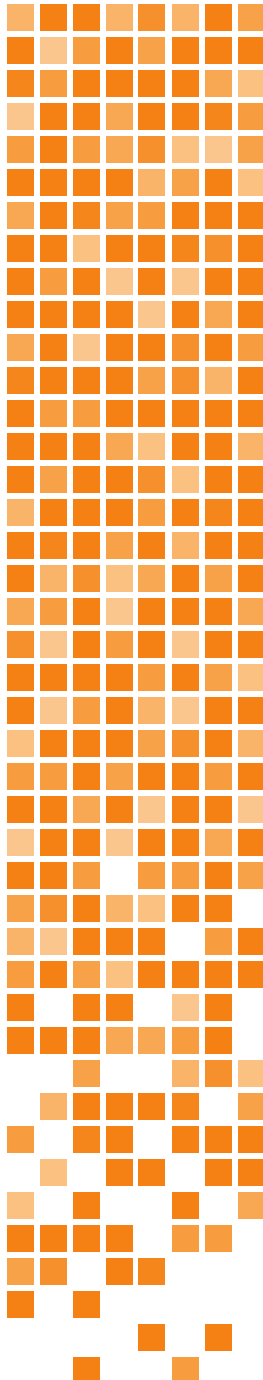


CERTIFIED PUBLIC ACCOUNTANTS



TOWN OF NORTH BEACH, MARYLAND

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

TOWN OF NORTH BEACH, MARYLAND

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INDEPENDENT AUDITOR'S REPORT

**To the Town Council
Town of North Beach
North Beach, 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 North Beach, North Beach, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of North Beach's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of North Beach, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Town of North Beach's 2013 financial statements, and our report dated November 22, 2013, expressed unmodified opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule – General Fund on pages 3 through 11 and 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014, on our consideration of the Town of North Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of North Beach's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
December 10, 2014**

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2014

Management's discussion and analysis ("**MD&A**") of the financial performance of the Town of North Beach, Maryland (the "**Town**") provides an overview of the Town's financial performance for the fiscal year ended June 30, 2014. Readers should also review the basic financial statements and related notes to enhance their understanding of the Town's financial performance.

TOWN PROFILE

The Town is located in the northern part of Calvert County at the crossroads of Route 261 and 260. Although considered to be in the Washington, DC metropolitan area, the Town's location also gives it easy access to Baltimore and Annapolis. The Baltimore/Washington, DC area is considered to be one of the fastest growing regions in the nation. The Town's proximity to the Baltimore/Washington, DC area and the amount of Federal government spending in the region generally contributes to the Town's stability. The Town population was 1,978 according to the 2010 census and 1,880 according to the 2000 census. The major services provided by the Town include public safety (police), recreation, sanitation, highways and streets, planning and zoning, water and sewer and general administrative. The Town employs 9 full-time employees that consist of a Town Treasurer, Town Clerk, Receptionist, Director of Public Works, Assistant Director of Public Works, two other public works employees, Waterfront Manager and Marketing/Public Relations Director, 1 part-time Code Enforcement Officer and 30 seasonal employees from April to October. The Town has experienced steady growth over the years with some fluctuations due to economic and weather related events. Overall, the number of year round residents and seasonal visitors has increased moderately in recent years.

FINANCIAL HIGHLIGHTS

- On a government-wide basis including all governmental activities and the business-type activities, the assets of the Town exceeded liabilities resulting in total net position at the close of the 2013-2014 fiscal year of \$14,770,063. During the 2014 fiscal year, the Town had an increase in total net position of \$1,048,273. The net position of the governmental activities increased by \$844,093 and net position of the business-type activities increased by \$204,180.
- As of the close of the 2013-2014 fiscal years, the Town's governmental funds reported combined ending fund balances of \$1,268,465, an increase of \$384,580 in comparison with the prior year.
- The General Fund reported an increase in fund balance of \$368,572, bringing the cumulative balance to \$1,223,985 or 51.23% of total General Fund expenditures at the conclusion of the 2013-2014 fiscal years.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A 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 other 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 and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. To assess the Town's overall health, the reader will need to consider additional nonfinancial factors such as changes in the Town's tax base and the condition of the Town's assets.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2014

The *Statement of Activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported 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 result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

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, community development, public safety and public works. Business-type activities consist of the Town's operation of a water supply and sewage collection system. The government-wide financial statements can be found on pages 12 and 13 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Town's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town uses governmental and proprietary fund financial statements to provide more detailed information about the Town's most significant funds rather than the Town as a whole.

