

CITY OF MOUNT RAINIER, MARYLAND  
Mount Rainier, Maryland

FINANCIAL STATEMENTS

For The Year Ended June 30, 2012



BRIDGETT  
MOCK  
& ASSOCIATES, P.A.  
Certified Public Accountants

CITY OF MOUNT RAINIER, MARYLAND  
 For The Year Ended June 30, 2012  
 TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report .....	1 - 2
Management's Discussion and Analysis .....	3 - 10
 <b>FINANCIAL STATEMENTS</b>	
Statement of Net Assets .....	11
Statement of Activities .....	12
Balance Sheet Governmental Funds .....	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds .....	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	16
Notes to Financial Statements .....	17 - 32
 <b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Revenues and Expenditures Budget and Actual - Non-GAAP Budgetary Basis General Fund .....	34
Schedule of Revenues and Expenditures Budget and Actual - Non-GAAP Budgetary Basis General Fund .....	35 - 39
Schedule of Revenues and Expenditures Budget and Actual - Non-GAAP Budgetary Basis Special Revenue Fund .....	40 - 41
Notes to Required Supplementary Information .....	42

CITY OF MOUNT RAINIER, MARYLAND  
For The Year Ended June 30, 2012  
TABLE OF CONTENTS  
(continued)

Page  
Number

**SINGLE AUDIT**

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> .....	44 - 45
Independent Auditor's Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133 .....	46 - 47
Schedule Of Expenditures Of Federal Awards .....	48
Notes To The Schedule Of Expenditures Of Federal Awards .....	49
Schedule Of Findings And Questioned Costs .....	50 - 53

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Council of the  
City of Mount Rainier, Maryland  
Mount Rainier, Maryland

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Mount Rainier, Maryland, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Mount Rainier, Maryland's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Mount Rainier, Maryland, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 34 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mount Rainier, Maryland's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Bridgett, Mock + Associates, P.A.*

Waldorf, Maryland  
December 10, 2012

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

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, 2012. Please read it with the City's financial statements, which immediately follow this section.

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**FINANCIAL HIGHLIGHTS**

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- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,538,862 (net assets).
- The City's total net assets increased by \$604,770.
- As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance totaling \$3,193,156, an increase of \$205,049.

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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:

- \* Governmental 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 32 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 41 of this report.

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## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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### Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. The City's combined assets exceeded liabilities by \$5,538,862 at the close of the most recent fiscal year.

The City's combined net assets increased by \$604,770, which came from the City's governmental activities. This increase is primarily as a result of increase in taxes, grant revenue, and speed camera program.

The following table presents a summary of the *statement of net assets* for the City as of June 30, 2012 and 2011.

**Table A-1**  
**Condensed Statement Of Net Assets**

	Governmental Activities	
	2012	2011
ASSETS		
Current and other assets	\$ 4,087,947	\$ 3,905,713
Capital assets	4,622,993	4,580,854
Total Assets	<u>\$ 8,710,940</u>	<u>\$ 8,486,567</u>
LIABILITIES		
Long-term debt outstanding	\$ 2,582,113	\$ 2,846,668
Other liabilities	589,965	705,807
Total Liabilities	<u>\$ 3,172,078</u>	<u>\$ 3,552,475</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 2,256,969	\$ 1,954,919
Restricted	660,837	686,553
Unrestricted	2,621,056	2,292,620
Total Net Assets	<u>\$ 5,538,862</u>	<u>\$ 4,934,092</u>

### Changes In Net Assets

The City's revenue totaled \$5,641,901 (see Table A-2). Of the City's revenue, 55.7% comes from property taxes and 65.8 cents (\$0.658) of every dollar comes from some type of tax (see Figure A-1).

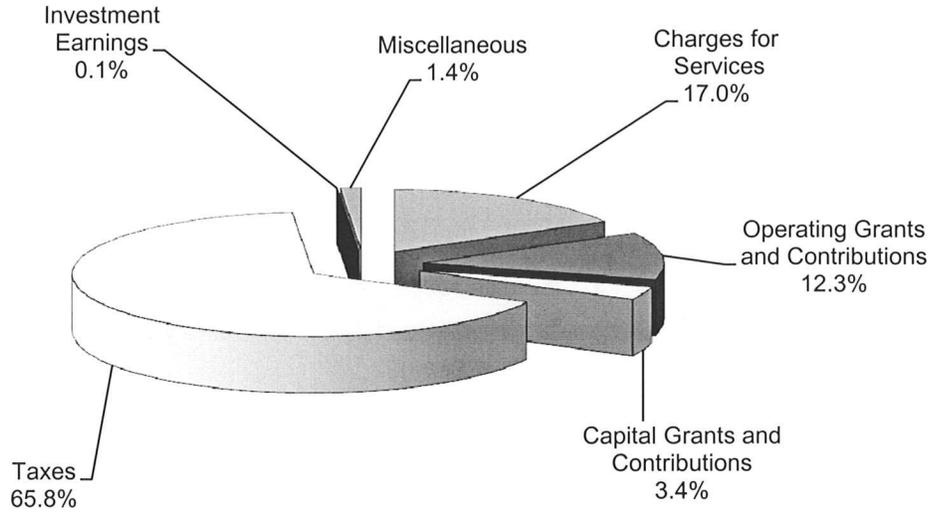
The total cost of all programs and services was \$5,037,131. The City's expenses cover a range of services, with about 48% related to public safety (see Figure A-2).

The following table presents a summary of the statement of activities for the City for the year ended June 30, 2012 and 2011.

