,893	\$ 1,885,852
Land improvements	126,930	136,332
Buildings and improvements	2,188,138	2,029,045
Equipment and vehicles	<u>436,769</u>	<u>571,764</u>
Total	<u>\$ 4,945,730</u>	<u>\$ 4,622,993</u>

Capital assets purchased by the City during the last fiscal year includes equipment and vehicles totaling \$3,446, building improvements of \$245,699, and construction in progress of \$308,041.

Long-term debt

At year end, the City had \$2,332,563 in outstanding debt. There was no new debt obtained during the year.

Long-term debt consists of the following:

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Bonds payable	\$ 2,053,582	\$ 2,261,421
Capital lease obligations	76,881	117,628
Accumulated compensation absences	<u>202,100</u>	<u>203,064</u>
Total	<u>\$ 2,332,563</u>	<u>\$ 2,582,113</u>

**Maintaining the Conditions of the City's Infrastructure**

Prospective accounting of the City infrastructure has been adopted by the City. During fiscal year 2013, the City performed maintenance on several road projects.

**Economic Factors and Next Year's Budget and Rates**

- Actual revenues for fiscal year 2014 are expected to increase over levels for fiscal year 2013.
- Salaries expense for fiscal year 2014 includes a 3% COLA for City employees.
- Real property tax rates will increase over the fiscal year 2013 levels to 86 cents (\$.86) per \$100 of assessed valuation. This is the first rate increase by the City in nine fiscal years.
- Funding is included for the continuance of Mt. Rainier Day, National Night Out and the Bike-Co-op Program.
- Funding of \$2,500 is included for Farmer's Market expenses.
- Funding of \$22,500 is included for the continuation of the City Homeowner's Tax Credit and \$2,000 for the Historic Preservation Tax Credit.
- The City projects revenues of \$15,000 from speed monitoring violations. The funds will be utilized for public safety expenditures.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's Office, City of Mount Rainier, One Municipal Place, Mount Rainier, Maryland 20712.

CITY OF MOUNT RAINIER, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2013

	<u>Governmental</u> <u>Activities</u>
<b>ASSETS:</b>	
Cash and investments	\$ 3,427,721
Restricted cash	13,057
Taxes receivable	243,365
Prepaid items	70,445
Due from other governments	365,250
Other receivables	33,772
Capital assets:	
Nondepreciable assets	2,193,893
Depreciable assets, net of depreciation	<u>2,751,837</u>
Total assets	<u>9,099,340</u>
<b>LIABILITIES:</b>	
Accounts payable and accrued expenses	367,235
Accrued salaries and fringe benefits	80,602
Other payables	42,950
Liability for seized assets	66,743
Long-term debt:	
Due within one year	255,527
Due in more than one year	<u>2,077,036</u>
Total liabilities	<u>2,890,093</u>
<b>NET POSITION:</b>	
Investment in capital assets, net of related debt	2,424,124
Restricted:	
Public safety	487,139
Capital expenditures	-
Unrestricted	<u>3,297,984</u>
Total net position	<u>\$ 6,209,247</u>

See accompanying notes.

CITY OF MOUNT RAINIER, MARYLAND  
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

<u>Functions/Programs</u>	Program Revenue			Net (Expense) Revenue and Changes in Net Position
<u>Expenditures</u>	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:				
General government	\$ 870,550	\$ 483,970	\$ 181,817	\$ 12,396
Public safety	2,190,054	188,676	98,939	-
Public works	1,047,505	2,766	59,507	(8,276)
Community development	328,953		269,228	
Miscellaneous	72,866	-	-	-
Debt service - interest	101,157	-	-	-
	\$ 4,611,085	\$ 675,412	\$ 609,491	\$ 4,120
Total governmental activities				(3,322,062)
<b>General revenues:</b>				
Property taxes				3,261,025
Income taxes				561,083
Other taxes				28,706
Investment earnings				3,783
Miscellaneous				137,850
				3,992,447
Total general revenues				670,385
Change in net position				
Net position - beginning				5,538,862
Net position - ending				\$ 6,209,247

See accompanying notes.

CITY OF MOUNT RAINIER, MARYLAND

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Cash and investments	\$ 3,402,694	\$ 25,027	\$ 3,427,721
Restricted cash	13,057	-	13,057
Taxes receivable (net of allowance of \$6,000)	243,365	-	243,365
Prepaid items	70,445	-	70,445
Due from other governments	111,965	253,285	365,250
Due from other funds	83,489	-	83,489
Other receivables	<u>33,772</u>	<u>-</u>	<u>33,772</u>
Total assets	<u>\$ 3,958,787</u>	<u>\$ 278,312</u>	<u>\$ 4,237,099</u>
 <b>LIABILITIES AND FUND BALANCES:</b>			
Liabilities:			
Accounts payable	186,239	176,719	362,958
Accrued salaries	80,602	-	80,602
Other payables	42,950	-	42,950
Due to other funds	-	83,489	83,489
Liability for seized assets	66,743	-	66,743
Deferred revenue	<u>229,289</u>	<u>-</u>	<u>229,289</u>
Total liabilities	<u>605,823</u>	<u>260,208</u>	<u>866,031</u>
 <b>FUND EQUITY:</b>			
Fund balances:			
Nonspendable for prepaid items	70,445	-	70,445
Restricted:			
Public safety	487,139	-	487,139
Capital expenditures	13,025	-	13,025
Assigned for subsequent years' expenditures	449,000	18,104	467,104
Unassigned	<u>2,333,355</u>	<u>-</u>	<u>2,333,355</u>
Total fund balances	<u>3,352,964</u>	<u>18,104</u>	<u>3,371,068</u>
Total liabilities and fund balances	<u>\$ 3,958,787</u>	<u>\$ 278,312</u>	<u>\$ 4,237,099</u>

See accompanying notes.

