

TOWN OF MANCHESTER, MARYLAND

FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2017

**TOWN OF MANCHESTER, MARYLAND
TABLE OF CONTENTS
YEAR ENDING JUNE 30, 2017**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	13
STATEMENT OF ACTIVITIES	14
FUND FINANCIAL STATEMENTS	
GOVERNMENTAL FUNDS:	
BALANCE SHEET	15
RECONCILIATION TO GOVERNMENT-WIDE STATEMENT OF NET POSITION	16
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	17
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	18
GENERAL FUND:	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)	19
PROPRIETARY FUNDS:	
STATEMENT OF NET POSITION	20
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION	21
STATEMENT OF CASH FLOWS	22
NOTES TO FINANCIAL STATEMENTS	23
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – MARYLAND STATE RETIREMENT AND PENSION SYSTEM	41
SCHEDULE OF THE TOWN CONTRIBUTIONS – MARYLAND STATE RETIREMENT AND PENSION SYSTEM	42
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	43
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL – GENERAL FUND (NON-GAAP BUDGETARY BASIS)	44
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL – ENTERPRISE FUNDS (NON-GAAP BUDGETARY BASIS)	47

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, 2017, 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 Town'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 Town'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, 2017, 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 and the Notes to the Required Supplementary Information on pages 44 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
October 31, 2017

TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

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, 2017. 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, \$3.6 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 \$21,604 during the current fiscal year from \$155,842 to \$134,238, due to the Town making the required annual principal payments on the note payable.
- The General Fund on a current financial resource basis, reported revenues and other financial sources and uses in excess of expenditures of \$1.5 million, due to the issuance of a bond for the new town hall construction.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3.2 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 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, 2017

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, 2017

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 44 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 41 and 42 of this report and the notes to the required supplementary information is located on page 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 (72.5%) reflects its net investment in capital assets (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 \$3.6 million (13.0% 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, 2017 and 2016:

	Governmental Activities		Business-Type Activities		Total		% Change
	2017	2016	2017	2016	2017	2016	
Current and other assets	\$ 4,272,309	\$ 3,182,071	\$ 4,660,118	\$ 4,642,940	\$ 8,932,427	\$ 7,825,011	14 %
Capital assets, net	8,949,117	8,464,025	13,081,446	13,498,643	22,030,563	21,962,668	0 %
Total assets	<u>13,221,426</u>	<u>11,646,096</u>	<u>17,741,564</u>	<u>18,141,583</u>	<u>30,962,990</u>	<u>29,787,679</u>	4 %
Total deferred outflows	\$ 241,244	\$ 213,930	\$ 151,116	\$ 120,426	\$ 392,360	\$ 334,356	17 %
Long-term liabilities	\$ 2,104,486	\$ 665,167	\$ 537,793	\$ 509,487	\$ 2,642,279	\$ 1,174,654	125 %
Other liabilities	538,052	821,419	120,118	107,454	658,170	928,873	(29) %
Total liabilities	<u>2,642,538</u>	<u>1,486,586</u>	<u>657,911</u>	<u>616,941</u>	<u>3,300,449</u>	<u>2,103,527</u>	57 %
Total deferred inflows	\$ 28,883	\$ 12,477	\$ 18,093	\$ 7,024	\$ 46,976	\$ 19,501	141 %
Net position:							
Net investment in capital assets	\$ 7,369,117	\$ 8,305,484	\$ 12,947,208	\$ 13,342,801	\$ 20,316,325	\$ 21,648,285	(6) %
Restricted	-	-	4,073,041	4,064,618	4,073,041	4,064,618	0 %
Unrestricted	3,422,132	2,055,479	196,427	230,625	3,618,559	2,286,104	58 %
Total net position	<u>\$ 10,791,249</u>	<u>\$ 10,360,963</u>	<u>\$ 17,216,676</u>	<u>\$ 17,638,044</u>	<u>\$ 28,007,925</u>	<u>\$ 27,999,007</u>	2 %

TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

The following table indicates the changes in net position for governmental and business-type activities at June 30, 2017 and 2016:

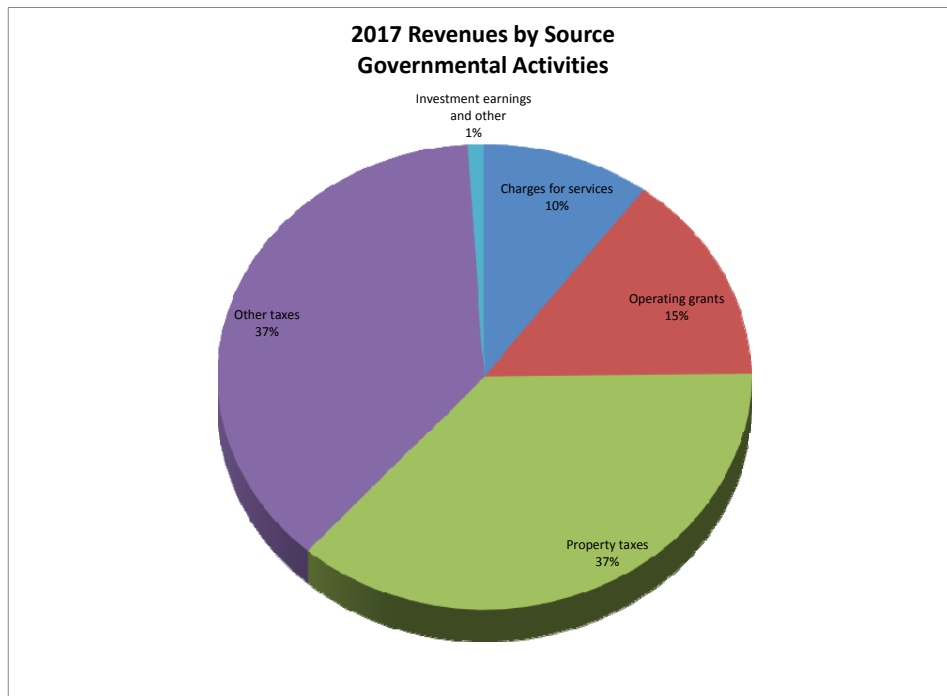
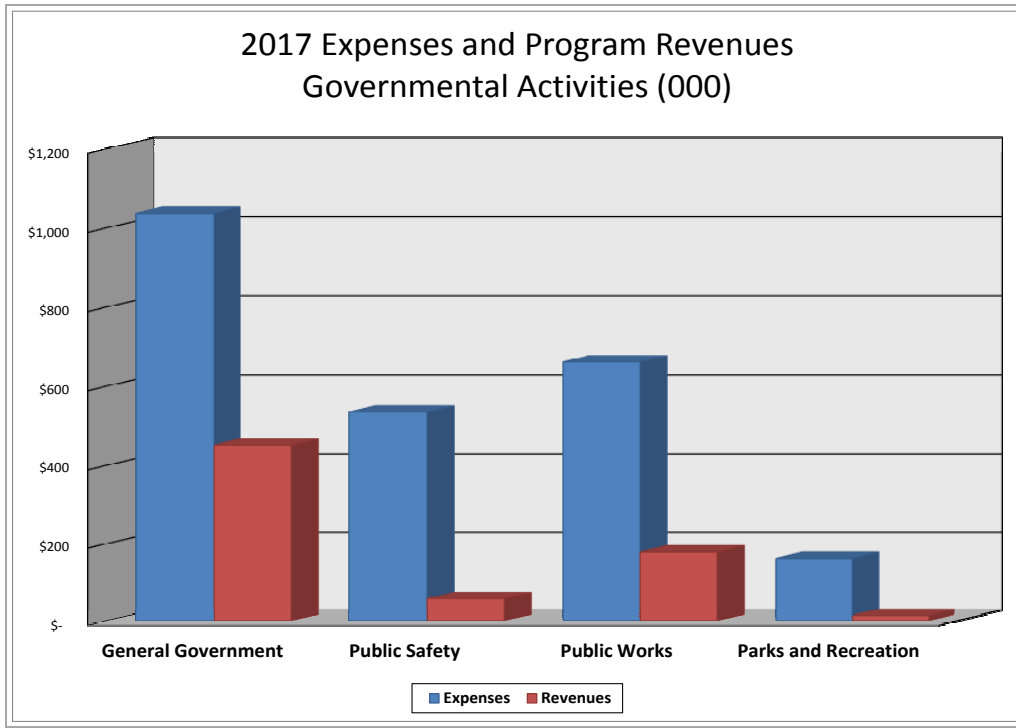
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>% Change</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	
Program Revenues							
Charges for services	\$ 288,551	\$ 286,482	\$ 1,327,082	\$ 1,275,718	\$ 1,615,633	\$ 1,562,200	3 %
Operating grants	412,345	302,482	-	-	412,345	302,482	36 %
Capital grants and contributions	-	-	-	-	-	-	- %
General Revenues							
Property taxes	1,036,502	1,023,862	-	-	1,036,502	1,023,862	1 %
Other taxes	1,059,419	631,213	-	-	1,059,419	631,213	68 %
Investment earnings and other	<u>27,406</u>	<u>102,299</u>	<u>29,340</u>	<u>17,046</u>	<u>56,746</u>	<u>119,345</u>	(52) %
Total revenue	<u>2,824,223</u>	<u>2,346,338</u>	<u>1,356,422</u>	<u>1,292,764</u>	<u>4,180,645</u>	<u>3,639,102</u>	15 %
Program Expenses							
General government	1,036,252	941,870	-	-	1,036,252	941,870	10 %
Public safety	535,074	496,662	-	-	535,074	496,662	8 %
Public works	660,964	943,920	-	-	660,964	943,920	(30) %
Parks and recreation	161,647	138,489	-	-	161,647	138,489	0 %
Utilities (water and sewer)	<u>-</u>	<u>-</u>	<u>1,777,790</u>	<u>1,696,719</u>	<u>1,777,790</u>	<u>1,696,719</u>	5 %
Total program expenses	<u>2,393,937</u>	<u>2,520,941</u>	<u>1,777,790</u>	<u>1,696,719</u>	<u>4,171,727</u>	<u>4,217,660</u>	(1) %
INCREASE IN NET POSITION	430,286	(174,603)	(421,368)	(403,955)	8,918	(578,558)	(102) %
NET POSITION, BEGINNING OF YEAR	<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>	0 %
NET POSITION, END OF YEAR	<u>\$ 10,791,249</u>	<u>\$ 10,360,963</u>	<u>\$ 17,216,676</u>	<u>\$ 17,638,044</u>	<u>\$ 28,007,925</u>	<u>\$ 27,999,007</u>	0 %

Governmental activities. General revenues for the governmental activities were \$2,123,327, while total expenses, net of charges for services, grants and contributions, were \$1,693,041. The increase in net position for governmental activities was \$430,286, an increase of \$604,889 over the prior year, for which the majority of can be attributed to the following:

- General revenue increased by \$365,953 or 20.8% primarily due to an increase in local income taxes as a result of a one-time return of prior year taxes not originally remitted to the Town.

**TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

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

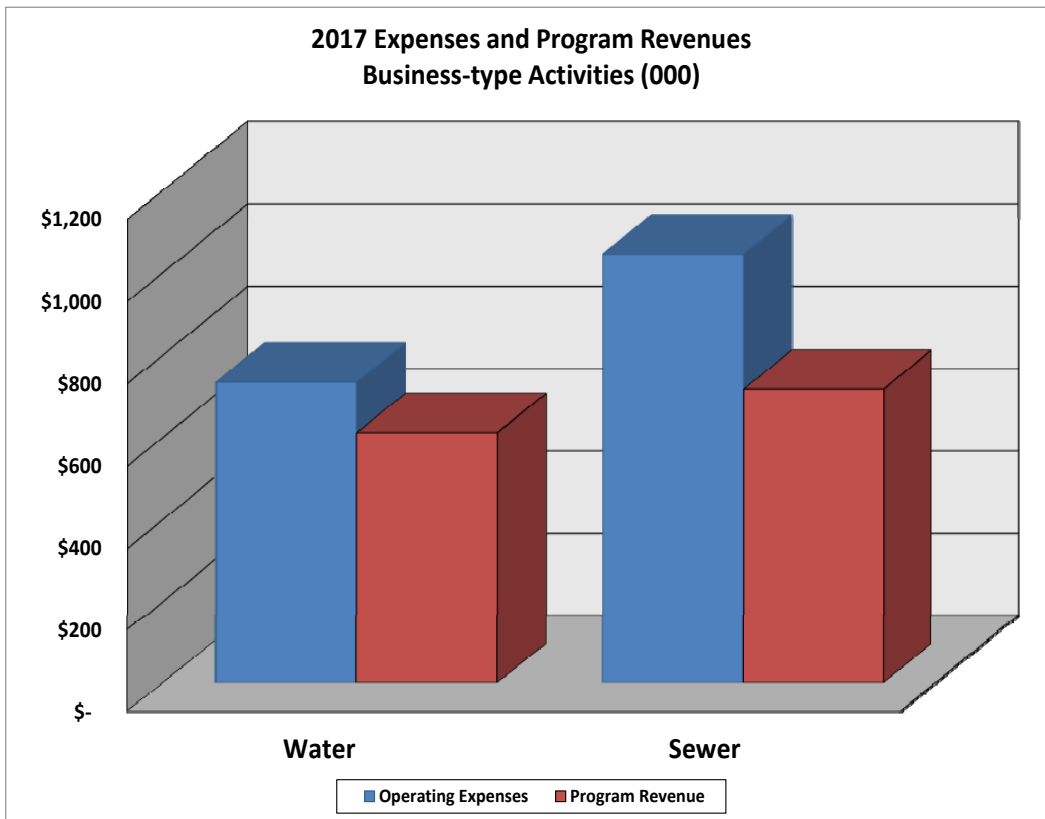


**TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

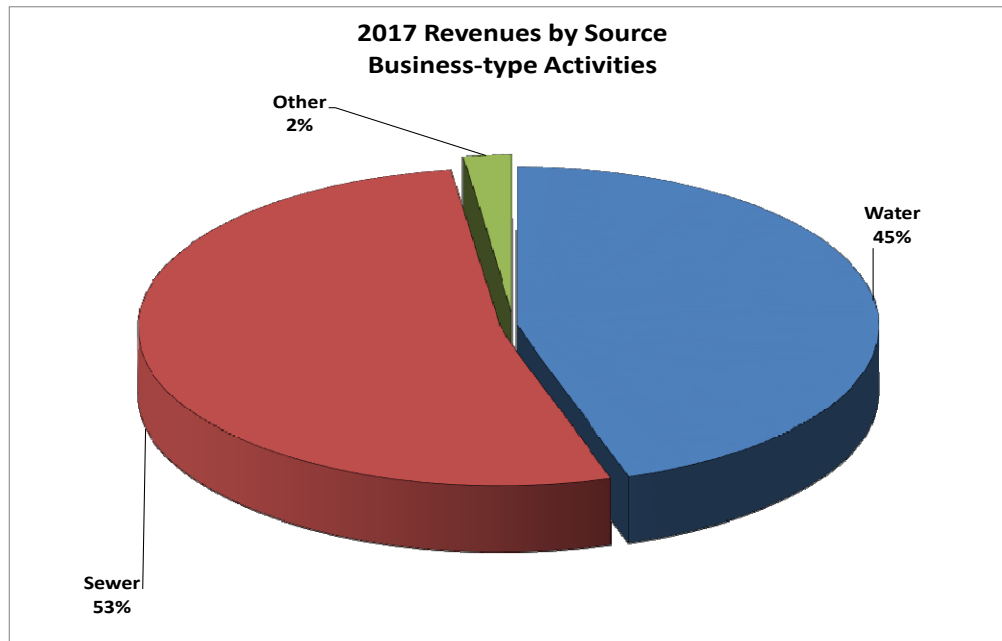
Business-type activities. Business-type activities decreased the Town's net position by \$421,368, which was a decrease of \$17,413 over the prior year. Key elements of this change are as follows:

- Program revenues increased \$63,658 or 4.9% primarily due to an increase in the water rates by 0.25% or 8.33%.
- Business-type expenses increased \$81,071 or 4.8%. This is primarily due to several repairs that were needed to the sewer system during the year.

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, 2017**



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 \$3.8 million, a increase of \$1.5 million. Approximately 83.8% of this total amount (\$3.2 million) constitutes *unassigned fund balance*, which represents working capital available to support governmental operating needs and future years' expenditures. Approximately 0.6% of fund balance \$(23,000) 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 \$(181,483), safety service \$(306,858), road improvements \$(88,189), historic center \$(17,000) and other \$(7,940).

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 \$1.5 million increase 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, 2017

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 \$196,427. This amount consists of a \$309,339 deficit for the Water Fund and a \$505,766 surplus for the Sewer Fund. The total net position was decreased by \$421,368. 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 no amendments or adjustments during the year to the General Fund original budget. Revenues were higher than budgetary estimates by \$679,007 and expenditures were lower by \$672,746. 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, 2017 amounts to \$20.3 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 decrease in the Town's investment in capital assets for the current fiscal year was 6.2% (11.3% decrease for governmental activities and a 3.0% decrease for business-type activities).

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 768,410	\$ 768,410	\$ 1,551,289	\$ 1,551,289	\$ 2,319,699	\$ 2,319,699
Construction in progress	48,074	1,611,491	-	-	48,074	1,611,491
Buildings and improvements	2,523,459	368,239	44,661	48,793	2,568,120	417,032
Other improvements	132,999	146,040	-	-	132,999	146,040
Machinery and equipment	171,598	177,709	344,470	403,935	516,068	581,644
Furniture and fixtures	4,684	5,279	-	-	4,684	5,279
Vehicles	115,030	129,520	95,586	61,667	210,616	191,187
Infrastructure	5,184,863	5,257,337	-	-	5,184,863	5,257,337
Water and sewer systems	-	-	11,045,440	11,432,959	11,045,440	11,432,959
Total	<u>\$ 8,949,117</u>	<u>\$ 8,464,025</u>	<u>\$ 13,081,446</u>	<u>\$ 13,498,643</u>	<u>\$ 22,030,563</u>	<u>\$ 21,962,668</u>

**TOWN OF MANCHESTER, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

Capital Asset and Debt Administration

Major capital additions for the fiscal year ended June 30, 2017 included the following:

- Two ford utility trucks totaling \$90,414
- Paving of Jeanne Valley totaling \$261,970
- Installation of ADA sidewalks totaling \$65,600

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 \$1,714,238, which is recorded in the business-type activities (Water Fund) and governmental activities. This balance comprised of a note payable to the Maryland Department of the Environment and a municipal bond. Additional information on the Town's long-term debt can be found in Note 7 on page 35 and 36 of this report.

Economic Factors and Next Year's Budgets and Rates

- The Town anticipates that 3 new residential homes will be constructed within the Town during fiscal year 2018.
- 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 2018.
- Water rent rates increased \$0.25 and sewer rates remained unchanged for fiscal year 2018.
- Major capital asset additions planned for fiscal year 2018 include replacement of fire hydrants, replacement of Dell Well, street paving, replacement of Steiner mower and the replacement of the Chevy trucks.

All of these factors were considered in preparing the Town's budget for fiscal 2018.