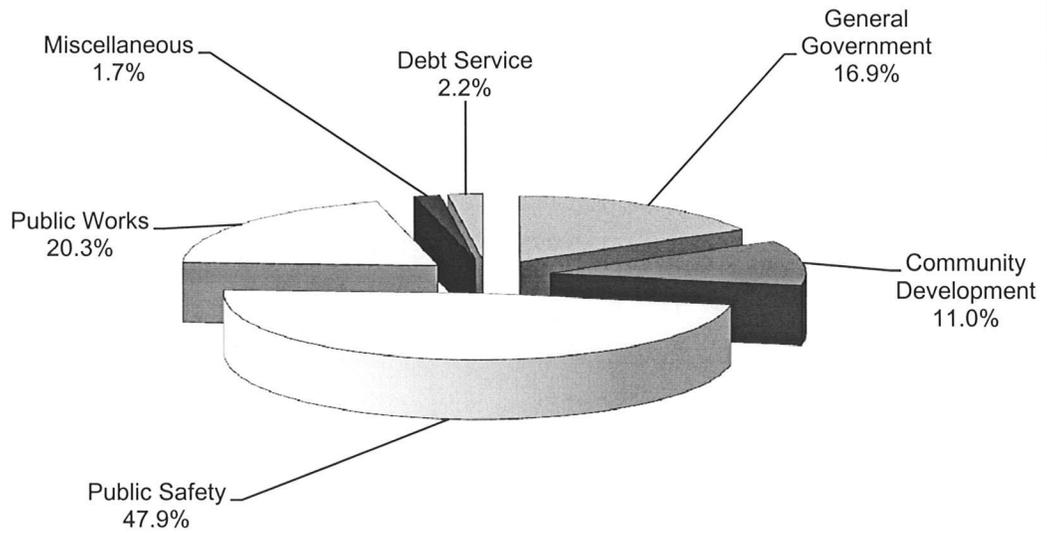
**Table A-2**  
**Changes In Local Net Assets**

	Governmental Activities	
	2012	2011
Revenues		
Program revenues		
Charges for services	\$ 959,469	\$ 2,385,502
Operating grants	695,894	749,699
Capital grants	191,963	-
General revenues		
Property taxes	3,142,731	3,204,422
Income taxes	545,605	507,632
Other taxes	24,811	22,180
Interest earnings	3,309	6,099
Other	78,119	114,067
Total Revenues	<u>5,641,901</u>	<u>6,989,601</u>
Expenses		
General government	851,899	971,394
Public safety	2,414,872	3,260,841
Public works	1,020,600	1,222,985
Community development	556,298	72,776
Miscellaneous	83,551	167,975
Debt service - interest	109,911	122,505
Total Expenses	<u>5,037,131</u>	<u>5,818,476</u>
Increase in Net Assets	604,770	1,171,125
Net Assets - Beginning of Year	4,934,092	3,706,427
Prior Period Adjustments	-	56,540
Net Assets - Beginning of Year, Restated	<u>4,934,092</u>	<u>3,762,967</u>
Net Assets - End of Year	<u>\$ 5,538,862</u>	<u>\$ 4,934,092</u>

### SOURCES OF REVENUES FOR FISCAL YEAR 2012



### FUNCTIONAL EXPENSES FOR FISCAL YEAR 2012



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**FUND FINANCIAL STATEMENT ANALYSIS**

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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. In particular, unassigned fund balance may serve as a useful measure of a government'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 ending fund balances totaling \$3,193,156, an increase of \$205,049. Of this total amount, \$2,297,596 represents unassigned fund balance. The remainder of the fund balance consists of nonspendable for prepaid items of \$30,209, restricted for public safety of \$647,812, restricted for capital expenditures of \$13,025, and assigned for subsequent expenditures of \$204,514.

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 \$2,297,596, while total fund balance was \$3,168,142. During fiscal year 2012, the balance of the City's general fund increased by \$205,027.

The special revenue fund balance increased by \$22 during the current fiscal year.

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**GENERAL FUND BUDGETARY HIGHLIGHTS**

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The original general fund budget was amended once during the year.

Most of the budget variance was due to larger than expected revenues and corresponding expenses associated with the speed program monitoring.

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

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**Capital Assets**

The City's investment in capital assets for its governmental activities as of June 30, 2012 was \$4,622,993 (net of accumulated depreciation). The investment in capital assets includes land/construction in progress, land improvements, buildings and improvements, equipment and vehicles. The following is a summary of the capital assets net of depreciation.

**Capital Assets Net Of Depreciation**

	Governmental Activities	
	2012	2011
Land/construction in progress	\$ 1,885,852	\$ 1,815,426
Land improvements	136,332	-
Buildings and improvements	2,029,045	2,109,564
Equipment and vehicles	571,764	655,864
Total	<u>\$ 4,622,993</u>	<u>\$ 4,580,854</u>

Included in the capital assets purchased this year by the City was equipment and vehicles totaling \$67,252, land improvements (parking lot) of \$141,033, and construction in progress of \$70,426.

**Long-Term Debt**

At year-end, the City had \$2,582,113 in outstanding debt. There was no new debt obtained during the year.

Long-term debt consists of the following:

**Long-Term Liabilities**

	Governmental Activities	
	2012	2011
Bonds payable	\$ 2,261,421	\$ 2,460,416
Capital lease obligations	117,628	178,544
Accumulated compensated absences	203,064	207,708
Total	<u>\$ 2,582,113</u>	<u>\$ 2,846,668</u>

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**MAINTAINING THE CONDITIONS OF THE CITY'S INFRASTRUCTURE**

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Prospective accounting of the City infrastructure has been adopted by the City. During fiscal year 2012, the City performed maintenance on several road projects.

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## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

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- Actual revenues for fiscal year 2013 are expected to remain at the same level as fiscal year 2012.
- Salaries expense for fiscal year 2013 includes no COLA and no merit increases for both bargaining unit and non-bargaining unit employees.
- Real property tax will remain at fiscal year 2012 levels, i.e., 79 cents (\$0.79) per \$100 of assessed valuation. The City has maintained this rate for the last eight fiscal years.
- Funding of \$6,000 is included for the continuance of the Youth Recreation Program and \$1,000 for Bike-Co-op Program.
- Funding of \$3,500 is included for the Home Tour and Farmer's Market expenses.
- Funding of \$13,500 is included for the continuation of the City Homeowner's Tax Credit and \$4,000 for the Historic Preservation Tax Credit.
- The City projects revenues of \$10,000 from speed monitoring violations. The funds will be utilized for public safety expenditures.