CITY OF MOUNT RAINIER, MARYLAND

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2013

Total fund balance, governmental funds		\$ 3,371,068
<p>Amounts reported in governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
		-
Cost of capital assets	\$ 7,204,954	
Accumulated depreciation	<u>(2,259,224)</u>	4,945,730
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
		(2,332,563)
<p>Accrued interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability on the governmental funds balance sheet.</p>		
		(4,277)
<p>Certain prepaid expenses are expensed in the current period and, therefore, are not reported as an asset on the governmental fund balance sheet.</p>		
		-
<p>Certain receivables are offset by deferred revenue in the government funds since they are not available to pay for current-period expenditures. This is the amount of deferred revenue related to these receivables.</p>		
		<u>229,289</u>
Net position of governmental activities		<u>\$ 6,209,247</u>

See accompanying notes.

CITY OF MOUNT RAINIER, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>			
Taxes	\$ 3,816,109	\$ -	\$ 3,816,109
Licenses and permits	445,368	-	445,368
Intergovernmental	161,155	481,190	642,345
Charges for services	41,367	-	41,367
Fines and forfeitures	188,676	-	188,676
Miscellaneous	135,164	12	135,176
	<u>4,787,839</u>	<u>481,202</u>	<u>5,269,041</u>
Total revenues			
<b>EXPENDITURES:</b>			
Current:			
General government	770,735	71,519	842,254
Public safety	2,167,196	1,990	2,169,186
Public works	1,008,546	172,875	1,181,421
Community development	87,226	241,728	328,954
Miscellaneous	72,866	-	72,866
Debt service:			
Principal	248,586	-	248,586
Interest	101,318	-	101,318
Capital outlay	146,544	-	146,544
	<u>4,603,017</u>	<u>488,112</u>	<u>5,091,129</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	184,822	(6,910)	177,912
Fund balances - beginning	<u>3,168,142</u>	<u>25,014</u>	<u>3,193,156</u>
Fund balances - ending	<u>\$ 3,352,964</u>	<u>\$ 18,104</u>	<u>\$ 3,371,068</u>

See accompanying notes.

CITY OF MOUNT RAINIER, MARYLAND

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds	\$	177,912
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p> <p>Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense in the current period.</p>		
Capital outlays	557,186	
Depreciation	<u>(234,354)</u>	322,832
<p>Some expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as an expenditure in the governmental funds. This is the amount by which accumulated unused compensated absences decreased.</p>		
		964
<p>The issuance of long-term debt provides financial resources to governmental funds while the repayment of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position:</p>		
Proceeds	-	
Repayments	<u>248,586</u>	248,586
<p>Under the modified accrual basis of accounting, revenues are not recognized unless they are deemed "available" to finance current expenses. Accrual-basis recognition is not limited by availability, so certain revenues need to be reduced by the amounts that were unavailable at the beginning of the year and increased by the amounts that were unavailable at the end of the year. This adjustment records a net decrease in "unavailable" revenues at the end of the year over the amount at the beginning of the year.</p>		
		12,525
<p>Interest expense in the Statement of Activities differs from the amount reported in governmental funds due to the net change in accrued interest.</p>		
		161
<p>Some expenditures reported in governmental funds are reported as prepaid expenses in the Statement of Activities.</p>		
		(92,500)
<p>Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.</p>		
		<u>(95)</u>
Change in net position of governmental activities	\$	<u>670,385</u>

See accompanying notes.

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

1. **Summary of significant accounting policies**

The City of Mount Rainier, Maryland (the City) was incorporated in 1910. The City operates under a Mayor-Council form of government. The City's major operations include police protection, parks, public works, community development and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

**Financial reporting entity**

These financial statements include the accounts of all City operations. As defined by government auditing standards, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. Based on the aforementioned criteria, the City of Mount Rainier has no component units.

**Basic Financial Statements – Government- wide Statements**

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police protection, parks, public works, community development and general and administrative services are classified as governmental activities. The City has no business-type activities.

In the government-wide Statement of Net Position, the governmental activity column is presented on a consolidated basis by column and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property, income and certain other taxes and intergovernmental revenues). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (public safety, public works, community development, etc.). Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants.

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

1. **Summary of significant accounting policies (continued)**

**Basic Financial Statements – Government-wide Statements (continued)**

The net costs (by function) are normally covered by general revenue (property and income taxes, other intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

**Basic Financial Statements – Fund Financial Statements**

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses.

The emphasis in fund financial statements is on the major funds. GASBS No. 34 sets forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

**Governmental Funds:**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The City reports these major governmental funds and fund types:

**General Fund** - The general fund is the City's primary operating fund. It is used to account for and report all financial resources except those required to be accounted for in another fund.

**Special Revenue Fund** - The Special Revenue Fund is used to account for the proceeds of specific revenue resources that are legally restricted to expenditures for specified purposes.

The activities reported in these funds are reported as governmental activities in the government-wide statements.

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

1. **Summary of significant accounting policies (continued)**

**Basis of accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Position and the Statement of Activities presents increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the related liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income, and intergovernmental revenues. Other taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

**Financial Statement Amounts**

Cash and investments – The City has defined cash and cash equivalents to include cash on hand, demand deposits, savings accounts, and certificates of deposits.

