

**TOWN OF MANCHESTER, MARYLAND**

**FINANCIAL STATEMENTS**

**YEAR ENDING JUNE 30, 2016**

**TOWN OF MANCHESTER, MARYLAND  
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## INDEPENDENT AUDITORS' REPORT

To The Honorable Mayor and  
Members of the Town Council  
Town of Manchester, Maryland

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Manchester, Maryland as of June 30, 2016, and the respective changes in financial position, the respective budgetary comparison for the general fund, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To The Honorable Mayor and  
Members of the Town Council  
Town of Manchester, Maryland

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, the schedule of the Town's proportionate share of the net pension liability and schedule of Town contributions on pages 42 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Manchester, Maryland's basic financial statements. The supplementary information, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
November 28, 2016

**TOWN OF MANCHESTER, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**

**Introduction**

As management of the Town of Manchester, Maryland (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016. The MD&A is best understood if read in conjunction with the Town's basic financial statements.

**Financial Highlights**

- The Town's assets and deferred outflows of financial resources exceeded its liabilities deferred inflows of financial resources at the close of the most recent fiscal year by \$28.0 million (net position). Of this amount, \$2.3 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's note payable decreased by \$21,390 during the current fiscal year from \$177,232 to \$155,842, due to the Town making the required annual principal payments on the note payable.
- The General Fund on a current financial resource basis, reported expenditures and other financial sources and uses in excess of revenues of \$1.6 million, due to the construction of the new Town Hall.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1.7 million.

**Overview of the Financial Statements**

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, public works, and recreations. The business-type activities of the Town include water and sewer operations.

**TOWN OF MANCHESTER, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**

The government-wide financial statements include only the Town of Manchester because the Town has no component unit relationships with any other agency. The government-wide financial statements can be found on pages 13 – 14 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 Town of Manchester, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By so doing, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and 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 Town has only one governmental fund, the General Fund. Information is presented for the General Fund in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

The Town adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15 - 18 of this report. The budgetary comparison statement for the general fund can be found on page 19.

**Proprietary funds.** The Town maintains *Enterprise funds*, which are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its Water and Sewer operations, which are major funds. The basic proprietary fund financial statements can be found on pages 20 – 22 of this report.

**Notes to the financial statements.** The Summary of Significant Accounting Policies and notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are part of the basic financial statements and can be found on pages 23 – 40 of this report.

**TOWN OF MANCHESTER, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents *supplementary information* which details the Town's General Fund budgetary comparison at a more detailed level and the Enterprise funds' budgetary comparisons. The supplementary information can be found beginning on page 45 of this report.

**Required Supplemental Information.** The financial statements also contain required supplementary information in addition to the basic financial statements themselves. This information includes tables related to the Town's proportionate share of pension liability and schedule of the Town contributions. The required supplementary information is located on pages 42 and 43 of this report.

**Government-wide financial analysis.** As noted earlier, net position may serve over time as a useful indicator of a government's overall financial condition and position. In the case of the Town, assets and deferred outflows of financial resources exceeded liabilities and deferred inflows of financial resources by \$28.0 million at the close of the current fiscal year. The Town's net position is divided into three categories – net investment in capital assets, restricted net position and unrestricted net position. The largest portion of the Town's net position (77.3%) reflects its investment in capital assets net of depreciation (e.g., land and improvements, buildings, machinery, equipment, infrastructure, and improvements), less any unmatured debt used to acquire those assets. The Town uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending.

Restricted net position represents 14.5% of total net position. Restricted net position includes resources that are subject to external restrictions on how they may be used.

Unrestricted net position of the Town has a balance of approximately \$2.3 million (8.2% of total net position), which may be used to meet the Town's ongoing obligations to citizens and creditors.

The following table summarizes the net position for governmental and business-type activities at June 30, 2016 and 2015:

	Governmental Activities		Business-Type Activities		Total		%
	2016	2015	2016	2015	2016	2015	
Current and other assets	\$ 3,182,071	\$ 4,159,482	\$ 4,642,940	\$ 4,813,223	\$ 7,825,011	\$ 8,972,705	(13) %
Capital assets, net	8,464,025	6,999,308	13,498,643	13,843,578	21,962,668	20,842,886	5 %
Total assets	11,646,096	11,158,790	18,141,583	18,656,801	29,787,679	29,815,591	(0) %
Total deferred outflows	\$ 213,930	\$ 77,742	\$ 120,426	\$ 45,262	\$ 334,356	\$ 123,004	172 %
Long-term liabilities	\$ 665,167	\$ 448,705	\$ 509,487	\$ 416,679	\$ 1,174,654	\$ 865,384	36 %
Other liabilities	821,419	208,061	107,454	217,651	928,873	425,712	118 %
Total liabilities	1,486,586	656,766	616,941	634,330	2,103,527	1,291,096	63 %
Total deferred inflows	\$ 12,477	\$ 44,200	\$ 7,024	\$ 25,734	\$ 19,501	\$ 69,934	(72) %
Net position:							
Net investment in capital assets	\$ 8,305,484	\$ 6,999,308	\$ 13,342,801	\$ 13,666,346	\$ 21,648,285	\$ 20,665,654	5 %
Restricted	-	-	4,064,618	4,059,044	4,064,618	4,059,044	0 %
Unrestricted	2,055,479	3,536,258	230,625	316,609	2,286,104	3,852,867	(41) %
Total net position	\$ 10,360,963	\$ 10,535,566	\$ 17,638,044	\$ 18,041,999	\$ 27,999,007	\$ 28,577,565	(1) %

**TOWN OF MANCHESTER, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**

The following table indicates the changes in net position for governmental and business-type activities at June 30, 2016 and 2015:

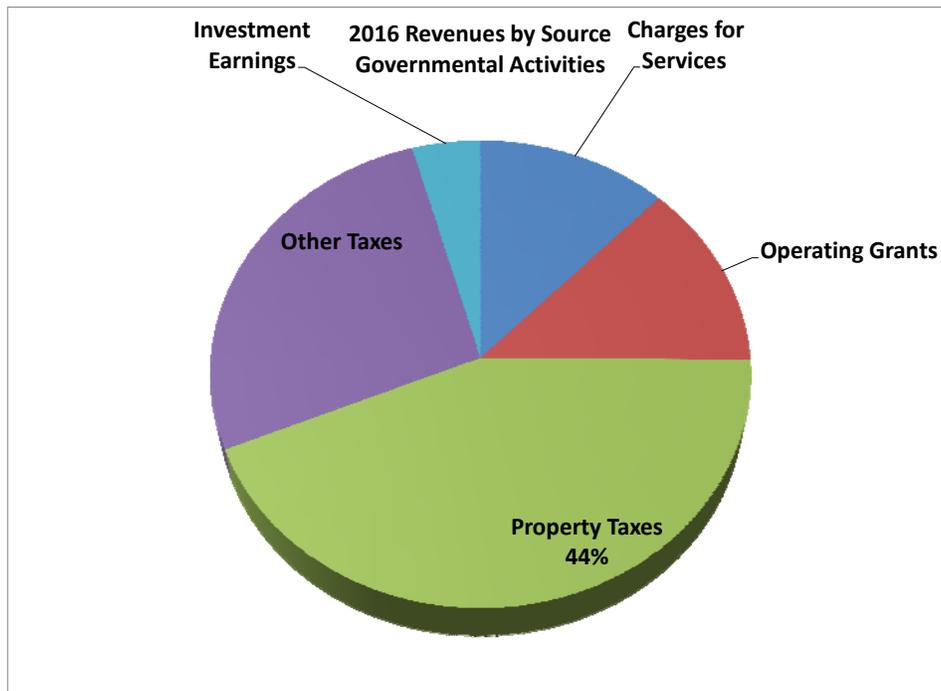
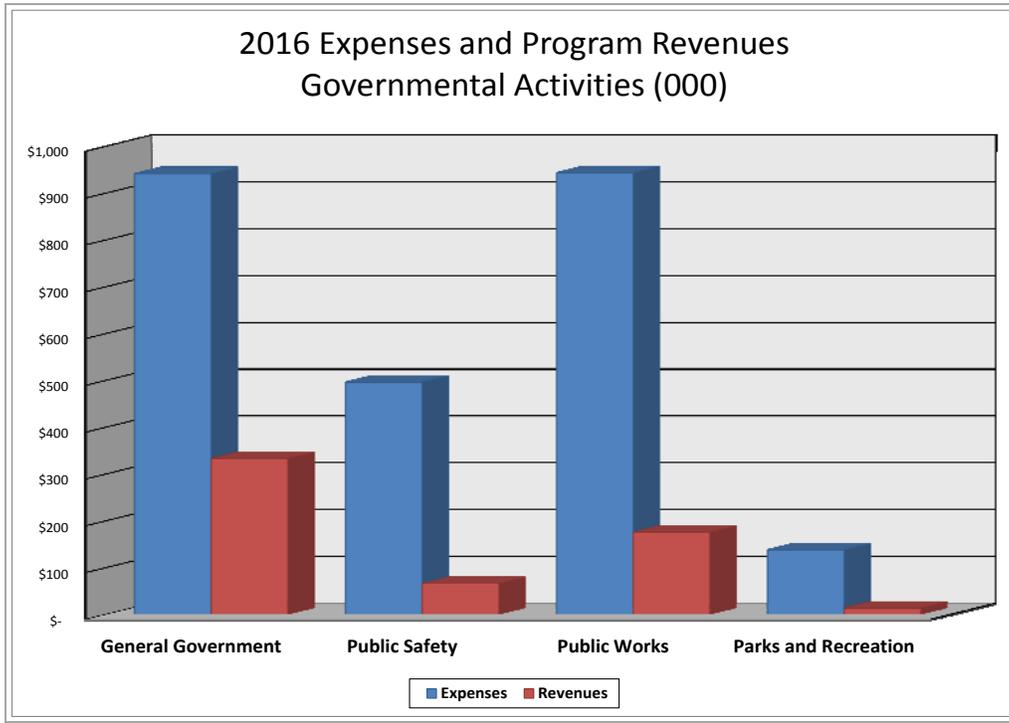
	Governmental Activities		Business-Type Activities		Total		% Change
	2016	2015	2016	2015	2016	2015	
<b>Program Revenues</b>							
Charges for services	\$ 286,482	\$ 251,199	\$ 1,275,718	\$ 1,248,337	\$ 1,562,200	\$ 1,499,536	4 %
Operating grants	302,482	341,936	-	-	302,482	341,936	(12) %
Capital grants and contributions	-	1,336,762	-	862,920	-	2,199,682	(1) %
<b>General Revenues</b>							
Property taxes	1,023,862	1,008,725	-	-	1,023,862	1,008,725	2 %
Other taxes	631,213	576,083	-	-	631,213	576,083	10 %
Investment earnings and other	102,299	40,850	17,046	13,489	119,345	54,339	120 %
Total revenue	<u>2,346,338</u>	<u>3,555,555</u>	<u>1,292,764</u>	<u>2,124,746</u>	<u>3,639,102</u>	<u>5,680,301</u>	(36) %
<b>Program Expenses</b>							
General government	941,870	882,396	-	-	941,870	882,396	7 %
Public safety	496,662	427,778	-	-	496,662	427,778	16 %
Public works	943,920	727,732	-	-	943,920	727,732	30 %
Parks and recreation	138,489	133,011	-	-	138,489	133,011	0 %
Utilities (water and sewer)	-	-	1,696,719	1,595,475	1,696,719	1,595,475	6 %
Total program expenses	<u>2,520,941</u>	<u>2,170,917</u>	<u>1,696,719</u>	<u>1,595,475</u>	<u>4,217,660</u>	<u>3,766,392</u>	12 %
<b>INCREASE IN NET POSITION</b>	(174,603)	1,384,638	(403,955)	529,271	(578,558)	1,913,909	(130) %
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>10,535,566</u>	<u>9,150,928</u>	<u>18,041,999</u>	<u>17,512,728</u>	<u>28,577,565</u>	<u>26,663,656</u>	0 %
<b>NET POSITION, END OF YEAR</b>	<u>\$ 10,360,963</u>	<u>\$ 10,535,566</u>	<u>\$ 17,638,044</u>	<u>\$ 18,041,999</u>	<u>\$ 27,999,007</u>	<u>\$ 28,577,565</u>	(2) %