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## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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This financial report is designed to provide our citizens, taxpayers, 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 any questions about this report or need additional 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 ASSETS  
June 30, 2012

	Governmental Activities
<b>ASSETS</b>	
Cash and investments	\$ 3,486,462
Restricted cash	13,025
Taxes receivable	222,762
Prepaid items	122,709
Due from other governments	189,902
Other receivables	53,087
Land	1,659,727
Construction in progress	226,125
Other capital assets, net of depreciation	2,737,141
Total Assets	\$ 8,710,940
<b>LIABILITIES</b>	
Accounts payable	\$ 245,071
Accrued salaries	83,394
Other payables	44,938
Liability for seized assets	57,056
Unearned revenue	159,506
Long term debt	
Due within one year	239,876
Due in more than one year	2,342,237
Total Liabilities	\$ 3,172,078
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	\$ 2,256,969
Restricted	
Public Safety	647,812
Capital expenditures	13,025
Unrestricted	2,621,056
Total Net Assets	\$ 5,538,862

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

CITY OF MOUNT RAINIER, MARYLAND  
STATEMENT OF ACTIVITIES  
June 30, 2012

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities				
General government	\$ 851,899	\$ 492,799	\$ 70,426	\$ (281,991)
Public safety	2,414,872	461,463	-	(1,793,056)
Public works	1,020,600	5,207	121,537	(813,964)
Community development	556,298	-	-	(107,332)
Miscellaneous	83,551	-	-	(83,551)
Debt service - interest	109,911	-	-	(109,911)
Total Governmental Activities	\$ 5,037,131	\$ 959,469	\$ 191,963	(3,189,805)
General revenues				
Property taxes				3,142,731
Income taxes				545,605
Other taxes				24,811
Investment earnings				3,309
Miscellaneous				78,119
Total General Revenues				3,794,575
Change in net assets				604,770
Net assets - beginning of year				4,934,092
Net assets - end of year				\$ 5,538,862

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

CITY OF MOUNT RAINIER, MARYLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and investments	\$ 3,461,448	\$ 25,014	\$ 3,486,462
Restricted cash	13,025	-	13,025
Taxes receivable (net of allowance of \$6,000)	222,762	-	222,762
Prepaid items	30,209	-	30,209
Due from other governments	121,347	68,555	189,902
Due from other funds	55,727	-	55,727
Other receivables	53,087	-	53,087
	<u>\$ 3,957,605</u>	<u>\$ 93,569</u>	<u>\$ 4,051,174</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 241,549	\$ 3,522	\$ 245,071
Accrued salaries	83,394	-	83,394
Other payables	40,500	-	40,500
Due to other funds	-	55,727	55,727
Liability for seized assets	57,056	-	57,056
Deferred revenue	366,964	9,306	376,270
Total Liabilities	<u>789,463</u>	<u>68,555</u>	<u>858,018</u>
<b>FUND EQUITY</b>			
Fund balances			
Nonspendable			
For prepaid items	30,209	-	30,209
Restricted			
Public safety	647,812	-	647,812
Capital expenditures	13,025	-	13,025
Assigned			
For subsequent years' expenditures	179,500	25,014	204,514
Unassigned	2,297,596	-	2,297,596
Total Fund Balances	<u>3,168,142</u>	<u>25,014</u>	<u>3,193,156</u>
Total Liabilities And Fund Equity	<u>\$ 3,957,605</u>	<u>\$ 93,569</u>	<u>\$ 4,051,174</u>

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

CITY OF MOUNT RAINIER, MARYLAND  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
For The Year Ended June 30, 2012

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 3,193,156

AMOUNTS REPORTED IN GOVERNMENTAL ACTIVITIES  
IN THE STATEMENT OF NET ASSETS ARE  
DIFFERENT BECAUSE

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

Cost of capital assets	6,656,106	
Accumulated depreciation	<u>2,033,113</u>	4,622,993

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. (2,582,113)

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. (4,438)

Certain prepaid expenses are expensed in the current period and, therefore, are not reported as an asset on the governmental fund balance sheet. 92,500

Certain receivables are offset by deferred revenue in the governmental funds since they are not available to pay for current-period expenditures. This is the amount of deferred revenue related to these receivables. 216,764

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 5,538,862

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

CITY OF MOUNT RAINIER, MARYLAND  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2012

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 3,692,510	\$ -	\$ 3,692,510
Licenses and permits	447,342	-	447,342
Intergovernmental	188,305	728,286	916,591
Charges for service charges	50,967	-	50,967
Fines and forfeitures	461,160	-	461,160
Miscellaneous	74,852	22	74,874
Total Revenues	<u>4,915,136</u>	<u>728,308</u>	<u>5,643,444</u>
EXPENDITURES			
Current			
General government	802,830	77,109	879,939
Public safety	2,336,120	64,564	2,400,684
Public works	964,620	137,647	1,102,267
Community development	107,332	448,966	556,298
Miscellaneous	83,551	-	83,551
Debt service			
Principal	259,911	-	259,911
Interest	111,981	-	111,981
Capital outlay	43,764	-	43,764
Total Expenditures	<u>4,710,109</u>	<u>728,286</u>	<u>5,438,395</u>
EXCESS OF REVENUES OVER EXPENDITURES	205,027	22	205,049
FUND BALANCES - BEGINNING OF YEAR	<u>2,963,115</u>	<u>24,992</u>	<u>2,988,107</u>
FUND BALANCES - END OF YEAR	<u>\$ 3,168,142</u>	<u>\$ 25,014</u>	<u>\$ 3,193,156</u>

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

CITY OF MOUNT RAINIER, MARYLAND  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2012

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 205,049

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE  
STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE

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.

Capital outlays	278,711	
Depreciation	<u>(236,572)</u>	42,139

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.

4,644

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 assets.

Proceeds	-	
Repayments	<u>259,911</u>	259,911

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.

(1,543)

Interest expense in the Statement of Activities differs from the amount reported in governmental funds due to the net change in accrued interest.

2,070

Some expenditures reported in governmental funds are reported as prepaid expenses in the statement of activities.

92,500

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 604,770

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

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012

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

A. General Statement

The City of Mount Rainier (the City) was incorporated in 1910. The City operates under a Mayor-Council form of government. Services provided by the City include street maintenance, recreation, and public safety.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

B. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Mount Rainier has no component units.

C. Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are those supported through customer service charges. The City does not have any business-type activities.

The statement of net assets is designed to display the financial position of the City as of the fiscal year end. Governmental activities are reported on a consolidated basis and are reported on a full accrual economic resource basis, which recognizes all long-term assets, as well as long-term debt and obligations.

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012

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

C. Basis of Presentation (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Fund Financial Statements**

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The City has two major governmental funds, the General Fund and the Special Revenue Fund.

**General Fund**

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

**Special Revenue Fund**

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

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012

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

**D. Measurement Focus/Basis of Accounting** (continued)

The government-wide 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 assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using 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. Sales 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.

**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.

**E. Assets, Liabilities, and Equity**

**Cash and Investments**

For the purpose of the Statement of Net Assets, "Cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City.

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Equity (continued)

**Cash and Investments** (continued)

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

**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 modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. 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 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.