Investments are carried at fair value. Fair value is based on quoted market price.

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

1. **Summary of significant accounting policies (continued)**

**Financial Statement Amounts (continued)**

Interfund receivables and payables - During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds."

Receivables - In the government-wide statements, receivables consist of all revenues earned at year end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include taxes, franchise taxes, and grants.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available.

Capital assets - The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

**Government-wide statements** - In the government-wide financial statements, capital assets are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual cost is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2003. The City defines capital assets as those which have an acquisition cost or donated value of at least \$1,000 and an estimated life of more than one year. The City capitalizes infrastructure assets (any road, street, or sidewalk) with a cost of at least \$100,000.

Capital assets are being depreciated over the following lives:

Buildings	25-50 years
Improvements	10-50 years
Machinery and equipment	3-20 years

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

1. **Summary of significant accounting policies (continued)**

**Financial Statement Amounts (continued)**

Capital assets (continued)

**Fund financial statements** - In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-term debt - The accounting treatment of long-term debt depends on whether the related assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financial sources and payment of principal and interest is reported as expenditures.

Compensated absences - The City's policy regarding vacation time permits employees to accumulate earned but unused vacation leave. The City allows the employees upon termination to be paid for their accumulated annual leave up to a maximum number of hours, based on their length of employment. In addition, police officers can accrue and will be compensated for a maximum of 240 comp-time hours. The liability for these compensated absences is recorded as long-term debt in the government-wide statements.

Equity classifications

**Government-wide statements** – Government-wide net position is divided into three components:

- Net investment in capital assets - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net position - consists of assets that are restricted by the City's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors (including those who have donated to the City less related liabilities).

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

1. **Summary of significant accounting policies (continued)**

**Financial Statement Amounts (continued)**

Equity classification (continued)

- Unrestricted - all other net position is reported in this category.

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

- Nonspendable fund balance - Amounts that cannot be spent either because they are in a nonspendable form or because they 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, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed fund balance - Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance.
- Assigned fund balance - Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the City Council.
- Unassigned fund balance – All amounts not included in other spendable classifications.

**Revenues, expenditures, and expenses**

Property Tax Calendar and Revenues – The City is responsible for levying property taxes, but the taxes are collected by the County. Taxes are levied on July 1 based on assessed values from the State. Property taxes are due in semi-annual installments (due September 30 and December 31) for residential property or one installment (due September 30) for nonresidential property. Delinquent property taxes are attached as an enforceable lien on the underlying properties, which are sold at public auction in May of the following year, by Prince George's County.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end.

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

1. **Summary of significant accounting policies (continued)**

**Revenues, expenditures, and expenses (continued)**

Expenditure/expense - In the government-wide financial statements, expenses are classified by function for governmental activities.

In the fund financial statements, expenditures are classified by governmental function (i.e., general government, public safety, public works, community development and miscellaneous), and debt service capital outlay expenditures.

In the fund financial statements, governmental funds report expenditures of financial resources.

Interfund activity – Interfund activity is reported as either loans, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements are when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Accounting Estimates - The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. **Stewardship, Compliance and Accountability**

**Budgetary information**

A formal budget is adopted and formal budgetary accounting is employed as a management control for the General Fund and Special Revenue Fund. The City Council approves, by ordinance, the total annual budget consisting of anticipated revenues and proposed expenditures (appropriations). Any subsequent transfer of funds between major appropriations for different purposes must be approved by the Council before becoming effective. The basis for budgeting is the modified accrual basis, excluding certain expenditures such as compensated absences, which results in non-GAAP basis. All appropriations lapse at the end of the budget year to the extent that they have not been expended.

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

2. **Stewardship, compliance and accountability (continued)**

**Budgetary information (continued)**

The legal level of budgetary control (that is, the level at which expenditures cannot exceed budgeted appropriations) is at the department level. However, with proper approval by the City Council, budget transfers can be made. The budgeted financial statements represented in this report reflect the final budget authorization, including all amendments made by the City Council.

3. **Cash Deposits and Investments**

**Deposits**

At year-end, the carrying amount of the City's deposits (including cash on hand of \$700) was \$1,087,017 and the corresponding bank balances were \$1,192,363. Custodial risk, in the case of deposits, is the risk that in the event of a bank failure the City's deposits may not be returned to it. At year end, all of the City's deposits were covered by federal depository insurance or were covered by collateral held by the City's agent in the City's name.

**Investments**

At June 30, 2013, the City's investments were pooled in the state created Maryland Local Government Investments Pool (MLGIP). The fair values of those investments were \$2,353,761. Reconciliation of cash and temporary investments as shown on the Statement of Net Position:

Carrying amount of deposits	\$ 1,087,017
Carrying amount of temporary investments	<u>2,353,761</u>
	<u>\$ 3,440,778</u>
Per Statement of Net Position:	
Cash and investments	\$ 3,427,721
Restricted cash	<u>13,057</u>
	<u>\$ 3,440,778</u>

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

3. **Cash Deposits and Investments (continued)**

**Investments (continued)**

Investment rate risk - Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the City's exposure to fair value losses arising from increasing interest rates, the City's investment policy limits the term of investment maturities between thirty days to one year in order to remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. City management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the City from having to sell investments below original cost for that purpose. The investments at June 30, 2013, met the City investment policy as of that date. Investment income was comprised entirely of interest and dividends amounting to \$3,783 for the year ended June 30, 2013.