Governmental Funds

Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The reconciliation between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is provided in the financial statements.

The governmental fund financial statements can be found on pages 14 through 17 of this report.

Proprietary Funds

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the Town's proprietary funds. The proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements which consist of the Town's operation of a water supply and sewage collection system.

The proprietary fund financial statements can be found on pages 18 through 20 of this report.

Notes to the Financial Statements

The notes to the basic financial statements 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 statement can be found on pages 21 through 33 of this report.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2014

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town, which consists of a budgetary comparison schedule for the General Fund.

The required supplementary information can be found on pages 34 and 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve as a useful indicator of the Town's financial position. At the close of the 2013-2014 fiscal years, the Town's assets exceeded liabilities by \$14,770,063. The following table presents condensed information for the Statement of Net Position of the Town at June 30, 2014 and 2013.

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current assets	\$ 1,677,384	\$ 1,280,900	\$1,710,595	\$1,635,774	\$ 3,387,979	\$ 2,916,674
Capital assets, net	<u>14,553,108</u>	<u>14,636,130</u>	<u>4,410,561</u>	<u>4,001,063</u>	<u>18,963,669</u>	<u>18,637,193</u>
Total assets	<u>16,230,492</u>	<u>15,917,030</u>	<u>6,121,156</u>	<u>5,636,837</u>	<u>22,351,648</u>	<u>21,553,867</u>
LIABILITIES						
Current liabilities	219,170	316,835	52,928	56,255	272,098	373,090
Noncurrent liabilities	<u>4,951,333</u>	<u>5,384,299</u>	<u>2,358,154</u>	<u>2,074,688</u>	<u>7,309,487</u>	<u>7,458,987</u>
Total liabilities	<u>5,170,503</u>	<u>5,701,134</u>	<u>2,411,082</u>	<u>2,130,943</u>	<u>7,581,585</u>	<u>7,832,077</u>
NET POSITION						
Net investment in capital assets	9,667,985	9,437,203	2,052,407	1,926,375	11,720,392	11,363,578
Restricted	44,480	28,472	-	-	44,480	28,472
Unrestricted	<u>1,347,524</u>	<u>750,221</u>	<u>1,657,667</u>	<u>1,579,519</u>	<u>3,005,191</u>	<u>2,329,740</u>
Total net position	<u>\$11,059,989</u>	<u>\$10,215,896</u>	<u>\$3,710,074</u>	<u>\$3,505,894</u>	<u>\$14,770,063</u>	<u>\$13,721,790</u>

The Town's total assets as of June 30, 2014 were \$22,351,648 of which \$2,574,856 or 11.52% consisted of cash and \$18,963,669 or 84.84% consisted of the Town's investment in capital assets. The Town's total liabilities as of June 30, 2014 were \$7,581,585 of which \$7,243,277 or 95.54% consisted of bonds and notes payable used primarily to acquire and construct capital assets.

Of the Town's total net position at June 30, 2014, \$3,005,191 is unrestricted and may be used to meet the Town's obligations to citizens and creditors. The Town's unrestricted net position increased by \$675,451 primarily due to the result of current operations.

A portion of the Town's net position reflects its restricted net position which totaled \$44,480 as of June 30, 2014. The Town's restricted net position relates to the Town's special revenue fund.

The largest portion of the Town's net position reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. Capital assets are used to provide services to residents and they are not available for future spending. Although the investment in capital assets is report net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2014

For the year ended June 30, 2014, the Town's investment in capital assets, net of related debt increased \$356,814 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated and because capital assets were acquired with funding sources other than long-term debt.