**Governmental activities.** General revenues for the governmental activities were \$1,757,374, while total expenses, net of charges for services, grants and contributions, were \$1,936,464. The decrease in net position for governmental activities was \$179,090, a decrease of \$1,563,728 over the prior year, for which the majority of can be attributed to the following:

- Program revenue decreased by \$1,340,933 or 69.5% primarily due to no capital contributions from a residential development completed during the year.

**TOWN OF MANCHESTER, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

The following charts compare the Expenses and Program Revenues of the Town's governmental activities:

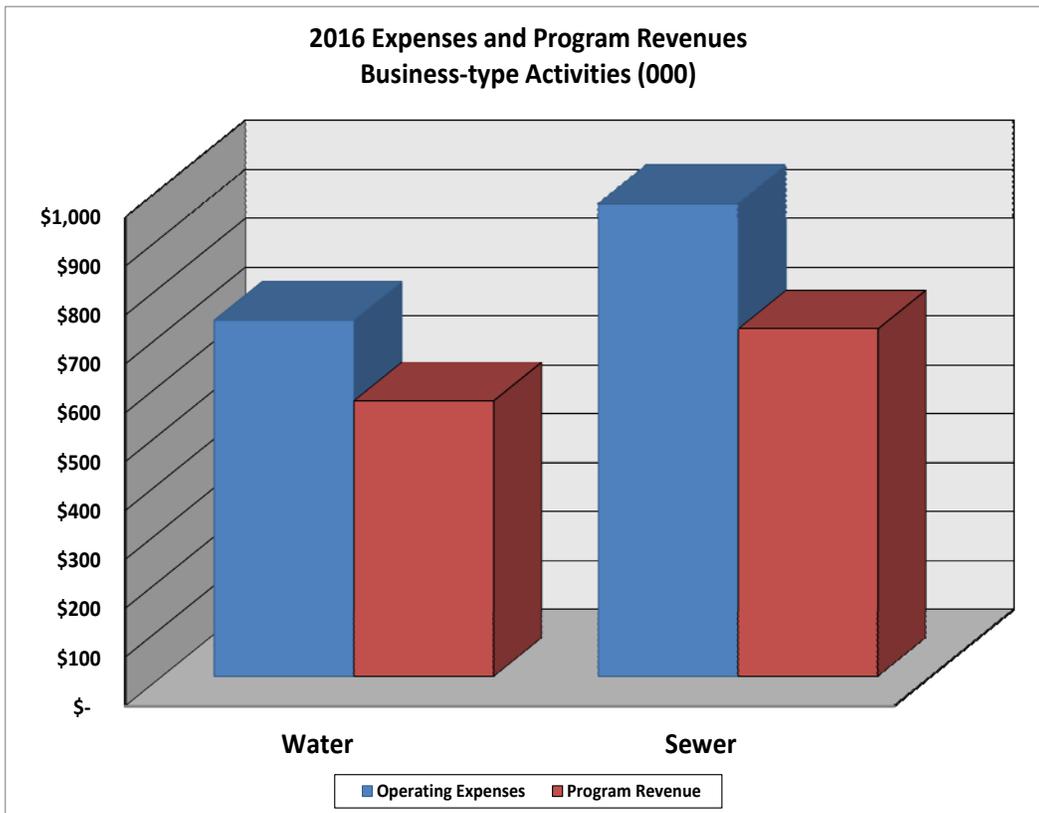


**TOWN OF MANCHESTER, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

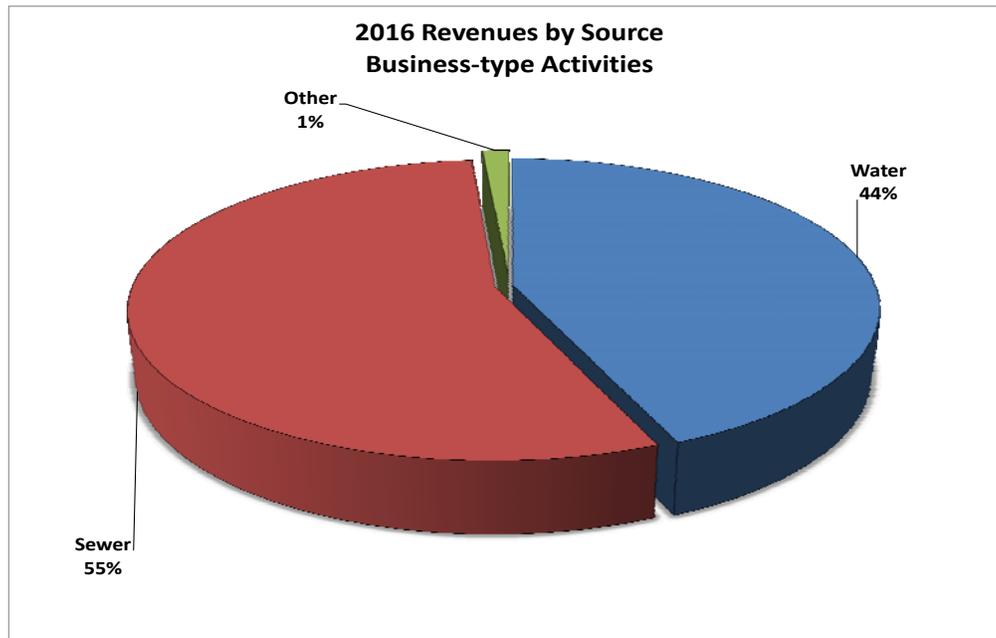
**Business-type activities.** Business-type activities decreased the Town's net position by \$403,955, which was a decrease of \$933,226 over the prior year. Key elements of this change are as follows:

- Program revenues decreased \$835,539 or 39.6% primarily due to no capital contributions from a residential development completed during the year.
- Business-type expenses remained stable, increasing by only \$110,244 or 6.3%. This is primarily due to an increase in salaries and fringe benefits.

The following charts compare the Operating Expenses and Program Revenues of the Town's business-type activities:



**TOWN OF MANCHESTER, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**



### Financial Analysis of the Government's Funds

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

**Governmental fund.** The focus of the Town's *governmental fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town'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.