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, 2017

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and temporary investments	\$ 4,208,718	\$ 51,584	\$ 4,260,302
Restricted cash	-	4,073,041	4,073,041
Receivables, net	267,751	287,808	555,559
Internal balances, net	(204,160)	204,160	-
Inventory	-	43,525	43,525
Capital assets, not being depreciated	816,484	1,551,289	2,367,773
Capital assets being depreciated, net	8,132,633	11,530,157	19,662,790
Total assets	13,221,426	17,741,564	30,962,990
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	241,244	151,116	392,360
LIABILITIES			
Accounts payable	231,659	50,137	281,796
Accrued liabilities	33,940	16,919	50,859
Deposits	28,359	-	28,359
Compensated absences payable:			
Due within one year	74,094	31,242	105,336
Due in more than one year	47,179	19,897	67,076
Note/Bond Payable:			
Due within one year	170,000	21,820	191,820
Due in more than one year	1,410,000	112,418	1,522,418
Net Pension liability	647,307	405,478	1,052,785
Total liabilities	2,642,538	657,911	3,300,449
DEFERRED INFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	28,883	18,093	46,976
NET POSITION			
Net investment in capital assets	7,369,117	12,947,208	20,316,325
Restricted for capital projects	-	4,073,041	4,073,041
Unrestricted	3,422,132	196,427	3,618,559
TOTAL NET POSITION	\$ 10,791,249	\$ 17,216,676	\$ 28,007,925

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

TOWN OF MANCHESTER, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Positions Primary Government		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:						
General government	\$ 1,036,252	\$ 96,360	\$ 353,906	\$ (585,986)	\$ -	\$ (585,986)
Public safety	535,074	4,183	54,490	(476,401)	-	(476,401)
Public works	660,964	173,903	3,949	(483,112)	-	(483,112)
Recreation	161,647	14,105	-	(147,542)	-	(147,542)
Total governmental activities	<u>2,393,937</u>	<u>288,551</u>	<u>412,345</u>	<u>(1,693,041)</u>	<u>-</u>	<u>(1,693,041)</u>
Business-type activities:						
Water	733,194	610,756	-	-	(122,438)	(122,438)
Sewer	1,044,596	716,326	-	-	(328,270)	(328,270)
Total business-type activities	<u>1,777,790</u>	<u>1,327,082</u>	<u>-</u>	<u>-</u>	<u>(450,708)</u>	<u>(450,708)</u>
TOTAL GOVERNMENTAL/ BUSINESS-TYPE ACTIVITIES	<u>\$ 4,171,727</u>	<u>\$ 1,615,633</u>	<u>\$ 412,345</u>	<u>(1,693,041)</u>	<u>(450,708)</u>	<u>(2,143,749)</u>
General revenues						
Taxes:						
Property taxes				1,036,502	-	1,036,502
Income taxes				1,040,076	-	1,040,076
Other local taxes				19,343	-	19,343
Investment income				19,561	29,340	48,901
Other revenue				7,845	-	7,845
Total general revenues				<u>2,123,327</u>	<u>29,340</u>	<u>2,152,667</u>
CHANGE IN NET POSITION				<u>430,286</u>	<u>(421,368)</u>	<u>8,918</u>
NET POSITION, BEGINNING OF YEAR				<u>10,360,963</u>	<u>17,638,044</u>	<u>27,999,007</u>
NET POSITION, END OF YEAR				<u>\$ 10,791,249</u>	<u>\$ 17,216,676</u>	<u>\$ 28,007,925</u>

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

TOWN OF MANCHESTER, MARYLAND
BALANCE SHEET
June 30, 2017

	General
ASSETS	
Cash and cash equivalents	\$ 4,208,718
Receivables, net	267,751
Due from other funds	403,712
TOTAL ASSETS	\$ 4,880,181
LIABILITIES	
Accounts payable	\$ 231,659
Due to other funds	607,872
Accrued liabilities	33,940
Deposits	28,359
Total liabilities	901,830
DEFERRED INFLOW OF RESOURCES	
Unavailable revenue	130,245
FUND BALANCE	
Committed to:	
Park service	181,483
Safety service	306,858
Road improvements	88,189
Historic Center	17,000
Other	7,940
Assigned - Subsequent year expenditures	23,000
Unassigned	3,223,636
Total fund balance	3,848,106
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 4,880,181

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, 2017

Total fund balance - governmental funds (page 15)	\$ 3,848,106
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	8,949,117
Other long-term assets are not available to pay current-period expenditures and therefore are offset by unavailable revenue in the governmental funds.	130,245
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	
Compensated Absences	(121,273)
Bonds Payable	(1,580,000)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(647,307)
Deferred outflows of resources related to pension	241,244
Deferred inflows of resources related to pension expense	<u>(28,883)</u>
TOTAL NET POSITION, GOVERNMENTAL ACTIVITIES (page 13)	<u><u>\$ 10,791,249</u></u>

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, 2017

	General
REVENUES	
Local property taxes	\$ 1,036,502
Local income taxes	1,016,280
State shared taxes	193,834
Licenses and permits	13,425
Intergovernmental	412,345
Service charges	5,500
Interest	19,561
Rents and concessions	95,135
Miscellaneous	7,845
	<u>2,800,427</u>
 Total revenues	 <u>2,800,427</u>
EXPENDITURES	
General government	884,669
Public safety	513,179
Public works	910,155
Recreation	132,352
Miscellaneous	328,819
Debt Service:	
Principal	120,000
Interest	39,041
Debt issuance costs	23,099
	<u>2,951,314</u>
 Total expenditures	 <u>2,951,314</u>
 Deficiency of Revenue over Expenditures	 <u>(150,887)</u>
OTHER FINANCING SOURCES	
Proceeds from bond issuance	1,700,000
Total Other Financing Sources	<u>1,700,000</u>
 NET CHANGE IN FUND BALANCE	 <u>1,549,113</u>
 FUND BALANCE, BEGINNING OF YEAR	 <u>2,298,993</u>
 FUND BALANCE, END OF YEAR	 <u>\$ 3,848,106</u>

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, 2017**

Net change in fund balances - governmental funds (Page 17) \$ 1,549,113

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	\$ 1,094,363	
Depreciation expense	(609,271)	
Depreciation expense exceeded capital outlay in the current period by:		485,092

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	23,796
--	--------

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	(20,573)
--------------------------------	----------

The issuance of long-term debt provides current financial resources to
governmental funds, while the repayment of the principal of long-term debt
consumes current financial resources of governmental funds.

Proceeds from issuance	(1,700,000)	
Principal payments of bonds	120,000	(1,580,000)

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.