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Equity (continued)

**Capital Assets** (continued)

Government-Wide Statements (continued)

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. The City defines infrastructure assets to be capitalized as any road, street, and sidewalk which exceed a certain cost of \$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

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 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 financing sources and payment of principal and interest is reported as expenditures.

**Compensated Absences**

The City policies regarding vacation time permit 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, the 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.

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Equity (continued)

**Equity Classifications**

**Government-Wide Statements**

Equity is classified as net assets and displayed in three components:

- a. *Invested in Capital Assets, Net of Related Debt:* Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. *Restricted Net Assets:* Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted Net Assets:* All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Fund Statements**

In the fund financial statements, the governmental funds report will display fund balance in the following classifications depicting the strength of the spending constraints placed on the purposes for which resources can be used:

- a. *Nonspendable fund balance* - Amounts that are not in a spendable form or are required to be maintained intact.
- b. *Restricted fund balance* - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- c. *Committed fund balance* - Amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority.
- d. *Assigned fund balance* - Amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body or by an official body to which the governing body delegates the authority.
- e. *Unassigned fund balance* - Amounts that are available for any purpose; these amounts are reported only in the general fund.

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012

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

**F. Revenues, Expenditures, and Expenses**

**Revenue Recognition - Property Taxes**

Taxes are levied on July 1 and are due and all unpaid taxes levied July 1 become delinquent on October 1. Property taxes are attached as an enforceable lien on the underlying properties, which are sold at public auction in the succeeding May 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.

**Expenditure/Expenses**

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

In the fund financial statements, expenditures are classified as follows:

Governmental funds -	Current (further classified
by character	by function)
	Debt service
	Capital outlay

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

**Interfund Transfers**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue fund. The City Council approved, 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 coming effective. All appropriations lapse at the end of the budget year to the extent that they shall not have been expended.

CITY OF MOUNT RAINIER, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2012

**NOTE 3 - CASH AND INVESTMENTS**

**Deposits**

At year-end, the carrying amount of the City's deposits (including cash on hand of \$700) was \$1,198,491 and the corresponding bank balances were \$1,265,031. 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, \$1,265,031 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, 2012, the City's investments were pooled in the State created Maryland Local Government Investment Pool (MLGIP), and a money market fund. The fair values of those investments were \$2,300,997. Reconciliation of cash and temporary investments as shown on the Statement of Net Assets:

Carrying amount of deposits	\$ 1,198,490
Carrying amount of temporary investments	2,300,997
	\$ 3,499,487
Per Statement of Net Assets	
Cash and temporary investments	\$ 3,486,462
Restricted cash	13,025
	\$ 3,499,487

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, 2012, met the City investment policy as of that date. Investment income was comprised entirely of interest and dividends amounting to \$3,309 for the year ended June 30, 2012.

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012

**NOTE 3 - CASH AND TEMPORARY INVESTMENTS (continued)**

**Investments (continued)**

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 asset 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, 2012.

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, \$13,025, is held for the City by the bank to be used for future capital expenditures.

**NOTE 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.

CITY OF MOUNT RAINIER, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2012

**NOTE 4 - PROPERTY TAXES** (continued)

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 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 rate for fiscal year ended June 30, 2012 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 for \$100 of assessed value for public utility personal property.

**NOTE 5 - CAPITAL ASSETS**

The activity for the capital assets for the year ended June 30, 2012 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land/construction in progress	\$ 1,815,426	\$ 70,426	\$ -	\$ 1,885,852
Capital assets being depreciated				
Land improvements	-	141,033	-	141,033
Building and improvements	3,106,497	-	-	3,106,497
Equipment and vehicles	1,539,473	67,252	84,001	1,522,724
Total Capital Assets				
Being Depreciated	4,645,970	208,285	84,001	4,770,254
Less accumulated depreciation for				
Land improvements	-	4,701	-	4,701
Building and improvements	996,933	80,519	-	1,077,452
Equipment and vehicles	883,609	151,352	84,001	950,960
Total Accumulated Depreciation	1,880,542	236,572	84,001	2,033,113
Total Capital Assets Being Depreciated, Net	2,765,428	(28,287)	-	2,737,141
Governmental Activities Capital Assets, Net	\$ 4,580,854	\$ 42,139	\$ -	\$ 4,622,993

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

General government	\$ 46,326
Public works	127,453
Public safety	62,793
	<u>\$ 236,572</u>

CITY OF MOUNT RAINIER, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2012

**NOTE 6 - DUE FROM OTHER GOVERNMENTS**

At June 30, 2012, the balance of due from other governments consisted of the following:

Federal Government		
Justice program grants	\$	12,193
FEMA		5,538
CDBG		23,500
State of Maryland		
Highway user		12,722
Income tax		55,594
Police grants		30,149
Chesapeake Bay grant		5,683
Other		126
Local		
Other grants		44,397
Total	\$	<u>189,902</u>

**NOTE 7 - LONG-TERM DEBT**

General Obligation Bonds - In December 2008, the City issued its Series I-2008 bond in the principal amount of \$1,250,000. The bonds were issued for the purpose of funding the purchase of Bass property. The bonds are due in annual principal installments beginning June 4, 2009 and ending December 4, 2023. Interest is due semi-annually at a rate of 4.79%. Debt service payments are appropriated from general fund resources. General obligation bonds are direct obligations and pledged on full faith and credit of the City.

Annual debt service requirements to maturity for the I-2008 Series bonds are as follows at June 30, 2012:

Years Ending June 30,	Principal	Interest
2013	\$ 69,155	\$ 48,623
2014	72,507	45,271
2015	76,022	41,756
2016	79,707	38,071
2017	83,571	34,208
Later years	492,207	114,337
	<u>\$ 873,169</u>	<u>\$ 322,266</u>

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012

NOTE 7 - LONG-TERM DEBT (continued)

General Obligation Bonds (continued)

In January 2009, the City issued its Series I-2009 bond in the principal 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 in each year, with the final semi-annual installment of principal and accrued interest due on February 18, 2014. Interest is due semi-annually at a rate of 3.43%. Debt service payments are appropriated from general fund resources. General obligation bonds are direct obligations and pledged on full faith and credit of the City.

Semi-annual debt service requirements to maturity for the I-2009 Series bonds are as follows at June 30, 2012:

Years Ending June 30,	Principal	Interest
2013	\$ 48,776	\$ 2,989
2014	50,307	1,302
	<u>\$ 99,083</u>	<u>\$ 4,291</u>

In January 2010, the City issued a bond with the principal 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. The bonds are due in semi-annual payments with the final payment being due on December 30, 2040. The interest rate of 4.3% annually. General obligation bonds are direct obligations and pledged on full faith and credit of the City.

