

City of Takoma Park, Maryland
City Council Presentation
November 17, 2021

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Independent Auditor's Report

To the City Council
City of Takoma Park, Maryland

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Takoma Park, Maryland, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Takoma Park, Maryland, as of June 30, 2021, and the respective changes in financial position and the respective budgetary comparison for the General, Speed Camera and Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18 - 32 and the schedules of changes in the City's net pension liability and related ratios, contributions, the City's proportionate share of the net pension liability and the City's pension plan contributions on pages 78 - 81 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 City of Takoma Park, Maryland's basic financial statements. The introductory section, budgetary schedules, combining non-major fund schedules, combining fiduciary fund schedules and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules, combining non-major fund schedules and combining fiduciary fund schedules are the responsibility of management and were derived from and relate 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 budgetary schedules, the combining non-major fund schedules and combining fiduciary fund schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2021, on our consideration of the City of Takoma Park, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Takoma Park, Maryland's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Takoma Park, Maryland's internal control over financial reporting and compliance.

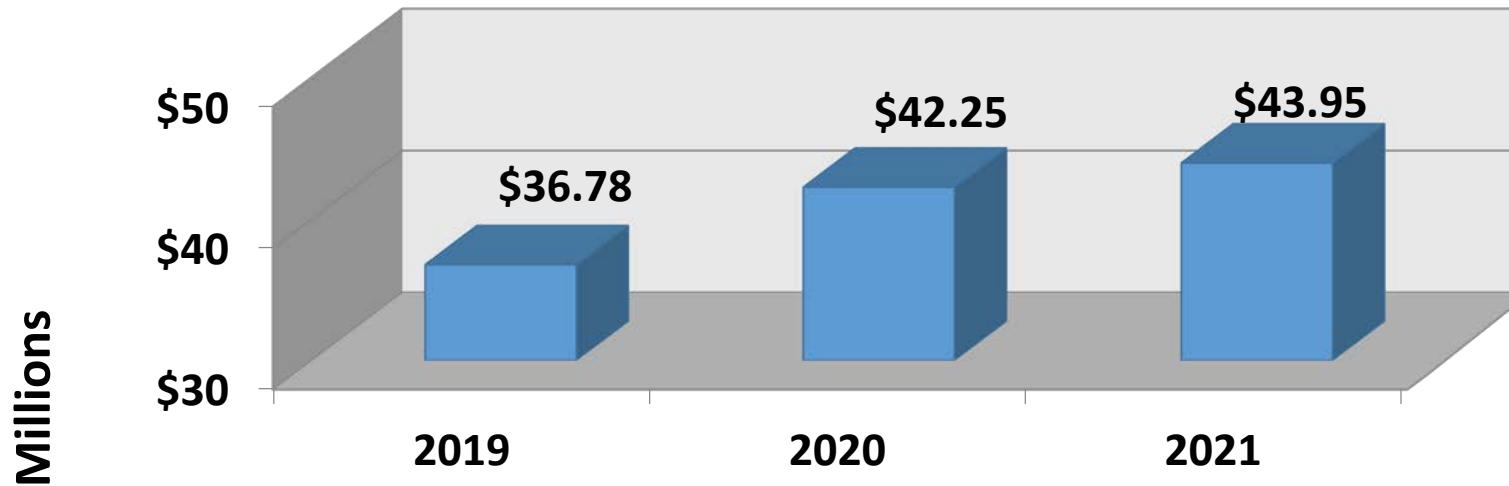


Baltimore, Maryland
October 28, 2021

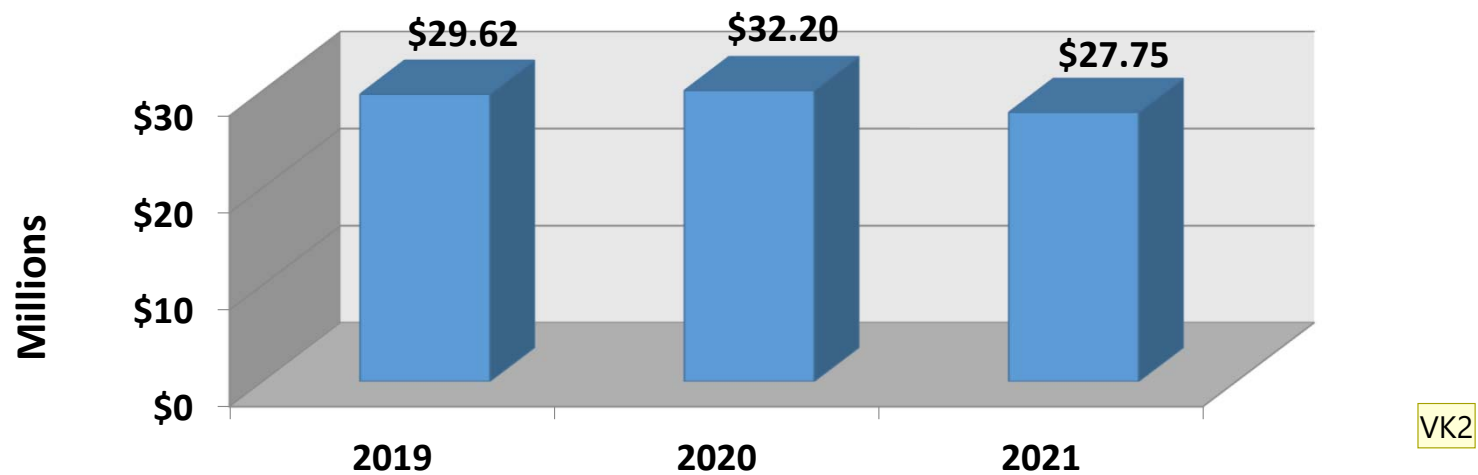
Financial Information

City of Takoma Park, Maryland

Primary Government – Total Net Position