The General Fund is the only governmental fund of the Town. At the end of the current fiscal year, the General Fund reported an ending fund balance of \$2.3 million, a decrease of \$1.6 million. Approximately 72.6% of this total amount (\$1.7 million) constitutes *unassigned fund balance*, which represents working capital available to support governmental operating needs and future years' expenditures. Approximately 1.6% of fund balance (\$37,000) constitutes *assigned fund balance*, which represents expenditures designated to subsequent years. The remainder of fund balance is *committed* to indicate that it is not available for new spending because it has already been committed as follows: park service \$(178,854), safety service \$(300,443), road improvements \$(88,035), historic center \$(16,815) and other \$(7,910).

As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Currently, this comparison indicates that the Town has sufficient fund balance to meet the financial needs of the upcoming fiscal year based on the Town's expectations.

The key elements of the \$1.6 million decrease to the Town's General Fund's fund balance were addressed in the discussion of the Town's governmental activities. However, the increase in net position of governmental activities differs due to the adjustments required by GASB No. 34. These adjustments are shown in detail on page 16 of this report.

**TOWN OF MANCHESTER, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**

**Proprietary funds.** The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the two funds at the end of the year amounted to \$230,625. This amount consists of a \$309,154 deficit for the Water Fund and a \$539,779 surplus for the Sewer Fund. The total net position was decreased by \$403,955. Other factors concerning these funds' finances have been addressed in the discussion of the Town's business-type activities.

**General Fund Budgetary Highlights**

The Town made two amendments or adjustments during the year to the General Fund original budget. Revenues were higher than budgetary estimates by \$353,477 and expenditures were lower by \$3,880. A detailed analysis of the budget and actual revenues and expenditures for the General Fund can be found on page 19 of this report.

**Capital Asset and Debt Administration**

**Capital assets.** The Town's investment in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2016 amounts to \$21.6 million. This investment in capital assets includes land, buildings, machinery and equipment (including vehicles) and infrastructure (including park facilities, roads, water system, and sewer system). The total increase in the Town's investment in capital assets for the current fiscal year was 4.8% (18.7% increase for governmental activities and a 2.4% decrease for business-type activities).

**Town of Manchester's Capital Assets**  
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 768,410	\$ 768,410	\$ 1,551,289	\$ 1,551,289	\$ 2,319,699	\$ 2,319,699
Construction in progress	1,611,491	94,445	-	-	1,611,491	94,445
Buildings and improvements	368,239	354,973	48,793	41,608	417,032	396,581
Other improvements	146,040	46,405	-	-	146,040	46,405
Machinery and equipment	177,709	119,384	403,935	375,223	581,644	494,607
Furniture and fixtures	5,279	5,874	-	-	5,279	5,874
Vehicles	129,520	106,283	61,667	36,439	191,187	142,722
Infrastructure	5,257,337	5,503,534	-	-	5,257,337	5,503,534
Water and sewer systems	-	-	11,432,959	11,839,019	11,432,959	11,839,019
<b>Total</b>	<u>\$ 8,464,025</u>	<u>\$ 6,999,308</u>	<u>\$ 13,498,643</u>	<u>\$ 13,843,578</u>	<u>\$ 21,962,668</u>	<u>\$ 20,842,886</u>

**TOWN OF MANCHESTER, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**

**Capital Asset and Debt Administration**

Major capital additions for the fiscal year ended June 30, 2016 included the following:

- Construction of the new town hall and police building totaling \$1,517,046
- Paving of Maiden Land totaling \$180,693
- Inclusive playground equipment totaling \$83,301

Additional information on the Town's capital assets can be found in Note 6, pages 33 and 34 of this report.

**Debt Administration.** At the end of the current fiscal year, the Town had total debt outstanding of \$155,842, all of which is recorded in the business-type activities (Water Fund) and is comprised of a note payable to the Maryland Department of the Environment. Additional information on the Town's long-term debt can be found in Note 7 on page 35 of this report.

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

- The Town anticipates that 7 new residential homes will be constructed within the Town during fiscal year 2017.
- The employment situation in the Town, with respect to no lay-offs or furloughs has been stable and is expected to continue.
- The tax rate remained unchanged for fiscal year 2017.
- Water rent rates increased \$0.25 and sewer rates remained unchanged for fiscal year 2017.
- Major capital asset additions planned for fiscal year 2017 include completion of the construction of the new town hall and police station, street paving, replacement of dump truck and the replacement of the Chevy trucks.

All of these factors were considered in preparing the Town's budget for fiscal 2017.

**Requests for Information**

This financial report is designed to provide a general overview of the Town of Manchester's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Department of Finance, Town of Manchester, P.O. Box 830, Manchester, Maryland, 21102, or by telephone at (410) 239-3200.

## **FINANCIAL STATEMENTS**

**TOWN OF MANCHESTER, MARYLAND**  
**STATEMENT OF NET POSITION**  
**June 30, 2016**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and temporary investments	\$ 3,115,776	\$ 67,305	\$ 3,183,081
Restricted cash	-	4,064,618	4,064,618
Receivables, net	268,679	276,737	545,416
Internal balances, net	(202,384)	202,384	-
Inventory	-	31,896	31,896
Capital assets, not being depreciated	2,379,901	1,551,289	3,931,190
Capital assets being depreciated, net	6,084,124	11,947,354	18,031,478
Total assets	<u>11,646,096</u>	<u>18,141,583</u>	<u>29,787,679</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pension	<u>213,930</u>	<u>120,426</u>	<u>334,356</u>
<b>LIABILITIES</b>			
Accounts payable	562,941	43,708	606,649
Accrued liabilities	26,887	16,285	43,172
Retainage Payable	158,541	-	158,541
Deposits	28,260	-	28,260
Compensated absences payable:			
Due within one year	44,790	25,857	70,647
Due in more than one year	55,910	32,280	88,190
Note Payable:			
Due within one year	-	21,604	21,604
Due in more than one year	-	134,238	134,238
Net Pension liability	<u>609,257</u>	<u>342,969</u>	<u>952,226</u>
Total liabilities	<u>1,486,586</u>	<u>616,941</u>	<u>2,103,527</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pension	<u>12,477</u>	<u>7,024</u>	<u>19,501</u>
<b>NET POSITION</b>			
Net investment in capital assets	8,305,484	13,342,801	21,648,285
Restricted for capital projects	-	4,064,618	4,064,618
Unrestricted	<u>2,055,479</u>	<u>230,625</u>	<u>2,286,104</u>
<b>TOTAL NET POSITION</b>	<u>\$ 10,360,963</u>	<u>\$ 17,638,044</u>	<u>\$ 27,999,007</u>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF MANCHESTER, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2016**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Positions Primary Government		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Grants and Contributions			
Governmental activities:							
General government	\$ 941,870	\$ 88,007	\$ 245,389	\$ -	\$ (608,474)	\$ -	\$ (608,474)
Public safety	496,662	12,755	53,318	-	(430,589)	-	(430,589)
Public works	943,920	171,932	3,775	-	(768,213)	-	(768,213)
Recreation	138,489	13,788	-	-	(124,701)	-	(124,701)
Total governmental activities	<u>2,520,941</u>	<u>286,482</u>	<u>302,482</u>	<u>-</u>	<u>(1,931,977)</u>	<u>-</u>	<u>(1,931,977)</u>
Business-type activities:							
Water	729,138	564,282	-	-	-	(164,856)	(164,856)
Sewer	967,581	711,436	-	-	-	(256,145)	(256,145)
Total business-type activities	<u>1,696,719</u>	<u>1,275,718</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(421,001)</u>	<u>(421,001)</u>
<b>TOTAL GOVERNMENTAL/ BUSINESS-TYPE ACTIVITIES</b>	<u>\$ 4,217,660</u>	<u>\$ 1,562,200</u>	<u>\$ 302,482</u>	<u>\$ -</u>	<u>(1,931,977)</u>	<u>(421,001)</u>	<u>(2,352,978)</u>
General revenues							
Taxes:							
Property taxes					1,023,862	-	1,023,862
Income taxes					615,598	-	615,598
Other local taxes					15,615	-	15,615
Investment income					9,970	17,046	27,016
Other revenue					92,329	-	92,329
Total general revenues					<u>1,757,374</u>	<u>17,046</u>	<u>1,774,420</u>
<b>CHANGE IN NET POSITION</b>					(174,603)	(403,955)	(578,558)
<b>NET POSITION, BEGINNING OF YEAR</b>					<u>10,535,566</u>	<u>18,041,999</u>	<u>28,577,565</u>
<b>NET POSITION, END OF YEAR</b>					<u>\$ 10,360,963</u>	<u>\$ 17,638,044</u>	<u>\$ 27,999,007</u>

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

**TOWN OF MANCHESTER, MARYLAND**  
**BALANCE SHEET**  
**June 30, 2016**

	<b>General</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,115,776
Receivables, net	268,679
Due from other funds	404,421
<b>TOTAL ASSETS</b>	<b>\$ 3,788,876</b>
<b>LIABILITIES</b>	
Accounts payable	562,941
Due to other funds	606,805
Accrued liabilities	26,887
Retainage payable	158,541
Deposits	28,260
Total liabilities	1,383,434
<b>DEFERRED INFLOW OF RESOURCES</b>	
Unavailable revenue	106,449
<b>FUND BALANCE</b>	
Committed to:	
Park service	178,854
Safety service	300,443
Road improvements	88,035
Historic Center	16,815
Other	7,910
Assigned - Subsequent year expenditures	37,000
Unassigned	1,669,936
Total fund balance	2,298,993
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 3,788,876</b>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF MANCHESTER, MARYLAND**  
**BALANCE SHEET AND RECONCILIATION TO GOVERNMENT-WIDE**  
**STATEMENT OF NET POSITION**  
**GOVERNMENTAL FUNDS**  
**June 30, 2016**