(27,142)

CHANGE IN NET POSITION OF GOVERNMENTAL

ACTIVITIES (Page 14)

\$ 430,286

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, 2017

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES				
Local property taxes	\$ 1,026,957	\$ 1,026,957	\$ 1,036,502	\$ 9,545
Local income taxes	515,000	515,000	1,016,280	501,280
State shared taxes	186,512	186,512	193,834	7,322
Licenses and permits	6,550	6,550	13,425	6,875
Intergovernmental	99,000	99,000	168,294	69,294
Town/county agreement	244,051	244,051	244,051	-
Service charges	3,850	3,850	5,500	1,650
Interest	9,500	9,500	19,561	10,061
Rents and concessions	79,000	79,000	95,135	16,135
Miscellaneous	1,000	1,000	7,845	6,845
Total revenues	<u>2,171,420</u>	<u>2,171,420</u>	<u>2,800,427</u>	<u>629,007</u>
EXPENDITURES				
General government	1,446,328	1,446,328	884,669	561,659
Public safety	531,996	531,996	513,179	18,817
Public works	951,755	951,755	910,155	41,600
Recreation	179,486	179,486	132,352	47,134
Miscellaneous	332,355	332,355	328,819	3,536
Total expenditures	<u>3,441,920</u>	<u>3,441,920</u>	<u>2,769,174</u>	<u>672,746</u>
Excess (deficiency) of revenues over expenditures before other financing sources	(1,270,500)	(1,270,500)	31,253	1,301,753
OTHER FINANCING SOURCES				
Transfer from other sources	1,088,000	1,088,000	-	(1,088,000)
Issuance of bond	-	-	1,700,000	1,700,000
Principal, interest and issuance cost	-	-	(182,140)	(182,140)
Encumbrances	182,500	182,500	-	(182,500)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>1,549,113</u>	<u>\$ 1,549,113</u>
FUND BALANCE, BEGINNING OF YEAR			<u>2,298,993</u>	
FUND BALANCE, END OF YEAR			<u>\$ 3,848,106</u>	

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

TOWN OF MANCHESTER, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 51,584	\$ 51,584
Restricted cash	2,114,061	1,958,980	4,073,041
Receivables, net	127,252	160,556	287,808
Due from other funds	58,476	602,658	661,134
Inventory	43,525	-	43,525
Capital assets, net of accumulated depreciation	<u>5,377,762</u>	<u>7,703,684</u>	<u>13,081,446</u>
Total assets	<u>7,721,076</u>	<u>10,477,462</u>	<u>18,198,538</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	<u>75,875</u>	<u>75,241</u>	<u>151,116</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,796,951</u>	<u>\$ 10,552,703</u>	<u>\$ 18,349,654</u>
LIABILITIES			
Accounts payable	\$ 14,550	\$ 35,587	\$ 50,137
Due to other funds	348,879	108,095	456,974
Accrued expenses	9,359	7,560	16,919
Compensated absences:			
Due within one year	17,717	13,525	31,242
Due in more than one year	11,289	8,608	19,897
Note payable:			
Due within one year	21,820	-	21,820
Due in more than one year	112,418	-	112,418
Net pension liability	<u>203,589</u>	<u>201,889</u>	<u>405,478</u>
Total liabilities	<u>739,621</u>	<u>375,264</u>	<u>1,114,885</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension	<u>9,084</u>	<u>9,009</u>	<u>18,093</u>
NET POSITION			
Net investment in capital assets	5,243,524	7,703,684	12,947,208
Restricted for capital projects	2,114,061	1,958,980	4,073,041
Unrestricted	<u>(309,339)</u>	<u>505,766</u>	<u>196,427</u>
Total net position	<u>7,048,246</u>	<u>10,168,430</u>	<u>17,216,676</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 7,796,951</u>	<u>\$ 10,552,703</u>	<u>\$ 18,349,654</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, 2017

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for services	\$ 328,573	\$ 489,028	\$ 817,601
Unit charges	145,964	166,072	312,036
Excise taxes	17,850	15,750	33,600
Replacement Fees	14,500	-	14,500
Area service charges	25,000	25,000	50,000
Miscellaneous	78,869	20,476	99,345
Total operating revenues	<u>610,756</u>	<u>716,326</u>	<u>1,327,082</u>
OPERATING EXPENSES			
Salaries and fringe benefits	347,678	316,922	664,600
Operating expenses	171,595	385,992	557,587
Depreciation expense	212,471	341,682	554,153
Total operating expenses	<u>731,744</u>	<u>1,044,596</u>	<u>1,776,340</u>
OPERATING LOSS	<u>(120,988)</u>	<u>(328,270)</u>	<u>(449,258)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	15,170	14,170	29,340
Interest expense	(1,450)	-	(1,450)
Total non-operating revenues	<u>13,720</u>	<u>14,170</u>	<u>27,890</u>
CHANGE IN NET POSITION	(107,268)	(314,100)	(421,368)
TOTAL NET POSITION, BEGINNING OF YEAR	<u>7,155,514</u>	<u>10,482,530</u>	<u>17,638,044</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 7,048,246</u>	<u>\$ 10,168,430</u>	<u>\$ 17,216,676</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, 2017**

Business-Type Activities - Enterprise Funds

	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 597,321	\$ 712,187	\$ 1,309,508
Cash paid to suppliers for goods and services	(180,259)	(377,801)	(558,060)
Cash paid to employees for services	(325,394)	(302,684)	(628,078)
Net cash provided by operating activities	91,668	31,702	123,370
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	15,170	14,170	29,340
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(114,531)	(22,423)	(136,954)
Principal paid on bond and notes maturities	(21,604)	-	(21,604)
Interest paid	(1,450)	-	(1,450)
Net cash used in capital and related financing activities	(137,585)	(22,423)	(160,008)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(30,747)	23,449	(7,298)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,144,808	1,987,115	4,131,923
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,114,061	\$ 2,010,564	\$ 4,124,625
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATIONS			
Operating loss	\$ (120,988)	\$ (328,270)	\$ (449,258)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	212,471	341,682	554,153
Effect of changes in operating assets and liabilities:			
Accounts receivable	(7,998)	(3,073)	(11,071)
Inventory	(11,629)	-	(11,629)
Interfund receivables	(5,437)	(1,066)	(6,503)
Accounts payable	3,674	2,755	6,429
Interfund payables	(709)	5,436	4,727
Accrued expenses	1,223	(589)	634
Deferred outflows related to pension amounts	(15,523)	(15,167)	(30,690)
Deferred inflows related to pension amounts	5,564	5,503	11,067
Net pension liability	31,708	30,801	62,509
Compensated absences	(688)	(6,310)	(6,998)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 91,668	\$ 31,702	\$ 123,370

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

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017

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, 2017

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:

	Real	Personal and Corporate
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, 2017

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, 2017

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, 2017

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, 2017, 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, 2017.

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, 2017.

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, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position/Fund Balance (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, 2017. There were no reconciling differences between GAAP and non-GAAP budgetary basis presentations for the year ended June 30, 2017.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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	\$ 8,288,875
Carrying amounts of temporary investments	<u>44,468</u>
Total cash, cash equivalents and temporary investments per Statement of Net Position	<u><u>\$ 8,333,343</u></u>

Deposits

At year end, the carrying amount of the Town's deposits (including cash on hand of \$250) was \$8,333,343 and the bank balance was \$8,352,199. 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, 2017, the Town's investments totaling \$44,468 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.