Credit risk - The investment policy of the City permits investments in the following types of investments as authorized by the State of Maryland: direct U.S. obligations, U.S. agency obligations, repurchase agreements, bankers' acceptances, municipal securities, commercial paper, money market mutual funds and the MLGIP. The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is under the administration of the State Treasurer. It is rated AAAM by Standard & Poor's, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net assets value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value.

Custodial credit risk - For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. The investments of the City were not exposed to custodial credit risk at June 30, 2013.

Foreign currency risk - The City's investment policy does not allow for investments denominated in foreign currencies.

Restricted cash - A lease agreement was entered into during fiscal year 2011 in which the City utilized \$136,975 of the \$150,000 borrowed. The remaining amount, \$13,057 (including interest earned) is held for the City by the bank to be used for future capital expenditures.

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

4. **Property taxes**

Real estate and personal property taxes are levied based on assessments determined by the State of Maryland.

Real estate taxes are levied on July 1 and are payable either by September 30 or in two equal installments on September 30 and December 31. Penalties and interest are charged thereafter. Liens are placed on delinquent property on the second Monday in May. Sale of property because of tax liens is conducted by Prince George's County.

Personal property taxes are levied throughout the year when the assessment is received from the State. They are payable 30 days after levy.

Real and personal property taxes are levied at rates enacted by the Mayor and City Council in the annual budget on the assessed value as determined by the Maryland State Department of Assessments and Taxation. Prince George's County collects all taxes billed and the City receives its share in monthly installments from the County. City property tax revenues are recognized when levied to the extent that they result in current receivables. The tax rate for fiscal year ended June 30, 2013 was \$0.79 per \$100 of assessed value for real property, \$1.98 per \$100 of assessed value for business personal property, and \$2.50 per \$100 of assessed value for public utility and railroad personal property.

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

**5. Capital assets**

Capital asset activity for the year ended June 30, 2013 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land and construction in progress	\$ 1,885,852	\$ 308,041	\$ -	\$ 2,193,893
Capital assets being depreciated:				
Land improvements	141,033	-	-	141,033
Building and improvements	3,106,497	245,699		3,352,196
Equipment and vehicles	1,522,724	3,446	(8,338)	1,517,832
Total capital assets being depreciated	4,770,254	249,145	(8,338)	5,011,061
Less accumulated depreciation for:				
Land improvements	4,701	9,402	-	14,103
Building and improvements	1,077,452	86,606	-	1,164,058
Equipment and vehicles	950,960	138,346	(8,243)	1,081,063
Total accumulated depreciation	2,033,113	234,354	(8,243)	2,259,224
Total capital assets being depreciated, net	2,737,141	14,791	(95)	2,751,837
Capital assets, net	\$ 4,622,993	\$ 322,832	\$ (95)	\$ 4,945,730

Depreciation expense was charged to functions/programs of the City as follows:

General government	\$ 42,763
Public works	68,285
Public safety	123,306
Total	\$ 234,354

**6. Due from other governments**

At June 30, 2013, the balance of due from other governments consisted of the following:

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

**6. Due from other governments (continued)**

Federal government:	
Justice program grants	\$ 990
CDBG	219,666
State of Maryland:	
Highway user	8,502
Income tax	53,822
Police grants	561
Storm drainage grant	22,875
Local:	
Other grants	<u>58,834</u>
Total	<u>\$ 365,250</u>

**7. Long-term debt**

The City issues general obligation bonds and other indebtedness to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and are pledged on the full faith and credit of the City.

**General obligation bonds**

In December 2008, the City issued its Series I-2008 bond in the amount of \$1,250,000. The bonds were issued for the purpose of funding the purchase of the Bass property. The bonds are due in semi-annual principal installments beginning June 4, 2009 and ending December 4, 2023. Interest is due semi-annually at the rate of 4.79%.

Debt service requirements to maturity for the I-2008 Series bonds are as follows at June 30, 2013:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>
June 30, 2014	\$ 80,585	\$ 37,193
June 30, 2015	84,492	33,287
June 30, 2016	88,587	29,191
June 30, 2017	92,881	24,897
June 30, 2018	97,384	20,395
Later years	<u>352,448</u>	<u>31,934</u>
	<u>\$ 796,377</u>	<u>\$ 176,897</u>

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

7. **Long-term debt (continued)**

**General obligation bonds (continued)**

In January 2009, the City issued its Series I-2009 bond in the amount of \$236,000. The bonds were issued for the purpose of financing the acquisition of three police vehicles and one trash truck. The bonds are due in semi-annual principal installments beginning August 18, 2009 and continuing on February 18 and August 18 of each year, with the final installment of principal and accrued interest due on February 18, 2014. Interest is due semi-annually at 3.43%.

Debt service requirements to maturity for the I-2009 Series bonds are as follows at June 30, 2013:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
June 30, 2014	<u>\$ 50,278</u>	<u>\$ 1,295</u>

In January 2010, the City issued its Series I-2010 bond in the amount of \$1,500,000. This bond was issued to pay off the 1996 Series "A" loan and 1997 Series "A" loan, which totaled \$821,234. The City received \$678,766 from the remainder of the bond, which was used to purchase land and building known as the Funeral Home property. The bonds are due in semi-annual payments with the final payment being due on December 30, 2024. Interest is due semi-annually at 4.3%.

Debt service requirements to maturity for the I-2010 Series bonds are as follows at June 30, 2013:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>
June 30, 2014	\$ 85,742	\$ 50,986
June 30, 2015	89,469	47,259
June 30, 2016	93,357	43,371
June 30, 2017	97,415	39,313
June 30, 2018	101,649	35,079
Later years	<u>739,295</u>	<u>110,681</u>
	<u>\$ 1,206,927</u>	<u>\$ 326,689</u>

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

7. **Long-term debt (continued)**

**Capital leases**

The City has entered into the following agreements which meet the criteria of a capital lease. Lease payments are appropriated from general fund resources. The equipment underlying these agreements has an original cost of \$236,515 and a book value net of accumulated depreciation of \$134,326.