Years Ending June 30,	Principal	Interest
2013	\$ 81,198	\$ 55,531
2014	84,727	52,002
2015	88,409	48,319
2016	92,251	44,477
2017	96,261	40,468
Later years	846,323	158,811
	<u>\$ 1,289,169</u>	<u>\$ 399,608</u>

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012

**NOTE 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 \$92,615.

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.

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.

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

The following is a schedule of the future minimum lease payments under these capital lease arrangements at June 30, 2012:

Years Ending June 30,	Payments
2013	\$ 43,640
2014	39,911
2015	39,912
Total payments	123,463
Less interest	5,835
Present value of lease payments	<u>\$ 117,628</u>

Changes In Long-Term Debt - The following is a summary of changes in general long-term debt:

Fiscal Year	Balance July 1, 2011	Increase	Decrease	Balance June 30, 2012	One Year
General obligation					
bonds	\$ 2,460,416	-	\$ 198,995	\$ 2,261,421	\$ 199,129
Capital leases	178,544	-	60,916	117,628	40,747
Accrued vacation					
leave	207,708	-	4,644	203,064	-
	<u>\$ 2,846,668</u>	<u>\$ -</u>	<u>\$ 264,555</u>	<u>\$ 2,582,113</u>	<u>\$ 239,876</u>

CITY OF MOUNT RAINIER, MARYLAND  
 NOTES TO FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2012

**NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivable and payable balances at June 30, 2012 were:

Fund	Interfund Receivables	Interfund Payables
General fund	\$ 55,727	\$ -
Special revenue fund	-	55,727
	\$ 55,727	\$ 55,727

**NOTE 9 - FUND BALANCE**

The Council of the City of Mount Rainier has assigned \$204,514 of the fund balance for subsequent expenditures. The restricted fund balance of \$647,812, which was generated from the speed monitoring program, has been restricted for public safety programs and \$13,025 was restricted for capital expenditures.

**NOTE 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 (the Agency). Responsibility for the administration and operation of the State System is vested in a 12-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 East Baltimore Street, Baltimore, Maryland 21202, or by calling 410-625-5555.

Funding Policy

The State Personnel and Pensions Article require active members to contribute to the State System at the rate of 5% or 7% of their covered salary depending upon 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, 2012 was \$205,933, which was equal to the required contribution for the year.

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012

**NOTE 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.

**NOTE 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.

**NOTE 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, would not materially affect the financial statements of the City.

**NOTE 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 the LGIT for its general insurance coverage. The agreement with the LGIT provides that the 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.

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended June 30, 2012

**NOTE 15 - POST RETIREMENT BENEFITS**

The City has no liability for post retirement benefits at June 30, 2012.

**NOTE 16 - SUBSEQUENT EVENTS**

The City evaluated subsequent events for potential required disclosures through December 10, 2012, which represents the date the financial statements were available to be issued.

CITY OF MOUNT RAINIER, MARYLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
For The Year Ended June 30, 2012



CITY OF MOUNT RAINIER, MARYLAND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
GENERAL FUND

For The Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes	\$ 3,426,000	\$ 3,426,000	\$ 3,692,510	\$ 266,510
Licenses and permits	391,750	391,750	447,342	55,592
Intergovernmental	116,550	116,550	188,305	71,755
Charges for service charges	48,250	48,250	50,967	2,717
Fines and forfeitures	140,250	140,250	461,160	320,910
Miscellaneous	35,000	35,000	74,852	39,852
Total Revenues	<u>4,157,800</u>	<u>4,157,800</u>	<u>4,915,136</u>	<u>757,336</u>
<b>EXPENDITURES</b>				
General government	836,400	841,400	802,830	38,570
Public safety	2,117,400	2,303,400	2,336,120	(32,720)
Public works	977,100	988,600	964,620	23,980
Community development	93,050	118,050	107,332	10,718
Miscellaneous	189,750	189,750	83,551	106,199
Debt service	373,100	373,100	371,892	1,208
Capital outlay	16,000	227,000	43,764	183,236
Total Expenditures	<u>4,602,800</u>	<u>5,041,300</u>	<u>4,710,109</u>	<u>331,191</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(445,000)	(883,500)	205,027	1,088,527
APPROPRIATION OF FUND BALANCE	<u>445,000</u>	<u>883,500</u>	-	(883,500)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,027</u>	<u>\$ 205,027</u>

CITY OF MOUNT RAINIER, MARYLAND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
GENERAL FUND  
For The Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes				
Real estate	\$ 2,875,000	\$ 2,875,000	\$ 2,974,569	\$ 99,569
Business personal property	53,000	53,000	60,003	7,003
Public utilities personal property	63,000	63,000	78,070	15,070
Admission and amusement	-	-	2,631	2,631
Property liens	10,000	10,000	21,335	11,335
Penalties and interest on taxes	5,000	5,000	10,297	5,297
Shared income tax - state	420,000	420,000	545,605	125,605
<b>Total Taxes</b>	<b>3,426,000</b>	<b>3,426,000</b>	<b>3,692,510</b>	<b>266,510</b>
Licenses and permits				
Burglar alarm registration	750	750	800	50
CDMA fees	16,000	16,000	-	(16,000)
Occupancy/building license	9,000	9,000	9,628	628
Traders licenses	100	100	-	(100)
Church occupancy licenses	400	400	360	(40)
Residential rental licenses	230,000	230,000	261,700	31,700
Building permits	4,000	4,000	3,138	(862)
CATV revenue	46,000	46,000	62,214	16,214
Franchise fee	76,000	76,000	104,342	28,342
Vacant building fees	8,000	8,000	3,300	(4,700)
Other licenses and permits	1,500	1,500	1,860	360
<b>Total Licenses And Permits</b>	<b>391,750</b>	<b>391,750</b>	<b>447,342</b>	<b>55,592</b>
Intergovernmental				
Federal				
FEMA	-	-	5,538	5,538
State				
Highway user tax	5,000	5,000	58,244	53,244
Police protection	83,000	83,000	95,789	12,789
County				
Financial corporations	6,550	6,550	6,554	4
Disposal fee rebate	22,000	22,000	22,180	180
<b>Total Intergovernmental</b>	<b>116,550</b>	<b>116,550</b>	<b>188,305</b>	<b>71,755</b>
Charges for services				
Brentwood MOU police	-	-	303	303
Public parking facilities	35,000	35,000	29,232	(5,768)
Public transportation	2,500	2,500	4,543	2,043
Waste collection	2,000	2,000	717	(1,283)
Trash hauler fees	1,500	1,500	4,490	2,990
CDMA administrative fees	750	750	635	(115)
City service fees	2,000	2,000	3,155	1,155
Other charges for services	4,500	4,500	7,892	3,392
<b>Total Charges For Services</b>	<b>48,250</b>	<b>48,250</b>	<b>50,967</b>	<b>2,717</b>