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, 2017, met the Town's investment policy as of that date. Investment income was comprised entirely of interest and dividends amounting to \$48,901 for the year ended June 30, 2017.

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.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2017.

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, 2017.

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, 2017, property taxes receivable amounted to \$6,467.

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	Type Activities	
Receivables					
Taxes	\$ 90,274	\$ -	\$ -	\$ -	\$ 90,274
Accounts	-	127,252	160,556	287,808	287,808
Due from other governments	177,477	-	-	-	177,477
Net receivables	\$ 267,751	\$ 127,252	\$ 160,556	\$ 287,808	\$ 555,559

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, 2017 consisted solely of revenue deemed unavailable in the amount of \$130,245, which is reported on as deferred inflow of resources.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 – INTERFUND BALANCES

The composition of interfund balances as of June 30, 2017 is as follows:

	Due From Other Funds	Due To Other Funds
General fund	\$ 403,712	\$ 607,872
Water fund	58,476	348,879
Sewer fund	602,658	108,095
	Total	Total
	\$ 1,064,846	\$ 1,064,846

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

	Due From	Due To
Balance Sheet - Government-wide Financial statements (page 15)	\$ 403,712	\$ 607,872
Statement of Net Position - Proprietary Funds (page 20)	661,134	456,974
	Total	Total
	\$ 1,064,846	\$ 1,064,846

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 – CHANGES IN CAPITAL ASSETS

Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Transfers and Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 768,410	\$ -	\$ -	\$ 768,410
Construction in progress	1,611,491	644,279	2,207,696	48,074
Total capital assets, not being depreciated	2,379,901	644,279	2,207,696	816,484
Capital assets, being depreciated:				
Buildings and improvements	822,487	2,221,380	-	3,043,867
Other improvements	341,282	-	-	341,282
Machinery and equipment	540,232	24,045	(11,593)	552,684
Furniture and fixtures	37,966	-	-	37,966
Vehicles	649,919	35,583	-	685,502
Infrastructure	8,656,457	377,835	-	9,034,292
Total capital assets, being depreciated	11,048,343	2,658,843	(11,593)	13,695,593
Less accumulated depreciation:				
Buildings and improvements	(454,248)	(66,160)	-	(520,408)
Other improvement	(195,242)	(13,041)	-	(208,283)
Machinery and equipment	(362,523)	(29,093)	10,530	(381,086)
Furniture and fixtures	(32,687)	(595)	-	(33,282)
Vehicles	(520,399)	(50,073)	-	(570,472)
Infrastructure	(3,399,120)	(450,309)	-	(3,849,429)
Total accumulated depreciation	(4,964,219)	(609,271)	10,530	(5,562,960)
Capital Assets being depreciated, net	6,084,124	2,049,572	(1,063)	8,132,633
Governmental activities capital assets, net	\$ 8,464,025	\$ 2,693,851	\$ 2,206,633	\$ 8,949,117

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 – CHANGES IN CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Transfers and Deletions	Ending Balance
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,551,289	\$ -	\$ -	\$ 1,551,289
Capital assets, being depreciated:				
Buildings	79,023	-	-	79,023
Machinery and equipment	1,220,039	29,284	-	1,249,323
Vehicles	196,372	54,831	-	251,203
Sewer system	12,645,235	22,427	-	12,667,662
Water system	6,834,903	30,414	-	6,865,317
Total capital assets, being depreciated	<u>20,975,572</u>	<u>136,956</u>	<u>-</u>	<u>21,112,528</u>
Less accumulated depreciation:				
Buildings	(30,230)	(4,132)	-	(34,362)
Machinery and equipment	(816,104)	(88,749)	-	(904,853)
Vehicles	(134,705)	(20,912)	-	(155,617)
Sewer system	(5,911,965)	(264,770)	-	(6,176,735)
Water system	(2,135,214)	(175,590)	-	(2,310,804)
Total accumulated depreciation	<u>(9,028,218)</u>	<u>(554,153)</u>	<u>-</u>	<u>(9,582,371)</u>
Capital Assets being depreciated, net	<u>11,947,354</u>	<u>(417,197)</u>	<u>-</u>	<u>11,530,157</u>
Business-type activities capital assets, net	<u>\$ 13,498,643</u>	<u>\$ (417,197)</u>	<u>\$ -</u>	<u>\$ 13,081,446</u>

Depreciation Expense

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

Governmental activities:	
General government	\$ 402,643
Public safety	41,179
Public works	141,678
Parks and recreation	<u>23,771</u>
Total depreciation - governmental activities	<u>\$ 609,271</u>
Business-type activities:	
Water	\$ 212,471
Sewer	<u>341,682</u>
Total depreciation - business-type activities	<u>\$ 554,153</u>

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 – LONG-TERM DEBT

Bond Payable

On August 17, 2016, the Town issued \$1,700,000 of Local Government Infrastructure Bonds, Series 2016A. The proceeds of the 2016A Local Government Infrastructure Bonds were used to financing the new Town Hall and Police Station. The Series 2016A Local Government Infrastructure Bonds were issued with a variable interest rate with interest being payable on June 1 and December 1 of each year. Principal amounts of between \$120,000 and \$185,000 are payable on June 1, with a final maturity on the debt due on June 1, 2026.

The annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 170,000	22,749	\$ 192,749
2019	170,000	21,661	191,661
2020	170,000	20,318	190,318
2021	170,000	18,584	188,584
2022	175,000	16,425	191,425
Thereafter	725,000	36,096	761,096
Total	\$ 1,580,000	\$ 135,833	\$ 1,715,833

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,	Principal	Interest	Total
2018	\$ 21,820	1,343	\$ 23,163
2019	22,038	1,125	23,163
2020	22,259	904	23,163
2021	22,482	681	23,163
2022	22,706	457	23,163
2023	22,933	230	23,163
Total	\$ 134,238	\$ 4,740	\$ 138,978

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 – LONG-TERM DEBT (CONTINUED)

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>
Government activities					
Bond payable	\$ -	\$ 1,700,000	\$ 120,000	\$ 1,580,000	\$ 170,000
Net Pension	609,257	38,050	-	647,307	-
Compensated absences	<u>100,700</u>	<u>20,573</u>	<u>-</u>	<u>121,273</u>	<u>74,094</u>
Government activities long-term liabilities	<u>\$ 709,957</u>	<u>\$ 1,758,623</u>	<u>\$ 120,000</u>	<u>\$ 2,348,580</u>	<u>\$ 244,094</u>
Business-type activities					
Loan payable	\$ 155,842	\$ -	\$ 21,604	\$ 134,238	\$ 21,820
Net Pension	342,969	62,509	-	405,478	-
Compensated absences	<u>58,137</u>	<u>-</u>	<u>6,998</u>	<u>51,139</u>	<u>31,242</u>
Business-type activities long-term liabilities	<u>\$ 556,948</u>	<u>\$ 62,509</u>	<u>\$ 28,602</u>	<u>\$ 590,855</u>	<u>\$ 53,062</u>

NOTE 8 – NET POSITION – PROPRIETARY FUNDS

Restricted net position at June 30, 2017 as follows:

	<u>Funds</u>		<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	
Purpose:			
Capital projects	<u>\$ 2,114,061</u>	<u>\$ 1,958,980</u>	<u>\$ 4,073,041</u>

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.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 retirees' benefits allowance will be computed. Some of these options require actuarial reductions based on the retirees' 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.