In July of 2007, the City entered into an agreement with Municipal Services Group, Inc. to finance a trash truck. The agreement required monthly payments in the amount of \$1,335.36 for 60 months at a 5.04% interest rate. This lease was paid in full in fiscal year 2013.

In July 2009, the City entered into an agreement with M&T Bank to lease a Crown Victoria police car. The agreement requires monthly payments of \$807.06 for a period of 36 months at a 5.35% interest rate. This lease was paid in full in fiscal year 2013.

In July 2010, the City entered into an agreement with BB&T Bank to finance a police vehicle, dump truck, and Bobcat. The agreement requires annual payments in the amount of \$39,911.11 for a period of 4 years at 2.54% interest rate.

The following is a schedule of the future minimum lease payments under these capital lease arrangements at June 30, 2013:

<u>Years Ending</u>	<u>Payments</u>
June 30, 2014	\$ 39,911
June 30, 2015	<u>39,911</u>
Total payments	79,822
Less interest	<u>2,941</u>
Present value of lease payments	<u>\$ 76,881</u>

**Changes in long-term debt**

The following is a summary of changes in general long-term debt:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due within</u> <u>One Year</u>
General obligation bonds	\$ 2,261,421	\$ -	\$ (207,839)	\$ 2,053,582	\$ 216,605
Capital leases	117,628	-	(40,747)	76,881	38,922
Accrued vacation leave	<u>203,064</u>	-	<u>(964)</u>	<u>202,100</u>	-
Total	<u>\$ 2,582,113</u>	<u>\$ -</u>	<u>\$ (249,550)</u>	<u>\$ 2,332,563</u>	<u>\$ 255,527</u>

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

**8. Interfund receivables and payables**

Interfund receivable and payable balances at June 30, 2013, were:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 83,489	\$ -
Special Revenue Fund	-	83,489
	<u>\$ 83,489</u>	<u>\$ 83,489</u>

**9. Fund balance**

The Council of the City of Mount Rainier has assigned \$467,104 of the fund balance for subsequent expenditures. The restricted fund balance of \$487,139, which was generated from the speed monitoring program, has been restricted for public safety programs and \$13,025 was restricted for capital expenditures.

**10. State retirement and pension systems of Maryland**

**Plan Description**

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 (the State System), and are cost-sharing multiple-employer public employee retirement systems. The State System provides pension, death, and disability benefits to plan members and beneficiaries.

The Plan is administered by the State Retirement Agency ("Agency"). Responsibility for the administration and operation of the State System is vested in a 14-member Board of Trustees. The State System 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 State System. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202-1600 or calling (800) 492-5909.

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

**10. State retirement and pension systems of Maryland**

**Funding policy**

The State Personnel and Pensions Article require active members to contribute to the System at the rate of 5% to 7% of their covered salary, depending on the retirement option selected. The City is required to contribute at an actuarially determined rate. The City's contribution for the year ended June 30, 2013, was \$172,570, which was equal to the required contribution for the year.

**11. Deferred compensation**

The government offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all government employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property rights purchased with those amounts, and all income attributable to those amounts, property or rights are the property and rights of the participants.

**12. Contingent liabilities**

The City participates in a number of state and federally assigned grant programs which are subject to financial and compliance audits by the grantors or their representatives. Disallowed claims, if any, may constitute a liability of the applicable fund. The claims which may be disallowed cannot be currently determined, although the City expects such amounts, if any, to be immaterial.

**13. Litigation**

There are various pending lawsuits in which the City is involved. The City attorney and legal counsel for the insurance carrier estimate that the potential claims against the City not covered by insurance, if any, would not materially affect the financial statements of the City.

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

**14. 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's general liability risks are financed through the City's participation in the Local Government Insurance Trust (LGIT). The City pays an annual premium to LGIT for its general insurance coverage. The agreement with LGIT provides that LGIT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000,000. The City continues to carry commercial insurance for employee health and accident insurance and worker's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage, and no significant reductions in insurance coverage have occurred, in any of the past three fiscal years.

**15. Post retirement benefits**

The City has no liability for post retirement benefits at June 30, 2013.

**12. Subsequent events**

The City evaluated subsequent events for potential required disclosures through February 7, 2014, which represents the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF MOUNT RAINIER, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
GENERAL FUND - SUMMARIZED

YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes	\$ 3,584,000	\$ 3,584,000	\$ 3,816,109	\$ 232,109
Licenses and permits	411,500	411,500	445,368	33,868
Intergovernmental	133,550	133,550	161,155	27,605
Charges for services	49,750	49,750	41,367	(8,383)
Fines and forfeitures	92,000	92,000	188,676	96,676
Miscellaneous	28,250	28,250	131,393	103,143
Investment earnings	<u>2,500</u>	<u>2,500</u>	<u>3,771</u>	<u>1,271</u>
Total revenues	<u>4,301,550</u>	<u>4,301,550</u>	<u>4,787,839</u>	<u>486,289</u>
<b>EXPENDITURES:</b>				
General government	847,500	847,500	770,735	76,765
Public safety	2,070,900	2,070,900	2,167,196	(96,296)
Public works	956,250	956,250	1,008,546	(52,296)
Community development	90,550	90,550	87,226	3,324
Miscellaneous	163,600	163,600	72,866	90,734
Debt service	351,750	351,750	349,904	1,846
Capital outlay	<u>500</u>	<u>500</u>	<u>146,544</u>	<u>(146,044)</u>
Total expenditures	<u>4,481,050</u>	<u>4,481,050</u>	<u>4,603,017</u>	<u>(121,967)</u>
Excess (deficiency) of revenues over expenditures	(179,500)	(179,500)	184,822	364,322
Appropriation of fund balance	<u>179,500</u>	<u>179,500</u>	<u>-</u>	<u>(179,500)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 184,822</u>	<u>\$ 184,822</u>

See independent auditor's report.