Total fund balance - governmental funds (page 16)	\$ 2,298,993
Adjustments to Reconcile to the Government-wide Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	8,464,025
Other long-term assets are not available to pay current-period expenditures and therefore are offset by unavailable revenue in the governmental funds.	106,449
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. This amount represents compensated absences.	(100,700)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(609,257)
Deferred outflows of resources related to pension	213,930
Deferred inflows of resources related to pension expense	<u>(12,477)</u>
<b>TOTAL NET POSITION, GOVERNMENTAL ACTIVITIES (page 14)</b>	<b><u>\$ 10,360,963</u></b>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF MANCHESTER, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2016**

	<b>General</b>
<b>REVENUES</b>	
Local property taxes	\$ 1,023,862
Local income taxes	614,719
State shared taxes	188,135
Licenses and permits	14,197
Intergovernmental	302,482
Service charges	6,050
Interest	9,970
Rents and concessions	93,715
Miscellaneous	92,329
Total revenues	2,345,459
<b>EXPENDITURES</b>	
General government	1,994,645
Public safety	535,841
Public works	874,827
Recreation	246,102
Miscellaneous	280,687
Total expenditures	3,932,102
<b>NET CHANGE IN FUND BALANCE</b>	(1,586,643)
<b>FUND BALANCE, BEGINNING OF YEAR</b>	3,885,636
<b>FUND BALANCE, END OF YEAR</b>	\$ 2,298,993

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF MANCHESTER, MARYLAND  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2016**

**Net change in fund balances - governmental funds** (Page 18) \$ (1,586,643)

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

Governmental funds report capital outlays as  
expenditures. However, in the Statement of Activities, the  
costs of capital assets are allocated over their useful  
lives and reported as a depreciation expense.

Capital outlay	\$	2,019,322	
Depreciation expense		(554,605)	
Depreciation expense exceeded capital outlay in the current period by:			1,464,717

Revenues in the Statement of Activities that do not provide  
current financial resources are not reported as revenues  
in governmental funds.

Change in unavailable local income tax revenue			879
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Some expenses reported in the Statement of Activities do  
not require the use of current financial resources and  
are not reported as expenditures in governmental funds.

Change in compensated absences			(16,029)
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Governmental funds report Town pension contributions as expenditures.

However, in the Statement of Activities, the cost of pension benefits earned  
net of employer contributions is reported as pension expense.

			<u>(37,527)</u>
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**CHANGE IN NET POSITION OF GOVERNMENTAL**

**ACTIVITIES** (Page 14)

	\$		<u>(174,603)</u>
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**TOWN OF MANCHESTER, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>				
Local property taxes	\$ 1,006,915	\$ 1,006,915	\$ 1,023,862	\$ 16,947
Local income taxes	480,000	480,000	614,719	134,719
State shared taxes	60,202	60,202	188,135	127,933
Licenses and permits	9,500	9,500	14,197	4,697
Intergovernmental	96,000	96,000	53,318	(42,682)
Town/County Agreement	249,215	249,215	249,164	(51)
Service charges	3,850	3,850	6,050	2,200
Interest	9,500	9,500	9,970	470
Rents and concessions	75,800	75,800	93,715	17,915
Miscellaneous	1,000	1,000	92,329	91,329
	<u>1,991,982</u>	<u>1,991,982</u>	<u>2,345,459</u>	<u>353,477</u>
<b>EXPENDITURES</b>				
General government	2,123,729	2,123,729	1,994,645	129,084
Public safety	511,369	511,369	535,841	(24,472)
Public works	787,381	787,381	874,827	(87,446)
Recreation	179,106	179,106	246,102	(66,996)
Miscellaneous	334,397	334,397	280,687	53,710
	<u>3,935,982</u>	<u>3,935,982</u>	<u>3,932,102</u>	<u>3,880</u>
Excess (deficiency) of revenues over expenditures before other financing sources	(1,944,000)	(1,944,000)	(1,586,643)	357,357
<b>OTHER FINANCING SOURCES</b>				
Transfer from other sources	1,836,500	1,836,500	-	(1,836,500)
Encumbrances	107,500	107,500	-	(107,500)
	<u>-</u>	<u>-</u>	<u>(1,586,643)</u>	<u>(1,586,643)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,586,643)</u>	<u>\$ (1,586,643)</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>3,885,636</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 2,298,993</u>	

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

**TOWN OF MANCHESTER, MARYLAND**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2016**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 67,305	\$ 67,305
Restricted cash	2,144,808	1,919,810	4,064,618
Receivables, net	119,254	157,483	276,737
Due from other funds	53,039	601,592	654,631
Inventory	31,896	-	31,896
Capital assets, net of accumulated depreciation	<u>5,475,702</u>	<u>8,022,941</u>	<u>13,498,643</u>
Total assets	<u>7,824,699</u>	<u>10,769,131</u>	<u>18,593,830</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pension	<u>60,352</u>	<u>60,074</u>	<u>120,426</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 7,885,051</u>	<u>\$ 10,829,205</u>	<u>\$ 18,714,256</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 10,876	\$ 32,832	\$ 43,708
Due to other funds	349,588	102,659	452,247
Accrued expenses	8,136	8,149	16,285
Compensated absences:			
Due within one year	13,204	12,653	25,857
Due in more than one year	16,490	15,790	32,280
Note Payable:			
Due within one year	21,604	-	21,604
Due in more than one year	134,238	-	134,238
Net Pension liability	<u>171,881</u>	<u>171,088</u>	<u>342,969</u>
Total liabilities	<u>726,017</u>	<u>343,171</u>	<u>1,069,188</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pension	<u>3,520</u>	<u>3,504</u>	<u>7,024</u>
<b>NET POSITON</b>			
Net investment in capital assets	5,319,860	8,022,941	13,342,801
Restricted for capital projects	2,144,808	1,919,810	4,064,618
Unrestricted	<u>(309,154)</u>	<u>539,779</u>	<u>230,625</u>
Total net position	<u>7,155,514</u>	<u>10,482,530</u>	<u>17,638,044</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 7,885,051</u>	<u>\$ 10,829,205</u>	<u>\$ 18,714,256</u>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF MANCHESTER, MARYLAND**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2016**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 297,705	\$ 481,005	\$ 778,710
Unit charges	146,213	166,210	312,423
Excise taxes	12,750	11,250	24,000
Area service charges	25,500	25,500	51,000
Miscellaneous	<u>82,114</u>	<u>27,471</u>	<u>109,585</u>
Total operating revenues	<u>564,282</u>	<u>711,436</u>	<u>1,275,718</u>
<b>OPERATING EXPENSES</b>			
Salaries and fringe benefits	327,737	315,086	642,823
Operating expenses	192,750	306,916	499,666
Depreciation expense	<u>206,986</u>	<u>345,579</u>	<u>552,565</u>
Total operating expenses	<u>727,473</u>	<u>967,581</u>	<u>1,695,054</u>
<b>OPERATING LOSS</b>	<u>(163,191)</u>	<u>(256,145)</u>	<u>(419,336)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	8,702	8,344	17,046
Interest expense	<u>(1,665)</u>	<u>-</u>	<u>(1,665)</u>
Total non-operating revenues	<u>7,037</u>	<u>8,344</u>	<u>15,381</u>
<b>CHANGE IN NET POSITION</b>	(156,154)	(247,801)	(403,955)
<b>TOTAL NET POSITION, BEGINNING OF YEAR, as restated</b>	<u>7,311,668</u>	<u>10,730,331</u>	<u>18,041,999</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 7,155,514</u>	<u>\$ 10,482,530</u>	<u>\$ 17,638,044</u>

*The accompanying notes are an integral part of the financial statements.*

**TOWN OF MANCHESTER, MARYLAND**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2016**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 556,005	\$ 705,810	\$ 1,261,815
Cash paid to suppliers for goods and services	(203,512)	(412,419)	(615,931)
Cash paid to employees for services	(313,660)	(301,246)	(614,906)
Net cash provided by (used in) operating activities	<u>38,833</u>	<u>(7,855)</u>	<u>30,978</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	<u>8,702</u>	<u>8,344</u>	<u>17,046</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(95,395)	(112,235)	(207,630)
Principal paid on bond and notes maturities	(21,390)	-	(21,390)
Interest paid	(1,665)	-	(1,665)
Net cash used in capital and related financing activities	<u>(118,450)</u>	<u>(112,235)</u>	<u>(230,685)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(70,915)</b>	<b>(111,746)</b>	<b>(182,661)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,215,723</u>	<u>2,098,861</u>	<u>4,314,584</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,144,808</u>	<u>\$ 1,987,115</u>	<u>\$ 4,131,923</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATIONS</b>			
Operating loss	\$ (163,191)	\$ (256,145)	\$ (419,336)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	206,986	345,579	552,565
Adjustment to pension expense	7,925	6,069	13,994
Effect of changes in operating assets and liabilities:			
Accounts receivable	(3,094)	(4,651)	(7,745)
Inventory	(2,974)	-	(2,974)
Interfund receivables	(5,183)	(975)	(6,158)
Accounts payable	(7,104)	(110,686)	(117,790)
Interfund payables	(684)	5,183	4,499
Accrued expenses	1,886	2,465	4,351
Compensated absences	4,266	5,306	9,572
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>\$ 38,833</u>	<u>\$ (7,855)</u>	<u>\$ 30,978</u>

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

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

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

The financial statements of the Town of Manchester, Maryland (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting principles are described below. These policies should be recognized by the reader as integral to the preparation and use of the accompanying general purpose financial statements.