The following table presents condensed information for the Statement of Activities of the Town for 2014 and 2013:

	Governmental Activities		Business-Type Activities		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
REVENUES						
Program revenues						
Charges for services	\$ 709,622	\$ 628,141	\$1,158,374	\$1,103,039	\$ 1,867,996	\$ 1,731,180
Operating grants and contributions	47,076	77,610	-	-	47,076	77,610
Capital grants and contributions	81,203	679,443	-	-	81,203	679,443
General revenues						
Taxes						
Real property taxes	1,541,357	1,510,066	-	-	1,541,357	1,510,066
Personal property taxes	10,667	11,211	-	-	10,667	11,211
Property tax penalties	22,923	52,231	-	-	22,923	52,231
State-shared revenue	479,160	232,423	-	-	479,160	232,423
Investment earnings	1,335	3,351	1	1	1,336	3,352
Franchise fees	37,736	28,102	-	-	37,736	28,102
Cell tower revenues	107,889	79,338	-	-	107,889	79,338
Excise tax fund	67,833	867	-	-	67,833	867
Gain on disposal of assets	97,472	11,500	-	-	97,472	11,500
Total revenues	<u>3,204,273</u>	<u>3,314,283</u>	<u>1,158,375</u>	<u>1,103,040</u>	<u>4,362,648</u>	<u>4,417,323</u>
EXPENSES						
General government	760,488	823,334	-	-	760,488	823,334
Community development	409,555	453,774	-	-	409,555	453,774
Public safety	484,724	490,005	-	-	484,724	490,005
Public works	573,887	592,323	-	-	573,887	592,323
Interest on long-term debt	131,526	131,430	-	-	131,526	131,430
Water operations	-	-	372,020	374,673	372,020	374,673
Sewer operations	-	-	582,175	548,722	582,175	548,722
Total expenses	<u>2,360,180</u>	<u>2,490,866</u>	<u>954,195</u>	<u>923,395</u>	<u>3,314,375</u>	<u>3,414,261</u>
CHANGE IN NET POSITION	844,093	823,417	204,180	179,645	1,048,273	1,003,062
NET POSITION						
Beginning of year	<u>10,215,896</u>	<u>9,392,479</u>	<u>3,505,894</u>	<u>3,326,249</u>	<u>13,721,790</u>	<u>12,718,728</u>
End of year	<u>\$11,059,989</u>	<u>\$10,215,896</u>	<u>\$3,710,074</u>	<u>\$3,505,894</u>	<u>\$14,770,063</u>	<u>\$13,721,790</u>

Governmental Activities

The cost of all governmental activities in 2013-2014 was \$2,360,180. The amount that taxpayers ultimately financed for these activities through Town taxes was \$1,574,947 or 66.73%. A majority of the other expenses were financed through charges for services by those who directly benefited from the programs (\$709,622 or 30.07%).

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2014

Capital grants and contributions decreased from the prior year by \$598,240 due to funding received in the prior year for capital projects related to the acquisition of land and the breakwater stabilization. The increase in state-shared revenue of \$246,737 was due to new state gaming revenue and increases in state highway revenue. Charges for services increased by \$136,816 primarily due to water and sewer revenue increases and beach fee increases which can be attributed to better weather surrounding holiday times. The sale of one of the Town's real estate properties provided the increase in gain on disposal of assets.

Operating grants and contributions decreased \$30,534 due to lower contributions for bench memorials on the Boardwalk and a decrease in a FEMA grant, offset in part by an increase in the state police protection grant.

General government programs account for 32.22%, community development programs account for 17.35%, public safety programs 20.54%, and public works programs 24.32% of the total expenses in the governmental activities. General government expenses decreased \$62,846 due to decreases in professional fees offset by increases in hazardous property cleanup, parking lot rent and grounds maintenance. Community development expenses decreased \$44,219 due to decreases in expenses for the Bayside museum and boardwalk memorials.