CITY OF MOUNT RAINIER, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
 GENERAL FUND  
 (CONTINUED)

YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes:				
Real estate	\$ 2,980,000	\$ 2,980,000	\$ 3,077,097	\$ 97,097
Business personal property	53,000	53,000	53,751	751
Public utilities personal property	75,000	75,000	70,781	(4,219)
Admission and amusement	-	-	6,526	6,526
Property liens	7,500	7,500	21,373	13,873
Penalties and interest on taxes	3,500	3,500	25,498	21,998
Miscellaneous	-	-	-	-
Shared income tax - state	465,000	465,000	561,083	96,083
Total taxes	<u>3,584,000</u>	<u>3,584,000</u>	<u>3,816,109</u>	<u>232,109</u>
Licenses and permits:				
Burglar alarm registration	750	750	825	75
CDMA fees	16,000	16,000	-	(16,000)
Occupancy/building license	9,250	9,250	10,356	1,106
Traders licenses	-	-	11	11
Residential rental licenses	232,500	232,500	244,855	12,355
Building permits	4,000	4,000	2,884	(1,116)
CATV revenue	50,000	50,000	67,433	17,433
Franchise fee	90,000	90,000	110,664	20,664
Vacant building fees	8,000	8,000	6,225	(1,775)
Other licenses and permits	1,000	1,000	2,115	1,115
Total licenses and permits	<u>411,500</u>	<u>411,500</u>	<u>445,368</u>	<u>33,868</u>

See independent auditor's report.

CITY OF MOUNT RAINIER, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
GENERAL FUND  
(CONTINUED)

YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES: (continued)</b>				
Intergovernmental:				
State:				
Highway user tax	\$ 15,000	\$ 15,000	\$ 36,632	\$ 21,632
Police protection	90,000	90,000	95,789	5,789
County:				
Disposal fee rebate	22,000	22,000	22,180	180
Financial	<u>6,550</u>	<u>6,550</u>	<u>6,554</u>	<u>4</u>
Total intergovernmental	<u>133,550</u>	<u>133,550</u>	<u>161,155</u>	<u>27,605</u>
Charges for services:				
Brentwood MOU police	500	500	-	(500)
Public parking facilities	35,000	35,000	26,987	(8,013)
Public transportation	2,500	2,500	2,515	15
Waste collection	1,500	1,500	826	(674)
Trash hauler fees	500	500	1,940	1,440
CDMA administrative fees	750	750	625	(125)
City service fees	4,500	4,500	2,461	(2,039)
Other charges for services	<u>4,500</u>	<u>4,500</u>	<u>6,013</u>	<u>1,513</u>
Total charges for services	<u>49,750</u>	<u>49,750</u>	<u>41,367</u>	<u>(8,383)</u>
Fines and forfeitures:				
Parking fines	42,500	42,500	29,820	(12,680)
Complus parking	-	-	30,635	30,635
Meter violations	15,500	15,500	10,290	(5,210)
Complus meter violations	-	-	15,810	15,810
Parking citation recovery	15,000	15,000	22,250	7,250
Municipal code violations	3,000	3,000	4,190	1,190
Speed camera	10,000	10,000	68,721	58,721
Impoundment fees	6,000	6,000	6,460	460
Other fines and forfeitures	<u>-</u>	<u>-</u>	<u>500</u>	<u>500</u>
Total fines and forfeitures	<u>92,000</u>	<u>92,000</u>	<u>188,676</u>	<u>96,676</u>

See independent auditor's report.

CITY OF MOUNT RAINIER, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
 GENERAL FUND  
 (CONTINUED)

YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES: (continued)</b>				
Miscellaneous:				
Interest	\$ 2,500	\$ 2,500	\$ 3,771	\$ 1,271
Sales of property	-	-	785	785
Bus shelter advertising	500	500	642	142
Rent income	26,000	26,000	26,850	850
Confiscated funds	-	-	-	-
Insurance damage recovery	-	-	83,324	83,324
National night out	500	500	-	(500)
Mount Rainier day	1,000	1,000	3,280	2,280
Bike co-op	-	-	852	852
Other revenue	250	250	15,660	15,410
Total miscellaneous	<u>30,750</u>	<u>30,750</u>	<u>135,164</u>	<u>104,414</u>
<b>Total Revenues</b>	<b>\$ <u>4,301,550</u></b>	<b>\$ <u>4,301,550</u></b>	<b>\$ <u>4,787,839</u></b>	<b>\$ <u>486,289</u></b>
<b>EXPENDITURES:</b>				
General government:				
Mayor and council:				
Personnel	\$ 34,000	\$ 34,000	\$ 32,777	\$ 1,223
Other operating	18,750	18,750	18,109	641
Total Mayor and Council	<u>52,750</u>	<u>52,750</u>	<u>50,886</u>	<u>1,864</u>
City Administration:				
Personnel	487,250	487,250	467,355	19,895
Other operating	109,250	109,250	72,960	36,290
Total City administration	<u>596,500</u>	<u>596,500</u>	<u>540,315</u>	<u>56,185</u>

See independent auditor's report.