CITY OF MOUNT RAINIER, MARYLAND  
 SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
 GENERAL FUND

(continued)

For The Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES (continued)				
Fines and forfeitures				
Parking fines	35,000	35,000	67,400	32,400
Meter violations	35,000	35,000	17,035	(17,965)
Parking citation recovery	10,000	10,000	23,523	13,523
Municipal code violations	4,000	4,000	4,025	25
Speed camera	50,000	50,000	337,740	287,740
Impoundment fees	6,000	6,000	11,415	5,415
Parking revenue - 3200 RI	250	250	-	(250)
Other fines and forfeitures	-	-	22	22
Total Fines And Forfeitures	140,250	140,250	461,160	320,910
Miscellaneous				
Interest	3,500	3,500	3,287	(213)
Sales of property	-	-	1,000	1,000
Bus shelter advertising	1,000	1,000	481	(519)
Rent income	28,500	28,500	23,600	(4,900)
Insurance damage recovery	-	-	30,945	30,945
National night out	500	500	-	(500)
Mount Rainier day	1,500	1,500	3,325	1,825
Bike co-op	-	-	4,625	4,625
Other revenue	-	-	7,589	7,589
Total Miscellaneous	35,000	35,000	74,852	39,852
TOTAL REVENUES	4,157,800	4,157,800	4,915,136	757,336
EXPENDITURES				
General government				
Mayor and council				
Personnel	33,500	33,500	32,770	730
Other operating	17,250	22,250	21,174	1,076
Total Mayor And Council	50,750	55,750	53,944	1,806
City administration				
Personnel	464,650	464,650	471,108	(6,458)
Other operating	115,750	115,750	66,423	49,327
Total City Administration	580,400	580,400	537,531	42,869

CITY OF MOUNT RAINIER, MARYLAND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
GENERAL FUND  
(continued)  
For The Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance - Favorable <u>(Unfavorable)</u>
EXPENDITURES (continued)				
3409 Rhode Island Avenue				
Other operating	11,750	11,750	9,230	2,520
3405 Rhode Island Avenue				
Other operating	9,000	9,000	19,155	(10,155)
Legal and elections				
Other operating	39,000	39,000	51,611	(12,611)
3601 Bunker Hill				
Other operating	7,000	7,000	4,796	2,204
Communications and newsletter				
Other operating	33,250	33,250	28,366	4,884
Communications - cable TV				
Personnel	21,250	21,250	19,724	1,526
Other operating	48,000	48,000	38,746	9,254
Total Communications - Cable TV	<u>69,250</u>	<u>69,250</u>	<u>58,470</u>	<u>10,780</u>
Mount Rainier Day				
Personnel	9,250	9,250	9,187	63
Other operating	9,250	9,250	12,174	(2,924)
Total Mount Rainier Day	<u>18,500</u>	<u>18,500</u>	<u>21,361</u>	<u>(2,861)</u>
City tax credit				
Other operating	17,500	17,500	18,366	(866)
Total General Government	<u>836,400</u>	<u>841,400</u>	<u>802,830</u>	<u>38,570</u>
Public safety				
Police				
Personnel	1,570,500	1,570,500	1,543,304	27,196
Other operating	247,500	433,500	271,193	162,307
Total Police	<u>1,818,000</u>	<u>2,004,000</u>	<u>1,814,497</u>	<u>189,503</u>

CITY OF MOUNT RAINIER, MARYLAND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
GENERAL FUND  
(continued)  
For The Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)
EXPENDITURES (continued)				
Parking enforcement				
Personnel	50,200	50,200	46,967	3,233
Other operating	18,750	18,750	29,890	(11,140)
Total Parking Enforcement	68,950	68,950	76,857	(7,907)
Speed camera				
Other operating	20,000	20,000	225,924	(205,924)
Code enforcement				
Personnel	182,700	182,700	180,302	2,398
Other operating	21,000	21,000	35,454	(14,454)
Total Code Enforcement	203,700	203,700	215,756	(12,056)
National night out				
Personnel	3,250	3,250	2,100	1,150
Other operating	2,000	2,000	986	1,014
Total National Night Out	5,250	5,250	3,086	2,164
Fire department				
Other operating	1,500	1,500	-	1,500
Total Public Safety	2,117,400	2,303,400	2,336,120	(32,720)
Public works				
Public works administration				
Personnel	522,250	522,250	534,232	(11,982)
Other operating	144,750	144,750	132,714	12,036
Total Public Works Administration	667,000	667,000	666,946	54
Highway and street				
Other operating	60,100	71,600	116,233	(44,633)
Street lighting				
Other operating	155,000	155,000	102,364	52,636
Waste disposal				
Other operating	95,000	95,000	79,077	15,923
Total Public Works	977,100	988,600	964,620	23,980

CITY OF MOUNT RAINIER, MARYLAND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
GENERAL FUND  
(continued)  
For The Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)
EXPENDITURES (continued)				
Community Development				
Call-A-Bus				
Personnel	57,050	57,050	54,310	2,740
Other operating	12,250	12,250	10,372	1,878
Total Call-A-Bus	<u>69,300</u>	<u>69,300</u>	<u>64,682</u>	<u>4,618</u>
Library				
Other operating	10,000	32,000	27,056	4,944
Community programs				
Other operating	12,500	12,500	11,324	1,176
Bike co-op				
Other operating	1,000	4,000	4,270	(270)
Tool shed				
Other operating	250	250	-	250
Total Community Development	<u>93,050</u>	<u>118,050</u>	<u>107,332</u>	<u>10,718</u>
Miscellaneous				
General insurance	107,250	107,250	83,551	23,699
Contingency	82,500	82,500	-	82,500
Total Miscellaneous	<u>189,750</u>	<u>189,750</u>	<u>83,551</u>	<u>106,199</u>
Debt service				
Principal	252,550	252,550	259,911	(7,361)
Interest	120,550	120,550	111,981	8,569
Total Debt Service	<u>373,100</u>	<u>373,100</u>	<u>371,892</u>	<u>1,208</u>
Capital outlay				
Capital equipment	16,000	16,000	43,764	(27,764)
Building 3409 Rhode Island Ave	-	211,000	-	211,000
	<u>16,000</u>	<u>227,000</u>	<u>43,764</u>	<u>183,236</u>
TOTAL EXPENDITURES	<u>4,602,800</u>	<u>5,041,300</u>	<u>4,710,109</u>	<u>331,191</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(445,000)	(883,500)	205,027	1,088,527
APPROPRIATION OF FUND BALANCE	<u>445,000</u>	<u>883,500</u>	<u>-</u>	<u>(883,500)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,027</u>	<u>\$ 205,027</u>