**Reporting Entity**

Town of Manchester, Maryland was incorporated in March of 1834 under the provisions of the State of Maryland Public Local Law, Article 17, Section 631, Chapter 532 as amended by Section 1, 1949, Chapter 583. The Town operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety, highways and streets, water and sewer, culture and recreation, public improvements, planning and zoning, and general administrative services.

For financial reporting purposes, in conformance with accounting principles generally accepted in the United States of America, the reporting entity includes the Mayor and Town Council of Manchester, which represents the primary government.

**Government-Wide and Fund Financial Statements**

The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the Town. Eliminations have been made to remove the effect of interfund activity from these statements. Governmental activities, which are supported by taxes and intergovernmental activities, are reported separately from business-type activities that are supported by customer service charges.

The Statement of Activities presents a comparison between direct expenses and program revenues for each of the business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those specifically associated with a program or function. Program revenues include charges to customers and grants and contributions restricted to the capital or operational requirements of particular programs. Revenues that are not classified as program revenues, such as taxes, are reported as general revenues.

Separate financial statements are shown for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year of levy.

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Grants are recognized as revenue when all eligibility requirements are met.

Governmental fund statements are presented using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collected within 60 days of year-end. Expenditures are recorded when the related liability is incurred as under accrual accounting. Expenditures for compensated absences are recorded when the payments are due.

Those revenues susceptible to accrual are property taxes, taxes collected by the state and county on behalf of the Town, franchise taxes, special assessments, revenue from other agencies, interest revenue, and charges for services. Fines and forfeitures, licenses, permits, penalties and interest (on property taxes) and other revenues become measurable and available when cash is received by the Town and are recognized as revenue at that time.

The Town has one major governmental fund: the General Fund. The General Fund is used to account for all activities of the government not accounted for in some other fund. It accounts for the normal recurring activities of the Town such as police, public works, parks and recreation, general government, etc. These activities are financed primarily by property taxes, other taxes, service charges, and grants from other governmental units.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds distinguish operating revenues and expenses from non-operating items.

Operating revenues and expenses result from providing services and delivering goods in connection with the fund's principal ongoing operations such as charges to customers for sales and services and expenses such as salaries, product costs, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town has two major proprietary funds. The Water Fund operates the water treatment plants and distribution system. The Sewer Fund operates the sewage treatment plant, pumping stations and collection system.

The effect of interfund activity has been eliminated from the government-wide financial statements except for charges between the Water and Sewer Funds and the General Fund for direct services. Elimination of these charges would distort the direct costs and program revenues reported for the various services. Amounts reported as program revenues include charges to customers for goods and services, operating grants and contributions and capital grants. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Equity in Pooled Cash, Cash Equivalents and Investments**

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months at the time of purchase. Cash deposits of the Town are made in accordance with the Annotated Code of Maryland (the Code), which requires depositories to give security in the form of collateral as provided for in the Code, for the safekeeping and forthcoming, when required, of these deposits.

Excess funds are also permitted to be invested either in bonds or other obligations for the payment of principal and interest of which the full faith and credit of the United States of America are pledged, or in obligations of Federal government agencies issued pursuant to acts of Congress, or in the local government investment pool created by the State of Maryland.

For the purposes of the Statement of Cash Flows, the Town considers all highly liquid investments with an original maturity date of three months or less at the time of purchase to be cash equivalents. Cash resources of each of the individual funds, except cash required to be segregated by law or policy, are combined to form a pool of cash and investments to maximize interest earnings. Income from pooled investments are allocated to funds on the basis of their equity in pooled cash.

The investments in the Maryland Local Government Pool are valued on an amortized cost basis.

**Receivables**

Property taxes are reported at their estimated collectible value. The following summarizes the property tax calendar:

	<b>Real</b>	<b>Personal and Corporate</b>
Assessment Roll Validated:	December 31	January 1
Tax Rate Ordinance Approved:	June 30	June 30
Beginning of fiscal year for which taxes have been levied:	July 1	July 1
Tax bills Rendered and Due:	July 1	On State Notification
Owner-occupied Residential:	July 1 and Jan 1	On State Notification
Property Taxes Receivable:		
Delinquent	Oct. 1, Feb. 1	After 30 days
Terms	60 days	30 days
Delinquent Interest Rate	18%	18%

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Receivables** (Continued)

Information presented is for “full year” levy. “Half year” levy dates are each six months later, and relate to new construction in the first six months of the calendar year. A lien is attached to the property on the billing date, becomes delinquent October 1, and is sold at tax sale by the end of 18 months.

Allowances for uncollectible accounts, if any, are maintained on all types of receivables that historically experience bad debt. Receivables are shown net of such an allowance for uncollectibles for all funds. Real property taxes are generally fully collectible. Receivables shown in the Water and Sewer Funds represents amounts due from customers for charges for service.

**Inventory**

Inventory is stated at the lower of cost or market on the FIFO basis and consists of general supplies and equipment and supplies used in the operation of the municipal water system.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure such as roads, storm drains, and pipe systems are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets, which individually cost more than \$2,500 and have an estimated useful life in excess of two years. Land is not depreciated as it is assumed to have an indefinite useful life. Construction in progress is not depreciated until the asset is placed into service. In the enterprise funds, fixed assets are recorded at cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or extend asset lives are not capitalized.

Expenditures for major assets and improvements are capitalized as projects are constructed. Interest on debt during the construction period is capitalized. The amount of interest to be capitalized is offset by interest income earned on invested unused debt proceeds over the same period. Exhaustible capital assets of the governmental and business-type activities and proprietary funds are depreciated, which is charged as an expense against their operations. Accumulated depreciation is reported in the Statement of Net Position. Depreciation has been provided over the estimated useful lives using the straight-line method.

Estimated useful lives are generally as follows:

Water and sewer systems	40-50 years
Vehicles	5-10 years
Machinery and equipment	3-15 years
Buildings and improvements	15-40 years
Infrastructure	20-50 years
Other improvements	7-20 years
Furniture and fixtures	5-10 years

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Outflows of Resources**

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until the future period. The Town recognizes deferred outflows related to pensions.

**Long-Term Obligations**

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, or proprietary fund Statement of Net Position.

**Compensated Absences**

Vacation benefits are earned by employees of the Town based upon time in service. The rights to such benefits are vested immediately. A maximum of 240 hours of accumulated vacation leave may be carried forward into the next year. Employees accumulate comp-time for overtime hours worked at 1.5 hours per each hour of overtime. A maximum of 80 hours of accumulated comp-time may be carried forward into the next year. Upon termination of employment, the Town pays the employee for accumulated vacation leave up to 240 hours and accumulated comp-time up to 80 hours. The Town records vacation leave and comp-time benefits as earned. The vested benefits as of year-end are included as “compensated absences” on the Statement of Net Position.

**Deferred Inflows of Resources**

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until the future period. The Town recognizes deferred inflows related to pensions. The Town’s general fund has unavailable revenue related to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as income taxes not collected within 60 days after fiscal year-end.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of the Maryland State Retirement and Pension System (System) and additions to/deductions from the System’s fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position/Fund Balance**

The government-wide financial statements utilize a net position presentation. The proprietary funds use a balance sheet approach, but utilize the same net position categorization as the government-wide statements. Net Position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net investment in capital assets* - This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted net position* - This category presents net position with external restrictions imposed by creditors, grantors, or laws and regulations of other governments.
- *Unrestricted net position* - This category presents the net position of the Town, not restricted for any purpose.

In the fund financial statements, governmental funds report classifications of fund balance in a hierarchy based primarily on the extent of constraints on the related funding sources. As of June 30, 2016, fund balances of the governmental funds are classified as follows:

*Nonspendable*

Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact (e.g. inventory). There were no nonspendable fund balances at June 30, 2016.

*Restricted*

Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. There were no restricted fund balances at June 30, 2016.

*Committed*

Amounts that can be used only for specific purposes determined by a formal action of the Town Council. The Town Council is the highest level of decision-making authority for the Town. Commitments may be established, modified, or rescinded only through ordinances approved by the Town Council.

*Assigned*

Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Town's adopted policy, assignment of funds can be recommended by the Director of Finance but all assignments must be approved by the Town Council.

*Unassigned*

All other spendable amounts.

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position/Fund Equity (Continued)**

When an expenditure is incurred for purposes for which both restricted and unrestricted funds are available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned funds are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless Town Council or the Director of Finance has provided otherwise in its commitment or assignment actions.

**Stewardship, Compliance, and Accountability**

*Budgetary Information*

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the Mayor submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted after two weeks' notice is given in a local newspaper.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. Any transfer of funds between major appropriations for different purposes must be approved by the Council by a three-fifths (3/5) vote before becoming effective.

The Town's budget for the Water and Sewer funds is not legally adopted, and is for management's use only.

5. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP) except for the following two items if applicable:
  - 1) Capital contributions are not budgeted and are not included in the non-GAAP budgetary statements.
  - 2) The use of prior year fund balance is budgeted for and is included in the non-GAAP budgetary statements.

Budgetary comparisons presented for the General Fund are on this non-GAAP basis.