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.

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 9 – PENSION PLAN (CONTINUED)

General Information about the Plan (Continued)

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, 2017, was 6.73% 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, 2017 of \$88,112.

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

At June 30, 2017, the Town reported a liability of \$1,052,785 for its proportionate share of the net pension liability of the System. The net pension liability was measured as of June 30, 2016, 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, 2016. The contributions were increased to adjust for differences between actuarial determined contributions and actual contributions by the State of Maryland. As of June 30, 2017 and 2016, the Town's proportionate share was 0.00446% and 0.0045820%, respectively.

For the year ended June 30, 2017, the Town recognized pension expense of \$158,142. At June 30, 2017, 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	\$ 42,499	\$ -
Differences between expected and actual experience	-	27,032
Change in proportion	110,771	19,944
Net differences between projected and actual earnings on pension plan investments	132,365	-
Net differences between actual and proportionate share of contributions	18,613	-
Town contributions subsequent to the measurement date	88,112	-
Total	<u>\$ 392,360</u>	<u>\$ 46,976</u>

\$88,112 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 9 – PENSION PLAN (CONTINUED)

Year ended June 30:		
2018	\$	66,577
2019		66,577
2020		77,454
2021		51,769
2022		(5,105)
Thereafter		-

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.70% general, 3.20% wage
Salary increases	3.30% to 9.20%, 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, 2016 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, 2016 valuation.

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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Public Equity	37%	6.60%
Private Equity	10%	7.40%
Rate Sensitive	20%	1.30%
Credit Opportunity	9%	4.20%
Real Assets	15%	4.70%
Absolute Return	9%	3.70%
Total	100%	

TOWN OF MANCHESTER, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 9 – PENSION PLAN (CONTINUED)

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, 2016.

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of the pension plan expense was 1.10%. 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.

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 Town’s net pension liability, calculated using a single discount rate of 7.55%, as well as what the Town’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:

	1% Decrease (6.55%)	Current Discount Rate (7.55%)	1% Increase (8.55%)
Town's proportionate share of the net pension liability	\$ 1,446,090	\$ 1,052,785	\$ 725,494

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.

**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>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	0.0044621%	0.0045820%	0.0036002%
Town's proportionate share of the net pension liability	\$ 1,052,785	\$ 952,226	\$ 638,920
Town's covered employee payroll	\$ 1,016,852	\$ 960,225	\$ 809,005
Town's proportionate share of the net pension liability as a percentage of its covered employee payroll	103.53%	99.17%	78.98%
Plan fiduciary net position as a percentage of the total pension liability	62.97%	66.26%	69.53%

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 Town implemented GASB 68 during fiscal year 2015. As such, only three 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>2017</u>	<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>
Contractually required contribution	\$ 88,112	\$ 86,925	\$ 96,576	\$ 83,898	\$ 74,464	\$ 90,218	\$ 95,370	\$ 64,225	\$ 60,280	\$ 66,950
Contributions in relation to the contractually required contribution	<u>(88,112)</u>	<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>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 1,079,668	\$ 1,016,852	\$ 960,225	\$ 809,005	\$ 796,543	\$ 798,265	\$ 854,773	\$ 812,935	\$ 783,774	\$ 773,559
Contributions as a percentage of covered-employee payroll	8.16%	8.55%	10.06%	10.37%	9.35%	11.30%	11.16%	7.90%	7.69%	8.65%

REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
State of Maryland Retirement and Pension System

NOTE 1 - CHANGES IN BENEFIT TERMS

There were no benefit changes during the year.

NOTE 2 - CHANGES IN ASSUMPTIONS

Adjustments to the roll forward liabilities were made to reflect the following assumption change in the 2016 valuation:

- Inflation assumption changed from 2.90% to 2.70%

TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
(NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2017

	Final Budget	Actual	Variance Positive/(Negative)
REVENUES			
Taxes			
Local property taxes:			
Real property	\$ 994,157	\$ 1,001,189	\$ 7,032
Personal property	800	458	(342)
Railroads and public utilities	18,000	20,117	2,117
Ordinary business corporations	10,500	11,258	758
Penalties and interest - delinquent taxes	3,500	3,480	(20)
Net property taxes	1,026,957	1,036,502	9,545
Local income taxes	515,000	1,016,280	501,280
State shared taxes:			
Alcoholic beverages	550	588	38
Admission	14,000	19,343	5,343
Highway	171,962	173,903	1,941
Total state shared taxes	186,512	193,834	7,322
Total taxes	1,728,469	2,246,616	518,147
Licenses and Permits			
Traders	3,000	4,534	1,534
Building permits	3,350	7,958	4,608
Rental housing	-	250	250
Zoning fees	200	683	483
Total licenses and permits	6,550	13,425	6,875
Intergovernmental			
Grants from other governments:			
Police protection	49,000	54,490	5,490
Program open space grant	-	53,804	53,804
Maryland heritage areas authority grant	50,000	-	(50,000)
Community legacy grant	-	60,000	60,000
Grants from county government:			
State road grant	3,949	3,949	-
Financial corporations	655	655	-
Planning functions	239,447	239,447	-
Total intergovernmental	343,051	412,345	69,294
Service Charges			
Public safety charges:			
Safety service fee	2,450	3,500	1,050
Recreation charges:			
Park service fee	1,400	2,000	600
Total service charges	3,850	5,500	1,650
Rents and Concessions			
Rents and concessions	38,000	38,000	-
Cable TV franchise fees	33,000	44,347	11,347
Recreation charges:			
Rentals	7,500	12,105	4,605
Public safety charges:			
Police fines/fees	500	683	183
Total rent and concessions	79,000	95,135	16,135
Miscellaneous Revenue			
Interest	9,500	19,561	10,061
Other	1,000	7,845	6,845
Total miscellaneous revenue	10,500	27,406	16,906
Total Revenues	2,171,420	2,800,427	629,007

TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
(NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2017
(Continued)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES			
General Government			
Legislative:			
<u>Council</u>			
Salaries	\$ 6,000	\$ 6,000	\$ -
Operating expenses	24,900	89,122	(64,222)
<u>Administration</u>			
Salary	98,101	97,060	1,041
Operating expenses	46,135	34,031	12,104
Capital outlay	1,075,000	471,183	603,817
Executive:			
<u>Mayor</u>			
Salary	4,800	5,100	(300)
Financial administration:			
<u>Independent Accounting and Auditing</u>			
Operating expenses	20,000	20,000	-
Law:			
<u>Legal Counsel</u>			
Operating expenses	10,000	6,060	3,940
Planning and zoning:			
<u>Planning Commission</u>			
Salaries	60,532	55,980	4,552
Operating expenses	23,450	20,326	3,124
General services:			
<u>Postal Park</u>			
Operating expenses	8,150	1,343	6,807
<u>Data Processing</u>			
Computer operating expenses	8,000	4,108	3,892
<u>Other General Services</u>			
Historical association	27,860	56,988	(29,128)
Community projects	19,900	4,882	15,018
Liability insurance	13,500	12,486	1,014
Total general government	<u>1,446,328</u>	<u>884,669</u>	<u>561,659</u>
Public Safety			
Police department:			
<u>Patrol and Investigation</u>			
Salaries	379,666	364,723	14,943
Operating expenses	74,530	64,573	9,957
Capital outlay	36,000	42,783	(6,783)
Fire department:			
<u>Volunteer Company</u>			
Operating expenses	41,800	41,100	700
Total public safety	<u>531,996</u>	<u>513,179</u>	<u>18,817</u>

TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
(NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2017
(Continued)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES (Continued)			
Public Works			
Highways and street:			
<u>Streets, Roadways and Alleys:</u>			
Salaries and overtime	\$ 142,051	\$ 148,004	\$ (5,953)
Operating expenses	64,200	55,277	8,923
Capital outlay	320,400	331,889	(11,489)
<u>Snow and Ice Removal:</u>			
Salaries	15,000	12,129	2,871
Operating expenses	23,000	15,344	7,656
<u>Street Lighting:</u>			
Operating expenses	33,600	36,563	(2,963)
<u>Stormwater Management:</u>			
Operating expenses	57,250	37,622	19,628
<u>Sanitation and Waste Removal:</u>			
Waste - collection and disposal:			
Operating expenses	296,254	273,327	22,927
Total public works	<u>951,755</u>	<u>910,155</u>	<u>41,600</u>
Recreation			
Parks:			
Salaries	97,961	94,940	3,021
Operating expenses	49,525	26,729	22,796
Capital outlay	32,000	10,683	21,317
Total recreation	<u>179,486</u>	<u>132,352</u>	<u>47,134</u>
Miscellaneous			
Workmen's compensation insurance	71,469	91,441	(19,972)
Health and accident insurance	141,819	113,600	28,219
Social security contributions	61,514	57,798	3,716
Pension plan expense	57,553	56,369	1,184
Unemployment insurance	-	9	(9)
Miscellaneous	-	9,602	(9,602)
Total miscellaneous	<u>332,355</u>	<u>328,819</u>	<u>3,536</u>
Total Expenditures	<u>3,441,920</u>	<u>2,769,174</u>	<u>672,746</u>
Excess (deficiency) of expenditures over revenues before other financing sources	(1,270,500)	31,253	1,301,753
OTHER FINANCING SOURCES			
Transfers from funds	3,000	-	(3,000)
Issuance of bonds	-	1,700,000	1,700,000
Principal, interest and issuance cost	-	(182,140)	(182,140)
Transfer from money market	1,085,000	-	(1,085,000)
Encumbrances	182,500	-	(182,500)
Total other financing sources	<u>1,270,500</u>	<u>1,517,860</u>	<u>247,360</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 1,549,113</u>	<u>\$ 1,549,113</u>

TOWN OF MANCHESTER, MARYLAND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - ENTERPRISE FUND
(NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2017

	Water Fund			Sewer Fund		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
OPERATING REVENUES						
Charges for services	\$ 338,110	\$ 328,573	\$ (9,537)	\$ 506,272	\$ 489,028	\$ (17,244)
Unit charges	144,400	145,964	1,564	164,000	166,072	2,072
Excise taxes	17,850	17,850	-	15,750	15,750	-
Area service charges	17,500	25,000	7,500	17,500	25,000	7,500
Water replacement fee	-	14,500	14,500	-	-	-
Miscellaneous	69,969	78,869	8,900	15,900	20,476	4,576
Total operating revenues	<u>587,829</u>	<u>610,756</u>	<u>22,927</u>	<u>719,422</u>	<u>716,326</u>	<u>(3,096)</u>
OPERATING EXPENSES						
Salaries and fringe benefits	342,829	325,929	16,900	330,062	295,785	34,277
Operating expenses	227,500	171,595	55,905	371,860	385,992	(14,132)
Capital outlay	225,000	114,532	110,468	133,000	22,427	110,573
Total operating expenses	<u>795,329</u>	<u>612,056</u>	<u>183,273</u>	<u>834,922</u>	<u>704,204</u>	<u>130,718</u>
Operating loss	<u>(207,500)</u>	<u>(1,300)</u>	<u>206,200</u>	<u>(115,500)</u>	<u>12,122</u>	<u>127,622</u>
NON-OPERATING REVENUES (EXPENSES)						
Payments on notes	(24,500)	(21,604)	2,896	-	-	-
Interest revenue	5,000	15,170	10,170	6,600	14,170	7,570
Debt service interest	-	(1,450)	(1,450)	-	-	-
Bay restoration fees revenue	-	-	-	96,000	111,851	15,851
Bay restoration fees remitted to the state	-	-	-	(96,000)	(111,851)	(15,851)
MEMA grant money	30,000	-	(30,000)	-	-	-
Withdrawal from sewer/water replacement savings	50,000	-	(50,000)	-	-	-
Withdrawal from sewer/water area service savings	147,000	-	(147,000)	108,900	-	(108,900)
Total non-operating income (loss)	<u>207,500</u>	<u>(7,884)</u>	<u>(215,384)</u>	<u>115,500</u>	<u>14,170</u>	<u>(101,330)</u>
NET LOSS - BUDGETARY BASIS	<u>\$ -</u>	<u>(9,184)</u>	<u>\$ (9,184)</u>	<u>\$ -</u>	<u>26,292</u>	<u>\$ 26,292</u>
Capital outlay		114,532			22,427	
Payments on notes		21,604			-	
Pension expense		(21,749)			(21,137)	
Depreciation expense		(212,471)			(341,682)	
CHANGE IN NET POSITION - GAAP BASIS		<u>\$ (107,268)</u>			<u>\$ (314,100)</u>	