CITY OF MOUNT RAINIER, MARYLAND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
SPECIAL REVENUE FUND  
For The Year Ended June 30, 2012

	Original & Final Budget	Actual	Variance - Favorable (Unfavorable)
<b>REVENUES</b>			
Intergovernmental			
Federal grants			
Justice program	\$ -	\$ 8,501	\$ 8,501
CDBG grant	225,000	448,966	223,966
FTA transportation grant	110,000	121,537	11,537
State grants			
Grant CSAFE	25,000	29,750	4,750
GOCCP Bryne grant	-	25,313	25,313
SHA DWI grant	3,000	-	(3,000)
Chesapeake Bay Trust grant	-	5,683	5,683
County grants			
County tree grant	10,000	-	(10,000)
Community legacy grant	-	70,426	70,426
Mount Rainier day grant	1,000	1,000	-
National night out	1,000	1,000	-
Storm drainage grant	-	16,110	16,110
Total Intergovernmental	<u>375,000</u>	<u>728,286</u>	<u>353,286</u>
Miscellaneous			
Interest	-	22	22
Total Revenues	<u>375,000</u>	<u>728,308</u>	<u>353,308</u>
<b>EXPENDITURES</b>			
General Government			
Community legacy	-	70,426	(70,426)
Mt. Rainier Day	1,000	1,000	-
Chesapeake Bay Trust grant expense	-	5,683	(5,683)
Total General Government	<u>1,000</u>	<u>77,109</u>	<u>(76,109)</u>

CITY OF MOUNT RAINIER, MARYLAND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS  
SPECIAL REVENUE FUND

(continued)

For The Year Ended June 30, 2012

	Original & Final Budget	Actual	Variance - Favorable (Unfavorable)
EXPENDITURES (continued)			
Public safety			
CSAFE grant expenses	-	29,750	(29,750)
Justice program	-	8,501	(8,501)
Police Grant	28,000	25,313	2,687
National Night Out grant	1,000	1,000	-
Total Public Safety	<u>29,000</u>	<u>64,564</u>	<u>(35,564)</u>
Public works			
Tree grant	10,000	-	10,000
Rainier Ave. - drain project	-	16,110	(16,110)
Public works FTA grant	110,000	121,537	(11,537)
Total Public Works	<u>120,000</u>	<u>137,647</u>	<u>(17,647)</u>
Community development			
CDBG contract work	<u>225,000</u>	<u>448,966</u>	<u>(223,966)</u>
Total Expenditures	<u>375,000</u>	<u>728,286</u>	<u>(353,286)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 22</u>	<u>\$ 22</u>

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For The Year Ended June 30, 2012

**BUDGETARY INFORMATION**

Formal budgetary integration was employed as a management control device during the year for the General Fund. The City Council approved, 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. All appropriations lapse at the end of the budget year to the extent that they shall not have been expended.

**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 Budget and Actual - Non-GAAP Budget Basis of accounting in order to provide a meaningful comparison of actual results with budget estimates.

**OTHER DISCLOSURES**

The expenditures exceeded the budgeted amounts for the following departments:

General Fund	
3405 Rhode Island Avenue	\$ 10,155
Legal and elections	\$ 12,611
Mount Rainier Day	\$ 2,861
City tax credit	\$ 866
Parking enforcement	\$ 7,907
Speed camera	\$ 205,924
Code enforcement	\$ 12,056
Highway and street	\$ 44,633
Bike co-op	\$ 270
Capital equipment	\$ 27,764
Special Revenue Fund	
General government	\$ 76,104
Public safety	\$ 35,564
public works	\$ 17,647
Community development	\$ 223,966

The major difference between budget basis and GAAP basis is the appropriation of prior year surplus as a revenue item. \$883,500 of fund balance was included as a revenue source on the budgetary statements.

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

CITY OF MOUNT RAINIER, MARYLAND

SINGLE AUDIT

For The Year Ended June 30, 2012



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 Honorable Mayor and City Council  
Mount Rainier, Maryland

We have audited the financial statements of the governmental activities and each major fund of City of Mount Rainier, Maryland, as of and for the year ended June 30, 2012, which collectively comprise the City of Mount Rainier, Maryland's basic financial statements and have issued our report thereon dated December 10, 2012.

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.

**Internal Control Over Financial Reporting**

Management of City of Mount Rainier, Maryland, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Mount Rainier, Maryland's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Mount Rainier, Maryland's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mount Rainier, Maryland's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 2012-1 through 2012-3. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Mount Rainier, Maryland's financial statements are free of 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*.

The City of Mount Rainier, Maryland's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Mount Rainier, Maryland's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Bridgett, Mock & Associates, P.A.*

Waldorf, Maryland  
December 10, 2012

BRIDGETT

MOCK

& ASSOCIATES, P.A.  
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To The Honorable Mayor and City Council  
Mount Rainier, Maryland

**Compliance**

We have audited City of Mount Rainier, Maryland's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Mount Rainier, Maryland's major federal programs for the year ended June 30, 2012. City of Mount Rainier, Maryland's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Mount Rainier, Maryland's management. Our responsibility is to express an opinion on City of Mount Rainier, Maryland's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Mount Rainier, Maryland's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Mount Rainier, Maryland's compliance with those requirements.

In our opinion, City of Mount Rainier, Maryland, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-4 through 2012-7.