6. Appropriations which are not expended lapse at the end of the fiscal year.

Budgeted amounts are adopted on a non-GAAP basis and are shown as originally adopted by the Town Council for the General Fund. Expenditures may not legally exceed appropriations at the fund level. The General Fund did not exceed their appropriated expenditure budget at the fund level for the year ended June 30, 2016. There were no reconciling differences between GAAP and non-GAAP budgetary basis presentations for the year ended June 30, 2016.

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Governmental Accounting Standards Board (GASB) Pronouncements**

The Town implemented Statement No. 72, *Fair Value Measurement and Application* – This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Town also implemented Statement No. 79, *Certain External Investment Pools and Pool Participants* – The objective of this Statement is to address certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory standards.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Reconciliation of cash and temporary investments as shown on the Statement of Net Position is as follows:

Carrying amount of deposits	\$ 7,203,461
Carrying amounts of temporary investments	<u>44,238</u>
<b>Total cash, cash equivalents and temporary investments per Statement of Net Position</b>	<u><u>\$ 7,247,699</u></u>

**Deposits**

At year end, the carrying amount of the Town's deposits (including cash on hand of \$250) was \$7,247,699 and the bank balance was \$7,610,460. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town follows the State mandated deposit policy for custodial credit risk requiring all deposits to be collateralized for amounts in excess of FDIC limits. At year-end, the Town was in compliance with the State's deposit policy, and all deposits in excess of FDIC limits were covered by collateral held by the Bank's trust department in the name of the Town.

**Investments**

At June 30, 2016, the Town's investments totaling \$44,238 were entirely in the State-created Maryland Local Government Investment Pool (MLGIP). The State Legislature created MLGIP under the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, is managed by a single Baltimore-based financial institution, PNC. The pool is a 2a7 like pool, which is not registered with the Security and Exchange Commission (SEC) but generally operates in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940 (Rule 2a7). Unit value is computed using the amortized cost method and maintains a \$1 per share value.

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

*Investment rate risk*

Fair value fluctuates with interest, and increasing interest rates could cause fair value to decline below original cost. To limit the Town's exposure to fair value losses arising from increasing interest rates, the Town's investment policy limits the term of investment maturities between thirty days to one year in order to remain sufficiently liquid to enable the Town to meet all operating requirements which might be reasonably anticipated. Town management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the Town from having to sell investments below original cost for that purpose.

The investments at June 30, 2016, met the Town's investment policy as of that date. Investment income was comprised entirely of interest and dividends amounting to \$27,016 for the year ended June 30, 2016.

*Credit Risk*

The investment policy of the Town 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 is established under 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 Risk*

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Town 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 Town were not exposed to custodial risk at June 30, 2016.

*Foreign Currency Risk*

The Town's investment policy does not allow for investments denominated in foreign currencies and the Town was in compliance with this policy during the year ended June 30, 2016.

**NOTE 3 – RECEIVABLES**

**Property Taxes Receivable**

Property taxes are reported at their estimated collectible value. The Town's real property tax rate was \$0.216 per \$100 of assessed value. The Town's tax rate for personal and corporate property was \$0.46 per \$100 of assessed value. As of June 30, 2016, property taxes receivable amounted to \$3,748.

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 3 – RECEIVABLES (CONTINUED)**

**Summary of Receivables**

Receivables as of year-end for the government’s major funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Business-Type Activities			Total
		Water	Sewer	Business-Type Activities Total	
<b>Receivables</b>					
Taxes	\$ 71,438	\$ -	\$ -	\$ -	\$ 71,438
Accounts	-	119,254	157,483	276,737	276,737
Due from other governments	197,241	-	-	-	197,241
<b>Net receivables</b>	<u>\$ 268,679</u>	<u>\$ 119,254</u>	<u>\$ 157,483</u>	<u>\$ 276,737</u>	<u>\$ 545,416</u>

**NOTE 4 – UNAVAILABLE REVENUE**

Governmental funds report unavailable revenue in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as income taxes not collected within 60 days after fiscal year-end. Unavailable revenue for the General Fund at June 30, 2016 consisted solely of revenue deemed unavailable in the amount of \$106,449, which is reported on as deferred inflow of resources.

**NOTE 5 – INTERFUND BALANCES**

The composition of interfund balances as of June 30, 2016 is as follows:

	Due From Other Funds	Due To Other Funds
General fund	\$ 404,421	\$ 606,805
Water fund	53,039	349,588
Sewer fund	601,592	102,659
<b>Total</b>	<u>\$ 1,059,052</u>	<u>\$ 1,059,052</u>

These interfund balances are presented in the accompanying financial statements as follows:

	Due From	Due To
Balance Sheet - Government-wide Financial statements (page 15)	\$ 404,421	\$ 606,805
Statement of Net Position - Proprietary Funds (page 20)	654,631	452,247
<b>Total</b>	<u>\$ 1,059,052</u>	<u>\$ 1,059,052</u>

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 6 – CHANGES IN CAPITAL ASSETS**

**Capital Assets**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 768,410	\$ -	\$ -	\$ 768,410
Construction in progress	94,445	1,517,046	-	1,611,491
Total capital assets, not being depreciated	<u>862,855</u>	<u>1,517,046</u>	<u>-</u>	<u>2,379,901</u>
Capital assets, being depreciated:				
Buildings and improvements	782,960	39,527	-	822,487
Other improvements	229,475	111,807	-	341,282
Machinery and equipment	458,589	85,840	(4,197)	540,232
Furniture and fixtures	37,966	-	-	37,966
Vehicles	605,306	70,429	(25,816)	649,919
Infrastructure	8,461,784	194,673	-	8,656,457
Total capital assets, being depreciated	<u>10,576,080</u>	<u>502,276</u>	<u>(30,013)</u>	<u>11,048,343</u>
Less accumulated depreciation:				
Buildings and improvements	(427,987)	(26,261)	-	(454,248)
Other improvement	(183,070)	(12,172)	-	(195,242)
Machinery and equipment	(339,205)	(27,515)	4,197	(362,523)
Furniture and fixtures	(32,092)	(595)	-	(32,687)
Vehicles	(499,023)	(47,192)	25,816	(520,399)
Infrastructure	(2,958,250)	(440,870)	-	(3,399,120)
Total accumulated depreciation	<u>(4,439,627)</u>	<u>(554,605)</u>	<u>30,013</u>	<u>(4,964,219)</u>
Capital Assets being depreciated, net	<u>6,136,453</u>	<u>(52,329)</u>	<u>-</u>	<u>6,084,124</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 6,999,308</u>	<u>\$ 1,464,717</u>	<u>\$ -</u>	<u>\$ 8,464,025</u>

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 6 – CHANGES IN CAPITAL ASSETS (CONTINUED)**

	Beginning Balance	Additions	Transfers and Deletions	Ending Balance
<b>Business-type activities</b>				
Capital assets, not being depreciated:				
Land	\$ 1,551,289	\$ -	\$ -	\$ 1,551,289
Capital assets, being depreciated:				
Buildings	67,270	11,753	-	79,023
Machinery and equipment	1,173,358	122,191	(75,510)	1,220,039
Vehicles	184,348	40,528	(28,504)	196,372
Sewer system	12,645,235	-	-	12,645,235
Water system	6,801,745	33,158	-	6,834,903
Total capital assets, being depreciated	<u>20,871,956</u>	<u>207,630</u>	<u>(104,014)</u>	<u>20,975,572</u>
Less accumulated depreciation:				
Buildings	(25,662)	(4,568)	-	(30,230)
Machinery and equipment	(798,135)	(93,479)	75,510	(816,104)
Vehicles	(147,909)	(15,300)	28,504	(134,705)
Sewer system	(5,646,586)	(265,379)	-	(5,911,965)
Water system	(1,961,375)	(173,839)	-	(2,135,214)
Total accumulated depreciation	<u>(8,579,667)</u>	<u>(552,565)</u>	<u>104,014</u>	<u>(9,028,218)</u>
Capital Assets being depreciated, net	<u>12,292,289</u>	<u>(344,935)</u>	<u>-</u>	<u>11,947,354</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 13,843,578</u>	<u>\$ (344,935)</u>	<u>\$ -</u>	<u>\$ 13,498,643</u>

**Depreciation Expense**

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

Governmental activities:	
General government	\$ 364,900
Public safety	25,924
Public works	142,055
Parks and recreation	<u>21,726</u>
<b>Total depreciation - governmental activities</b>	<u>\$ 554,605</u>
Business-type activities:	
Water	\$ 206,986
Sewer	<u>345,579</u>
<b>Total depreciation - business-type activities</b>	<u>\$ 552,565</u>

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

**NOTE 7 – LONG-TERM DEBT**

**Business-Type Activities – Enterprise Funds**

*Loan Payable*

During fiscal year 2004, the Town borrowed \$400,000 from the Maryland Department of the Environment to assist in the financing of the Route 30 Water Main project. The agreement requires annual payments of principal and interest of \$23,163 at an interest rate of 1%. The final payment is due on February 1, 2023.