City of Takoma Park, Maryland Primary Government Revenue*

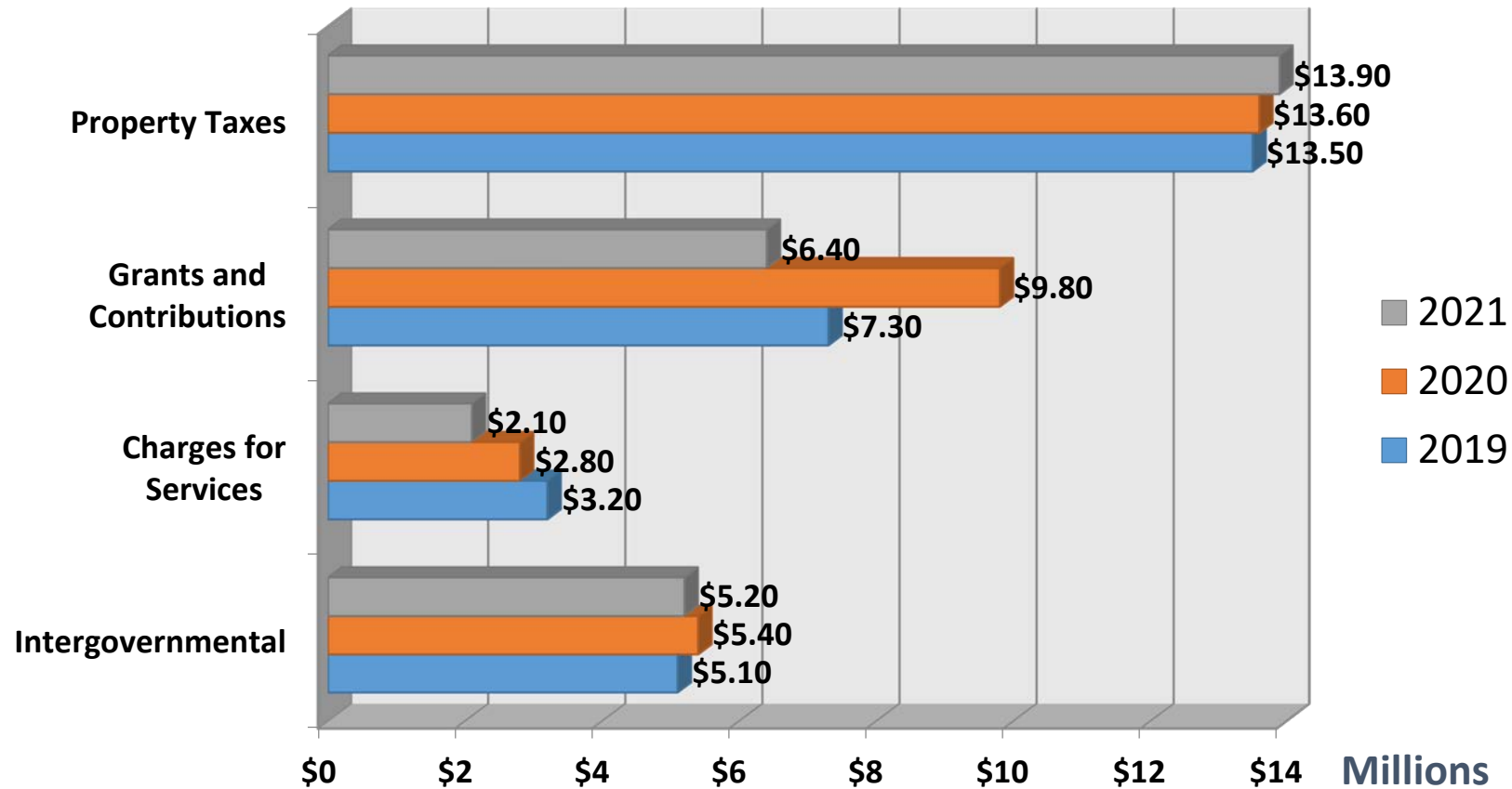


*includes General Fund revenues

November 17, 2021

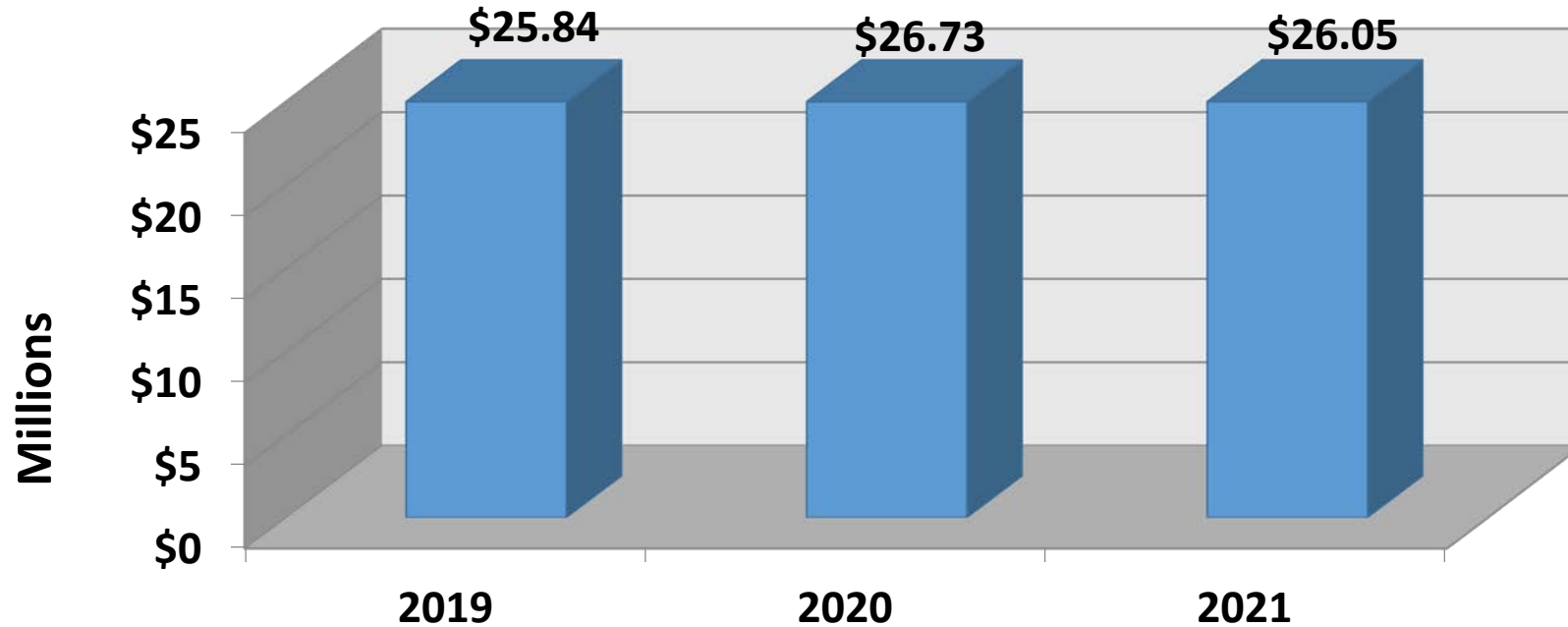
City of Takoma Park, Maryland

General & Program Revenues

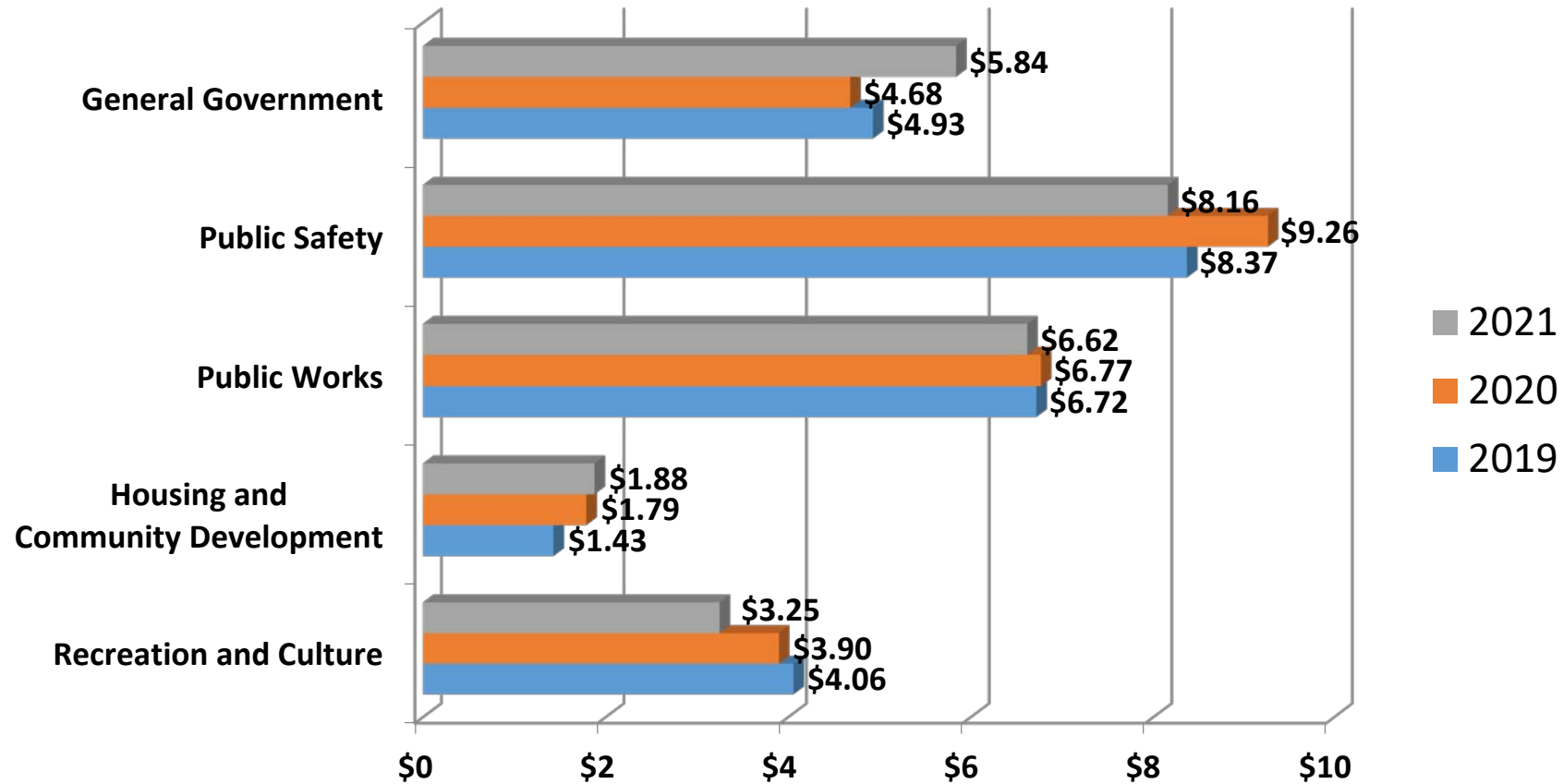


City of Takoma Park, Maryland

Total Primary Government Expenses



City of Takoma Park, Maryland Expenses by Function



Financial Highlights

- General Fund – Fund Balance

Fiscal Year	General Fund Unassigned Fund Balance	General Fund Revenues	Percentage of Revenues
2021	\$7,109,661	\$25,493,733	28%
2020	\$6,304,957	\$25,886,963	24%
2019	\$6,934,380	\$25,733,335	27%