### Internal Control over Compliance

Management of City of Mount Rainier, Maryland, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Mount Rainier, Maryland's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Mount Rainier, Maryland's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

City of Mount Rainier, Maryland's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Mount Rainier, Maryland's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Bridgett, Mock & Associates, P. A.*

Waldorf, Maryland  
December 10, 2012

CITY OF MOUNT RAINIER, MARYLAND  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant/ Loan Number</u>	<u>Federal Expenditures</u>
<b>Department of Housing and Urban Development</b>			
Direct Programs			
Community Development Block Grant-State's Program	14.218	B-10-MC-240013	\$ 448,966
<b>Federal Transportation Agency</b>	20.500	MD-04-0025-0	121,537
<b>Department of Justice</b>	16.738	2010-DJ-BX-0702	8,501
<b>Federal Emergency Management</b>	-	-	<u>5,538</u>
<b>Total Federal Expenditures</b>			<u><u>\$ 584,542</u></u>

CITY OF MOUNT RAINIER, MARYLAND  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended June 30, 2012

**NOTE 1 - SINGLE AUDIT OVERVIEW**

The Single Audit is the performance of a uniform audit of all the City's federal grants in conjunction with the annual audit of the general purpose financial statements. The adoption of such a procedure was formalized by the Federal office of Management and Budget (OMB) in Circular A-133. The Single Audit fulfills all the federal agencies' audit requirements which include financial compliance, and the adequacy of internal control.

Single audit testing procedures were performed for transactions occurring during the fiscal year ended June 30, 2012.

A portion of the federal awards received by the City have been "passed-through" various agencies and departments of the State of Maryland. Such funds have been included in the Schedule of Expenditures of Federal Awards as they represent federal assistance awards and the State agencies are so identified.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the City of Mount Rainier, Maryland, (the City) for the year ended June 30, 2012. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local governments, and Non-Profit Organizations*.

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when the City has met the qualifications for the respective grants. Several programs are funded jointly by federal, State, and local funds. Costs incurred in programs partially funded by federal grants are applied against those grant funds to the extent of revenue available when they properly apply to the grant.

CITY OF MOUNT RAINIER, MARYLAND  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Year Ended June 30, 2012

**Part I. Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting	
Material weakness(es) identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Significant deficiency(s) identified that are not considered to be material weakness(es)?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Federal Awards

Type of auditor's report issued	Unqualified
Internal control over major programs	
Material weakness(es) identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Significant deficiency(s) identified that are not considered to be material weakness(es)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Type of auditor's report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Identification Major Programs

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Community Development Block Grant	14.218
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

CITY OF MOUNT RAINIER, MARYLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2012

**Part II. Findings - Financial Statements Audit**

**2012-1 SEGREGATION OF DUTIES**

Segregation of conflicting duties within accounting functions is a basic internal control. Because the City has a small accounting staff, segregation of all conflicting duties may not always be possible. However, we believe that certain steps can be taken to overcome the lack of segregation of duties in the controls over cash disbursements. During our audit, we noted the City Treasurer has access to blank checks, is responsible for preparing cash disbursements, and prepares the monthly bank reconciliation.

We suggest the City Administrator receive the bank statements directly and scan the canceled checks and other returned items before the account is reconciled by the City Treasurer. After the reconciliations are prepared by the Treasurer, they should be reviewed and approved by the City Administrator.

We also suggest the staff be cross trained to allow for smooth transition of duties from one staff member to another.

**2012-2 GRANT ACCOUNTING**

There has been an increased involvement by the City in the area of grants. While grant funds are a valuable source of revenue, they impose very specific and stringent reporting requirements that consume considerable staff time and related overhead expense to administer them. We feel a review procedure is necessary to insure understanding of and compliance with the specific terms of the funding source. We also suggest the grant records and documents should be organized and maintained in a neat and orderly fashion.

**2012-3 JOURNAL ENTRIES**

In the process of performing our audit, we noted there was a lack of review and approval for journal entries. The journal entries should be approved and reviewed by an individual other than the preparer of the entry.

CITY OF MOUNT RAINIER, MARYLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2012

**Part III. Federal Award Findings and Questioned Costs**

Internal Control

No matters were reported.

Compliance

**Finding 2012-4 Reporting of Federal Expenditures**

Audit Finding: In accordance with OMB Circular A-133, the Auditee shall identify all federal awards received and expended. A complete Schedule of Expenditures of Federal Awards was not presented to us at the start of our audit. In performing our audit, program personnel stated they became aware of the need to prepare this Schedule. We recommend program personnel enhance the process by which federal awards are identified and reported to the City's finance department.

Corrective Action Taken: The Schedule was prepared and submitted when asked. A new form is implemented to include the Schedule for all the future federal awards.

**Finding 2012-5 Performance Reporting**

Audit Finding: The Federal Transportation Agency (FTA) agreement states the grantee must file performance reports within 30 days after the end of each reporting period. During the audit period, the City did not file the performance reports within 30 days after the end of each reporting period.

Corrective Action Taken: The FTA grant was awarded approximately seven years ago. The original award was amended three times. The amendments were requested as a result of the Mayor and Council decision to modify the project. Due to the length of time and the complexity added because of the additional amendments, the City had to wait for the amendment to be approved before the performance reports could be filed. Additionally, all reports were required to be submitted electronically. The City currently has a "green" policy to reduce the amount of hard paper copies and therefore some of the reports were not printed. All reporting requirements were met and approved by FTA. The grant is fully expended and the City was fully reimbursed. The City will perform and document its compliance in the future.

**Finding 2012-6 Davis Bacon**

Audit Finding: In accordance with the terms of the City's grant agreement with Federal Transportation Agency, the City must adhere to the provision of the Davis Bacon Act which requires monitoring of construction contractor compliance. The City did not properly monitor construction contractors to ensure compliance with applicable wage determinations under the Davis Bacon Act.

Corrective Action Taken: As mentioned in the previous finding in reference to the amount of time and the complexity involved, the Federal Transportation Agency funds were utilized without adhering to the provisions of the Davis Bacon Act. A new form is implemented in order to perform and document its compliance in the future.

CITY OF MOUNT RAINIER, MARYLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2012

**Part III. Federal Award Findings and Questioned Costs** (continued)

Compliance (continued)

**Finding 2012-7 Grant Funds Match**

**Audit Finding:** In accordance with the grant agreement with Federal Transportation Agency, the City is required to provide a 20% match to the grant funds. Based on the expenditures for the program, the City did not meet the match by \$8,276.

**Correction Action Taken:** The City will follow up with the Grantor (FTA) and will take the necessary steps to resolve this issue per their directions.

**Part IV. Prior Year Findings and Questioned Costs for Federal Awards**

- The City did not have a single audit in the prior year; therefore, no matters were reported.