The annual debt service requirements to maturity are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 21,604	\$ 1,559	\$ 23,163
2018	21,820	1,343	23,163
2019	22,038	1,125	23,163
2020	22,259	904	23,163
2021	22,481	682	23,163
Thereafter	<u>45,640</u>	<u>686</u>	<u>46,326</u>
<b>Total</b>	<u>\$ 155,842</u>	<u>\$ 6,299</u>	<u>\$ 162,141</u>

*Changes in Long-Term Liabilities*

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Government activities</b>					
Long-term liabilities:					
Net Pension	\$ 403,819	\$ 205,438	\$ -	\$ 609,257	\$ -
Compensated absences	<u>84,671</u>	<u>16,029</u>	<u>-</u>	<u>100,700</u>	<u>44,790</u>
<b>Government activities long-term liabilities</b>	<u>\$ 488,490</u>	<u>\$ 221,467</u>	<u>\$ -</u>	<u>\$ 709,957</u>	<u>\$ 44,790</u>
<b>Business-type activities</b>					
Loan payable	\$ 177,232	\$ -	\$ 21,390	\$ 155,842	\$ 21,604
Net Pension	235,101	107,868	-	342,969	-
Compensated absences	<u>48,565</u>	<u>9,572</u>	<u>-</u>	<u>58,137</u>	<u>25,857</u>
<b>Business-type activities long-term liabilities</b>	<u>\$ 460,898</u>	<u>\$ 117,440</u>	<u>\$ 21,390</u>	<u>\$ 556,948</u>	<u>\$ 47,461</u>

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 8 – NET POSITION – PROPRIETARY FUNDS**

Restricted net position at June 30, 2016 as follows:

	Funds		Total
	Water	Sewer	
Purpose:			
Capital projects	\$ 2,144,808	\$ 1,919,810	\$ 4,064,618

The restriction of net position in the enterprise fund was established by an ordinance adopted by the Mayor and Town Council. It provides that all sanitary sewer capital connection charges shall be used for the construction, extension, improvement and maintenance of the sanitary system and wastewater treatment plant.

**NOTE 9 – PENSION PLAN**

**General Information about the Plan**

*Plan description.* The employees of the Town are covered by the Maryland State Retirement and Pension System (the System), which is a cost sharing employer public employee retirement system. While there are five retirement and pension systems under the System, employees of the Town are a member of the Employees' Retirement and Pension Systems. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. The Plans are administered by the State Retirement Agency. Responsibility for the System's administration and operation is vested in a 15-member Board of Trustees. The System issues a publically available financial report that can be obtained at <http://www.sra.state.md.us>.

*Benefits provided.* The System provides retirement allowances and other benefits to State employees of participating governmental units, among others. For individuals who become members of the Employees' Retirement and Pension Systems on or before June 30, 2011, retirement/pension allowances are computed using both the highest three years Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For individuals who become members of the Employees' Pension System on or after July 1, 2011, pension allowances are computed using both the highest five years AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree's benefits allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

A member of the Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's average final compensation (AFC) multiplied by the number of years of accumulated creditable service.

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 9 – PENSION PLAN (CONTINUED)**

**General Information about the Plan (Continued)**

A member of the Employees' Pension System on or before June 30, 2011 is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of the Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the members' combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from the Employees' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the members AFC, multiplied by the number of years of credible service accumulated prior to July 1, 1998, plus 1.4% of the members AFC, multiplied by the number of years of credible service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of credible service accumulated prior to July 1, 1998 plus 1.8% of the members AFC, multiplied by the number of years of credible service accumulated subsequent to June 30, 1998. Beginning in July 1, 2011, any new member of the Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Employees' Pension System.

*Contributions.* The Town and covered members are required by State statute to contribute to the System. Members of the Employees' Pension System are required to contribute 7% annually. Members of the Employees' Retirement System are required to contribute 5-7 % annually, depending on the retirement option selected. The contribution requirements of the System members, as well as the State and participating governmental employers are established and may be amended by the Board of Trustees for the System.

The Town's contractually required contribution rate for the Employees' Retirement and Pension Systems for the year ended June 30, 2016, was 6.72% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Town made its share of the required contributions during the year ended June 30, 2016 of \$86,925.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2016, the Town reported a liability of \$952,226 for its proportionate share of the net pension liability of the System. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on actual employer contributions billed to participating government units for the year ending June 30, 2015. The contributions were increased to adjust for differences between actuarial determined contributions and actual contributions by the State of Maryland. As of June 30, 2015, the Town's proportionate share was 0.0046%.

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 9 – PENSION PLAN (CONTINUED)**

For the year ended June 30, 2016, the Town recognized pension expense of \$51,519. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 54,598	\$ -
Differences between expected and actual experience	-	19,501
Change in proportion	139,393	-
Net differences between projected and actual earnings on pension plan investments	31,420	-
Net differences between actual and proportionate share of contributions	22,020	-
Town contributions subsequent to the measurement date	86,925	-
Total	\$ 334,356	\$ 19,501

\$86,925 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2017	\$	46,373
2018		46,373
2019		46,373
2020		57,249
2021		31,562
Thereafter		-

*Actuarial assumptions.* The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.95% general, 3.45% wage	
Salary increases	3.45% to 10.7%, including inflation	
Investment rate of return	7.55%	

Mortality rates were based on RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to the System's experience.

The economic and demographic actuarial assumptions used in the June 30, 2015 valuation were adopted by the System's Board of Trustees based upon review of the System's experience study for the period 2010-2014, which was completed during FY 2014. Assumptions from the experience study including investment return, inflation, COLA increases, mortality rates, retirement rates, withdrawal rates, disability rates and rates of salary increase were adopted by the Board for the first use in the actuarial valuation as of June 30, 2015. As a result, an investment return assumption of 7.55% and an inflation assumption of 2.70% were used in the June 30, 2015 valuation.

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 9 – PENSION PLAN (CONTINUED)**

The long term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-range expected rate of return by weighing the expected future real rates by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the System’s investment consultant(s) and actuary(s). For each major asset class that is included in the System’s target asset allocation, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Public Equity	35%	6.30%
Fixed Income	10%	0.60%
Credit Opportunity	10%	3.20%
Real Return	14%	1.80%
Absolute Return	10%	4.20%
Private Equity	10%	7.20%
Real Estate	10%	4.40%
Cash	1%	0.00%
Total	<u>100%</u>	

The above was the System’s Board of Trustees adopted asset allocation policy and best estimate of geometric real rates for each major asset class as of June 30, 2015.

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of the pension plan expense was 2.71%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

**TOWN OF MANCHESTER, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 9 – PENSION PLAN (CONTINUED)**

*Sensitivity of the Net Pension Liability.* Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the Board’s net pension liability, calculated using a single discount rate of 7.55%, as well as what the Board’s net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

	<u>1% Decrease (6.55%)</u>	<u>Current Discount Rate (7.55%)</u>	<u>1% Increase (8.55%)</u>
Town's proportionate share of the net pension liability	\$ 1,345,825	\$ 952,226	\$ 625,854

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

**NOTE 10 – OTHER INFORMATION**

**Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee health and accident; and natural disasters. The Town purchases commercial insurance to protect its interest in its property and equipment, insurance against employee dishonesty and liability protection. Settled claims have not exceeded these coverage’s for the past three fiscal years.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF MANCHESTER, MARYLAND**  
**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

<u>Employees' Retirement and Pension System:</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	0.00458204%	0.00360021%
Town's proportionate share of the net pension liability	\$ 952,226	\$ 638,920
Town's covered employee payroll	\$ 960,225	\$ 809,005
Town's proportionate share of the net pension liability as a percentage of its covered employee payroll	99.17%	78.98%
Plan fiduciary net position as a percentage of the total pension liability	66.26%	73.65%

*The amounts presented for fiscal year 2015 were determined as of July 1 of two years prior, using membership data as of the day, projected forward to June 30 of the previous year. Additionally, the Board implemented GASB 68 during fiscal year 2015. As such, only two years of information is available.*

**TOWN OF MANCHESTER, MARYLAND**  
**SCHEDULE OF THE TOWN CONTRIBUTIONS**  
**MARYLAND STATE RETIREMENT AND PENSION SYSTEM**  
**Last Ten Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 86,925	\$ 96,576	\$ 83,898	\$ 74,464	\$ 90,218	\$ 95,370	\$ 64,225	\$ 60,280	\$ 66,950	\$ 58,144
Contributions in relation to the										
contractually required contribution	<u>(86,925)</u>	<u>(96,576)</u>	<u>(83,898)</u>	<u>(74,464)</u>	<u>(90,218)</u>	<u>(95,370)</u>	<u>(64,225)</u>	<u>(60,280)</u>	<u>(66,950)</u>	<u>(58,144)</u>
Contribution deficiency (excess)	<u>\$ -</u>									
Town's covered-employee payroll	\$ 1,016,852	\$ 960,225	\$ 809,005	\$ 796,543	\$ 798,265	\$ 854,773	\$ 812,935	\$ 783,774	\$ 773,559	\$ 681,948
Contributions as a percentage of										
covered-employee payroll	8.55%	10.06%	10.37%	9.35%	11.30%	11.16%	7.90%	7.69%	8.65%	8.53%

**OTHER SUPPLEMENTARY INFORMATION**

**TOWN OF MANCHESTER, MARYLAND**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**(NON-GAAP BUDGETARY BASIS)**  
**Year Ended June 30, 2016**