- ❑ The required fund balance should be at least 17% of the City's total revenue in the General Fund

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the City Council
City of Takoma Park, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Takoma Park, Maryland, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Takoma Park, Maryland's basic financial statements, and have issued our report thereon dated October 28, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Takoma Park, Maryland's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Takoma Park, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Takoma Park, Maryland's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Takoma Park, Maryland's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Baltimore, Maryland
October 28, 2021

Communication with Governance

October 28, 2021

To the Honorable Members of the City Council
City of Takoma Park, Maryland

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information and internal control over financial reporting of the City of Takoma Park, Maryland as of and for the year ended June 30, 2021, and have issued our report thereon dated October 28, 2021. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated October 21, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City of Takoma Park, Maryland solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City of Takoma Park, Maryland is included in Note 1 to the financial statements. The City adopted GASB Statement No. 98, *The Annual Comprehensive Financial Report*, the effects of which have been reflected in the financial statements as of and for the year ended June 30, 2021. Other than those noted above, there have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the allowance for doubtful accounts is based on past experience of collections. We evaluated the key factors and assumptions used to develop for doubtful accounts in determining that is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the depreciation expense is based on the estimated useful life of the related asset. We evaluated the key factors and assumptions used to develop the depreciation expense and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the net pension liability and related deferred outflows and inflows of resources, is based on the City's proportionate share of the Maryland State Retirement Pension System's net pension liability and pension expense and the City's Police Retirement Plan net pension liability and pension expense. We evaluated the key factors and assumptions used to develop the net pension liability and related deferred outflows and inflows of resources and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the accumulated vacation leave, which is recorded as compensated absences in the financial statements, is based on payroll reports. We evaluated the key factors and assumptions used to develop the accrual of the unused sick leave and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City of Takoma Park, Maryland's financial statements relate to:

The disclosure of the net pension liability and related deferred outflows and inflows of resources is considered a sensitive disclosure to the basic financial statements because it involves actuarial assumptions. Note 13 to the basic financial statements discloses the net pension liability and related deferred outflows and inflows of resources.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City of Takoma Park, Maryland's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated October 28, 2021.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City of Takoma Park, Maryland, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City of Takoma Park, Maryland's auditors.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City of Takoma Park, Maryland's annual reports, does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have:

- Applied certain limited procedures to Management's Discussion and Analysis and the Required Supplementary Information - Schedule of Changes in the City's Net Pension Liability and Related Ratios, which are required supplementary information ("RSI") that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.
- We were engaged to report budgetary schedules, combining non-major fund financial statements, and combining fiduciary fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.
- We were not engaged to report on introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

This report is intended solely for the information and use of the City Council and management of the City Council and management of the City of Takoma Park, Maryland and is not intended to be and should not be used by anyone other than these specified parties.



CohnReznick LLP
October 28, 2021

Management Letter

October 28, 2021

To: The City Council
City of Takoma Park, Maryland

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the City of Takoma Park, Maryland (the "City") as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 28, 2021 on the financial statements of the City. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. Our comments are summarized as follows:

- We noted the City does not have a tip line to report any misappropriation of assets or fraudulent financial activity. We recommend that the City consider the use of a toll-free anonymous tip line to report any improprieties.
- We suggest the City consider centralizing Grant processing and reporting functions in order to prepare and organize grant submission packages, summary reconciliation reports, and summary invoice reports for all grant submissions for record keeping purposes.
- We suggest the City implement procedures to formally adopt and approve the City Council meeting minutes for posting to City's website on a monthly or quarterly basis.
- We propose the City implements procedures to ensure timely submission of invoices to Finance Department, to allow for proper cut-off of payables and expenditures related to fiscal year and to eliminate the need for late adjustments that affect financial close process.
- We propose management consider a cybersecurity assessment be performed to evaluate aspects of network vulnerability to unauthorized activity, which might include, but are not limited to, employee security training and an external penetration test. In the event of a breach of the City's systems, the City may lack the resources to investigate and take legal action against a guilty party.

We believe that the implementation of these recommendations will provide the City with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you at your convenience.

This communication is intended solely for the information and use of management, the members of the audit committee, others within the organization, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

CohnReznick LLP

CohnReznick LLP
Baltimore, Maryland



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