CITY OF MOUNT RAINIER, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
GENERAL FUND  
(CONTINUED)

YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES: (continued)</b>				
3409 Rhode Island Avenue:				
Other operating	\$ 11,000	\$ 11,000	\$ 10,129	\$ 871
3200 Rhode Island Avenue:				
Other operating	500	500	368	132
3204-3208 Rhode Island Avenue:				
Other operating	500	500	290	210
3405 Rhode Island Avenue:				
Other operating	8,000	8,000	6,367	1,633
Legal and elections:				
Other operating	42,000	42,000	52,202	(10,202)
3601 Bunker Hill:				
Other operating	5,500	5,500	4,241	1,259
Communications and newsletter:				
Other operating	31,000	31,000	30,478	522
Communications - cable TV:				
Personnel	21,250	21,250	20,122	1,128
Other operating	42,000	42,000	25,614	16,386
Total Communications - Cable TV	63,250	63,250	45,736	17,514
Mount Rainier Day:				
Personnel	9,250	9,250	7,756	1,494
Other operating	9,750	9,750	9,893	(143)
Total Mount Rainier Day	19,000	19,000	17,649	1,351
City tax credit:				
Other operating	17,500	17,500	12,074	5,426
Total General Government	847,500	847,500	770,735	76,765

See independent auditor's report.

CITY OF MOUNT RAINIER, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
GENERAL FUND  
(CONTINUED)

YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES: (continued)</b>				
Public safety:				
Police:				
Personnel	\$ 1,577,450	\$ 1,577,450	\$ 1,540,411	\$ 37,039
Other operating	<u>257,500</u>	<u>257,500</u>	<u>248,593</u>	<u>8,907</u>
Total Police	<u>1,834,950</u>	<u>1,834,950</u>	<u>1,789,004</u>	<u>45,946</u>
Parking enforcement:				
Personnel	50,550	50,550	47,322	3,228
Other operating	<u>21,000</u>	<u>21,000</u>	<u>31,250</u>	<u>(10,250)</u>
Total parking enforcement	<u>71,550</u>	<u>71,550</u>	<u>78,572</u>	<u>(7,022)</u>
Speed camera:				
Other operating	<u>4,000</u>	<u>4,000</u>	<u>140,608</u>	<u>(136,608)</u>
Code enforcement:				
Personnel	127,650	127,650	133,435	(5,785)
Other operating	<u>25,500</u>	<u>25,500</u>	<u>20,244</u>	<u>5,256</u>
Total code enforcement	<u>153,150</u>	<u>153,150</u>	<u>153,679</u>	<u>(529)</u>
National night out:				
Personnel	3,750	3,750	2,371	1,379
Other operating	<u>2,000</u>	<u>2,000</u>	<u>1,462</u>	<u>538</u>
Total National Night Out	<u>5,750</u>	<u>5,750</u>	<u>3,833</u>	<u>1,917</u>
Fire department:				
Other operating	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>-</u>
Total Public Safety	<u>2,070,900</u>	<u>2,070,900</u>	<u>2,167,196</u>	<u>(96,296)</u>

See independent auditor's report.

CITY OF MOUNT RAINIER, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
 GENERAL FUND  
 (CONTINUED)

YEAR ENDED JUNE 30, 2013

EXPENDITURES: (continued)	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Public Works:				
Public works administration:				
Personnel	\$ 544,750	\$ 544,750	\$ 526,726	\$ 18,024
Other operating	<u>147,500</u>	<u>147,500</u>	<u>206,269</u>	<u>(58,769)</u>
Total Public works administration	<u>692,250</u>	<u>692,250</u>	<u>732,995</u>	<u>(40,745)</u>
Highway and street:				
Other operating	<u>69,000</u>	<u>69,000</u>	<u>93,223</u>	<u>(24,223)</u>
Street lighting:				
Other operating	<u>110,000</u>	<u>110,000</u>	<u>107,407</u>	<u>2,593</u>
Waste disposal:				
Other operating	<u>85,000</u>	<u>85,000</u>	<u>74,921</u>	<u>10,079</u>
Total Public Works	<u>956,250</u>	<u>956,250</u>	<u>1,008,546</u>	<u>(52,296)</u>
Community development:				
Call-A-Bus:				
Personnel	57,800	57,800	55,098	2,702
Other operating	<u>12,000</u>	<u>12,000</u>	<u>10,151</u>	<u>1,849</u>
Total Call-A-Bus	<u>69,800</u>	<u>69,800</u>	<u>65,249</u>	<u>4,551</u>
Library:				
Other operating	<u>9,500</u>	<u>9,500</u>	<u>7,224</u>	<u>2,276</u>
Community programs:				
Other operating	<u>9,500</u>	<u>9,500</u>	<u>11,569</u>	<u>(2,069)</u>

See independent auditor's report.