	Final Budget	Actual	Variance Positive/(Negative)
<b>REVENUES</b>			
<b>Taxes</b>			
Local property taxes:			
Real property	\$ 975,615	\$ 989,340	\$ 13,725
Personal property	800	205	(595)
Railroads and public utilities	17,000	18,866	1,866
Ordinary business corporations	10,000	11,248	1,248
Penalties and interest - delinquent taxes	3,500	4,203	703
Net property taxes	1,006,915	1,023,862	16,947
Local income taxes	480,000	614,719	134,719
State shared taxes:			
Alcoholic beverages	550	588	38
Admission	14,000	15,615	1,615
Highway	45,652	171,932	126,280
Total state shared taxes	60,202	188,135	127,933
Total taxes	1,547,117	1,826,716	279,599
<b>Licenses and Permits</b>			
Traders	1,500	4,350	2,850
Building permits	3,000	5,131	2,131
Rental housing	4,500	4,350	(150)
Zoning fees	500	366	(134)
Total licenses and permits	9,500	14,197	4,697
<b>Intergovernmental</b>			
Grants from other governments			
Police protection	46,000	53,318	7,318
MD Heritage Areas Authority Grant	50,000	-	(50,000)
Grants from county government:			
State road grant	3,775	3,775	-
Financial corporations	655	655	-
Planning functions	244,785	244,734	(51)
Total intergovernmental	345,215	302,482	(42,733)
<b>Service Charges</b>			
Public safety charges:			
Safety service fee	2,450	3,850	1,400
Recreation charges:			
Park service fee	1,400	2,200	800
Total service charges	3,850	6,050	2,200
<b>Rents and Concessions</b>			
Rents and concessions	36,000	33,000	(3,000)
Cable TV franchise fees	32,000	40,222	8,222
Recreation charges:			
Rentals	7,500	11,588	4,088
Public safety charges:			
Police fines/fees	300	8,905	8,605
Total rent and concessions	75,800	93,715	17,915
<b>Miscellaneous Revenue</b>			
Interest	9,500	9,970	470
Other	1,000	92,329	91,329
Total miscellaneous revenue	10,500	102,299	91,799
<b>Total Revenues</b>	<b>1,991,982</b>	<b>2,345,459</b>	<b>353,477</b>

**TOWN OF MANCHESTER, MARYLAND**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**(NON-GAAP BUDGETARY BASIS)**  
**Year Ended June 30, 2016**  
(Continued)

	Final Budget	Actual	Variance Positive (Negative)
<b>EXPENDITURES</b>			
<b>General Government</b>			
Legislative:			
<u>Council</u>			
Salaries	\$ 6,000	\$ 6,000	-
Operating expenses	32,100	42,777	(10,677)
<u>Administration</u>			
Salary	91,091	94,753	(3,662)
Operating expenses	35,365	39,067	(3,702)
Capital outlay	1,806,000	1,673,637	132,363
Executive:			
<u>Mayor</u>			
Salary	4,800	4,800	-
Financial administration:			
<u>Independent Accounting and Auditing</u>			
Operating expenses	20,000	20,000	-
Law:			
<u>Legal Counsel</u>			
Operating expenses	4,000	6,088	(2,088)
Planning and zoning:			
<u>Planning Commission</u>			
Salaries	53,523	53,974	(451)
Operating expenses	23,100	14,819	8,281
General services:			
<u>Postal Park</u>			
Operating expenses	7,150	8,730	(1,580)
<u>Data Processing</u>			
Computer operating expenses	8,000	8,935	(935)
<u>Other General Services</u>			
Historical Association	22,600	9,168	13,432
Liability insurance	10,000	11,897	(1,897)
Total general government	<u>2,123,729</u>	<u>1,994,645</u>	<u>129,084</u>
<b>Public Safety</b>			
Police Department:			
<u>Patrol and Investigation</u>			
Salaries	350,139	343,207	6,932
Operating expenses	72,130	71,769	361
Capital outlay	56,000	88,265	(32,265)
Fire Department:			
<u>Volunteer Company</u>			
Operating expenses	33,100	32,600	500
Total public safety	<u>511,369</u>	<u>535,841</u>	<u>(24,472)</u>

**TOWN OF MANCHESTER, MARYLAND**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**(NON-GAAP BUDGETARY BASIS)**  
**Year Ended June 30, 2016**  
(Continued)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>EXPENDITURES (Continued)</b>			
<b>Public Works</b>			
Highways and street:			
<u>Streets, Roadways and Alleys:</u>			
Salaries and Overtime	\$ 146,266	\$ 143,652	\$ 2,614
Operating expenses	63,300	61,512	1,788
Capital outlay	184,000	251,747	(67,747)
<u>Snow and Ice Removal:</u>			
Salaries	15,000	21,770	(6,770)
Operating expenses	21,000	62,388	(41,388)
<u>Street Lighting:</u>			
Operating expenses	33,600	36,227	(2,627)
<u>Stormwater Management:</u>			
Operating expenses	35,500	21,048	14,452
<u>Sanitation and Waste Removal:</u>			
Waste - collection and disposal:			
Operating expenses	288,715	276,483	12,232
Total public works	<u>787,381</u>	<u>874,827</u>	<u>(87,446)</u>
<b>Recreation</b>			
Parks:			
Salaries	96,381	91,968	4,413
Operating expenses	42,225	28,875	13,350
Capital outlay	40,500	125,259	(84,759)
Total recreation	<u>179,106</u>	<u>246,102</u>	<u>(66,996)</u>
<b>Miscellaneous</b>			
Workmen's compensation insurance	67,525	65,421	2,104
Health and accident insurance	151,934	109,630	42,304
Social Security contributions	58,385	56,126	2,259
Pension plan expense	56,553	57,611	(1,058)
Unemployment insurance	-	4,158	(4,158)
Miscellaneous	-	(12,259)	12,259
Total miscellaneous	<u>334,397</u>	<u>280,687</u>	<u>53,710</u>
<b>Total Expenditures</b>	<u>3,935,982</u>	<u>3,932,102</u>	<u>3,880</u>
Excess (deficiency) of expenditures over revenues before other financing sources	(1,944,000)	(1,586,643)	357,357
<b>OTHER FINANCING SOURCES</b>			
Transfers from funds	30,500	-	(30,500)
Transfer from Money Market	1,806,000	-	(1,806,000)
Encumbrances	107,500	-	(107,500)
Total other financing sources	<u>1,944,000</u>	<u>-</u>	<u>(1,944,000)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ (1,586,643)</u>	<u>\$ (1,586,643)</u>

**TOWN OF MANCHESTER, MARYLAND**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL - ENTERPRISE FUND**  
**(NON-GAAP BUDGETARY BASIS)**  
**Year Ended June 30, 2016**

	Water Fund			Sewer Fund		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>OPERATING REVENUES</b>						
Charges for services	\$ 314,800	\$ 297,705	\$ (17,095)	\$ 506,272	\$ 481,005	\$ (25,267)
Unit charges	139,400	146,213	6,813	160,000	166,210	6,210
Excise taxes	17,850	12,750	(5,100)	15,750	11,250	(4,500)
Area service charges	17,500	25,500	8,000	17,500	25,500	8,000
Miscellaneous	68,837	82,114	13,277	15,900	27,471	11,571
Total operating revenues	<u>558,387</u>	<u>564,282</u>	<u>5,895</u>	<u>715,422</u>	<u>711,436</u>	<u>(3,986)</u>
<b>OPERATING EXPENSES</b>						
Salaries and fringe benefits	312,512	319,812	(7,300)	303,784	309,017	(5,233)
Operating expenses	206,375	192,750	13,625	346,638	306,916	39,722
Capital outlay	102,000	95,393	6,607	147,000	112,232	34,768
Total operating expenses	<u>620,887</u>	<u>607,955</u>	<u>12,932</u>	<u>797,422</u>	<u>728,165</u>	<u>69,257</u>
Operating loss	<u>(62,500)</u>	<u>(43,673)</u>	<u>18,827</u>	<u>(82,000)</u>	<u>(16,729)</u>	<u>65,271</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Payments on notes	(24,500)	(21,390)	3,110	-	-	-
Interest revenue	5,000	8,702	3,702	6,600	8,344	1,744
Encumbered from FY14- Replacement Sprayfield Effluent Pump	5,000	-	(5,000)	-	-	-
Encumbered from FY15 - Workers Comp Insurance	-	-	-	6,500	-	(6,500)
Debt service interest	-	(1,665)	(1,665)	-	-	-
Bay restoration fees revenue	-	-	-	96,000	113,959	17,959
Bay restoration fees remitted to the State	-	-	-	(96,000)	(113,959)	(17,959)
MEMA Grant Money	30,000	-	(30,000)	-	-	-
Withdrawal from Sewer/Water Replacement Savings	47,000	-	(47,000)	-	-	-
Withdrawal from Sewer/Water Area Service Savings	-	-	-	68,900	-	(68,900)
Total non-operating income (loss)	<u>62,500</u>	<u>(14,353)</u>	<u>(76,853)</u>	<u>82,000</u>	<u>8,344</u>	<u>(73,656)</u>
<b>NET LOSS - BUDGETARY BASIS</b>	<u>\$ -</u>	<u>(58,026)</u>	<u>\$ (58,026)</u>	<u>\$ -</u>	<u>(8,385)</u>	<u>\$ (8,385)</u>
Capital outlay		95,393			112,232	
Payments on notes		21,390			-	
Pension expense		(7,925)			(6,069)	
Depreciation expense		<u>(206,986)</u>			<u>(345,579)</u>	
<b>CHANGE IN NET POSITION - GAAP BASIS</b>		<u>\$ (156,154)</u>			<u>\$ (247,801)</u>	