CITY OF MOUNT RAINIER, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
 GENERAL FUND  
 (CONTINUED)

YEAR ENDED JUNE 30, 2013

EXPENDITURES: (continued)	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Bike Co-op:				
Other operating	\$ 1,000	\$ 1,000	\$ 2,981	\$ (1,981)
Tool shed:				
Other operating	750	750	203	547
Total community development	90,550	90,550	87,226	3,324
Miscellaneous:				
General insurance	105,250	105,250	72,866	32,384
Fund reserve	38,350	38,350	-	38,350
Contingency	20,000	20,000	-	20,000
Total miscellaneous	163,600	163,600	72,866	90,734
Debt service:				
Principal	240,750	240,750	248,586	(7,836)
Interest	111,000	111,000	101,318	9,682
Total Debt Service	351,750	351,750	349,904	1,846
Capital outlay:				
Capital equipment	500	500	900	(400)
Redevelop City Funds	-	-	145,644	(145,644)
Total Capital Outlay	500	500	146,544	(146,044)
<b>Total Expenditures</b>	<b>\$ 4,481,050</b>	<b>\$ 4,481,050</b>	<b>\$ 4,603,017</b>	<b>\$ (121,967)</b>
Excess (deficiency) of revenues over expenditures	(179,500)	(179,500)	184,822	364,322
Appropriation of fund balance	179,500	179,500	-	(179,500)
Net change in fund balance	\$ -	\$ -	\$ 184,822	\$ 184,822

See independent auditor's report.

CITY OF MOUNT RAINIER, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Intergovernmental:				
Federal grants:				
Justice program	\$ -	\$ -	\$ 990	\$ 990
CDBG grant	100,000	100,000	241,728	141,728
FTA Transportation grant	-	-	(8,276)	(8,276)
State grants:				
State Bond Bill Grant	-	-	150,000	150,000
GOCCP Bryne grant	-	-	-	-
SHA DWI grant	3,000	3,000	-	(3,000)
Chesapeake Bay Trust grant	-	-	29,317	29,317
County grants:				
County tree grant	10,000	10,000	-	(10,000)
Community legacy grant	-	-	37,396	37,396
Mount Rainier Day grant	1,000	1,000	2,500	1,500
National night out	1,000	1,000	1,000	-
Community Garden grant	-	-	2,500	2,500
Storm drainage grant	-	-	22,875	22,875
Total Intergovernmental	115,000	115,000	480,030	365,030
Miscellaneous:				
LGIT Grant	-	-	1,160	1,160
Interest	-	-	12	12
<b>Total Revenue</b>	<u>115,000</u>	<u>115,000</u>	<u>481,202</u>	<u>366,202</u>

See independent auditor's report.

CITY OF MOUNT RAINIER, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
 SPECIAL REVENUE FUND  
 (CONTINUED)

YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES:</b>				
General government:				
Employee training - LGIT grant	\$ -	\$ -	\$ 1,160	\$ (1,160)
Community Garden	-	-	1,146	(1,146)
Community legacy	-	-	37,397	(37,397)
Mount Rainier Day	1,000	1,000	2,500	(1,500)
Chesapeake Bay Trust grant expense	-	-	29,316	(29,316)
Total general government	<u>1,000</u>	<u>1,000</u>	<u>71,519</u>	<u>(70,519)</u>
Public Safety:				
CSAFE grant expenses	13,000	13,000	-	13,000
Justice program	-	-	990	(990)
Police grant	-	-	-	-
National Night Out grant	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>-</u>
Total Public Safety	<u>14,000</u>	<u>14,000</u>	<u>1,990</u>	<u>12,010</u>
Public Works:				
Tree grant	-	-	-	-
Rainier Ave. - drain project	-	-	22,875	(22,875)
Public works FTA grant	-	-	150,000	(150,000)
Total Public Works	<u>-</u>	<u>-</u>	<u>172,875</u>	<u>(172,875)</u>
Community development:				
CDBG contract work	<u>100,000</u>	<u>100,000</u>	<u>241,728</u>	<u>(141,728)</u>
<b>Total Expenditures</b>	<u>115,000</u>	<u>115,000</u>	<u>488,112</u>	<u>(373,112)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,910)</u>	<u>\$ (6,910)</u>

See independent auditor's report.

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2013

1. **Budgetary Information**

Formal budgetary accounting is employed as a management control during the year for the General Fund. The City Council approves, by ordinance, the total annual budget consisting of anticipated revenues and proposed expenditures (appropriations). Any subsequent budget transfers must be approved by the Council before becoming effective. All appropriations lapse at the end of the budget year to the extent that they were not expended.

2. **Reconciliation of budgetary basis and GAAP basis**

Actual results of operations are presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund and the Schedules of Revenues and Expenditures - Budget and Actual - Non-GAAP Budgetary Basis, in order to provide a meaningful comparison of actual results with budget estimates.

3. **Other disclosures**

The expenditures exceeded the budgeted amounts for the following departments:

General Fund:

Legal and elections	\$	10,202
Parking enforcement		7,022
Speed camera		136,608
Code enforcement		529
Public Works administration		40,745
Highway and street		24,223
Community programs		2,069
Bike co-op		1,981
Capital outlay		146,044

Special Revenue Fund:

General government		70,519
Public works		172,875
Community development		141,728

CITY OF MOUNT RAINIER, MARYLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2013

**3. Other disclosures (continued)**

The major difference between budget basis and GAAP basis is the appropriation of prior year surplus as a revenue item. \$179,500 of fund balance was included as a revenue source on the budgetary statement.

The departments on the Schedule of Revenues and Expenditures - Budget and Actual have been further grouped by major governmental functions.



**INDEPENDENT AUDITOR'S 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  
City of Mount Rainier, 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 and the major fund of the City of Mount Rainier, Maryland (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Mount Rainier, Maryland's basic financial statements, and have issued our report thereon dated February 7, 2014.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 of Mount Rainier, Maryland's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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.

Murphy & Murphy, CPA, LLC

La Plata, Maryland  
February 7, 2014