Business-Type Activities and Proprietary Funds

The business-type activities and proprietary funds of the Town include water and sewer operations. The Town has entered into a joint venture with Chesapeake Beach, Maryland and Calvert County, the purpose of which is to borrow money to finance the construction, or acquisition, of and operate sewer facilities, consisting of a sewage treatment plant and collections systems. The Town maintains its own water system, which consists of a water tower and two wells.

Charges for services represent the principal revenue source for the Town's business-type activities. Current year charges for water and sewer services increased 5.02% or \$55,335 due to increased number of customer accounts. Expenses within the Water Fund remained relatively constant as compared to the prior year. Sewer expenses increased by \$33,453 related to the Town's proportionate share of operating costs for the sewage treatment plant and bond counsel for the bonds issued in the current year related to the sewer expansion project.

In September 2013, the Town entered into a loan agreement with the Maryland Water Quality Financing Administration to borrow a maximum of \$1,850,000 to finance the costs related to improving the planning, design and construction of the Enhanced Nutrient Removal ("**ENR**") treatment facilities at the regional wastewater treatment plant. As of June 30, 2014, the actual amount advanced and expended was \$402,417, which has been capitalized and included in construction in progress in the Sewer Fund and business-type activities.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The governmental fund financial statements provide detailed information of the Town's major funds. Some funds are required to be established by State statute while other funds are established by the Town to manage money restricted for a specific purpose.

As of June 30, 2014, the Town's governmental funds reported combined ending fund balances of \$1,268,465, an increase of \$384,580 as compared to the prior year. At June 30, 2014, the governmental fund fund balance includes \$1,832 which is considered nonspendable, \$44,480 committed to economic development and unassigned amounts of \$1,222,153.

General Fund

The General Fund is the chief operating fund of the Town. As of June 30, 2014, the total fund balance of the General Fund was \$1,223,985. The fund balance increased by \$368,572 during the year ended June 30, 2014.

The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2013-2014 year.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2014

General Fund Revenues and Other Financing Sources

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Taxes	\$1,538,843	\$1,688,335	\$ (149,492)	(8.85)
Charges for services	630,345	567,783	62,562	11.02
State shared revenues	479,160	232,423	246,737	106.16
Intergovernment revenue	47,076	77,610	(30,534)	(39.34)
Cell tower revenues	107,889	79,338	28,551	35.99
Franchise fees	37,736	28,102	9,634	34.28
Interest	45	1,335	(1,290)	(96.63)
Issuance of long-term debt	-	2,526,000	(2,526,000)	(100.00)
Miscellaneous	7,197	377	6,820	1,809.02
Sale of capital assets	<u>215,180</u>	<u>11,500</u>	<u>203,680</u>	<u>1,771.13</u>
	<u>\$3,063,471</u>	<u>\$5,212,803</u>	<u>\$(2,149,332)</u>	<u>(41.23)</u>

Revenues and other financing sources decreased by \$2,149,332 in 2013-2014 compared to 2012-2013. Major fluctuations in revenues and other financing sources compared to the prior year are as follows:

- Revenues for taxes decreased by \$149,492 as a result of less collections of 2013-2014 property taxes and related property tax penalties collected offset partially by an increase in the county excise tax collected.
- Charges for services increased \$62,562 primarily due to beach fee increases due to better weather during the season.
- State shared revenues increase of \$246,737 was due to increases in state highway fees received and the new gambling revenue received from the state for the first time in the current year.
- Issuance of long-term debt in 2012-2013 represents the issuance of the Series of 2012, 2012A and 2012B bonds which refinanced the outstanding balance of debt related to the construction of the Bayside Boys and Girls Club and provided proceeds for the purchase of land for the future site of a park and municipal parking lot.
- Sale of capital assets increased \$203,680 due to the sale of one of the Town owned properties in the current year.

General Fund Expenditures and Other Financing Uses

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
General government	\$ 659,465	\$ 759,316	\$ (99,851)	(13.15)
Community development	198,289	253,609	(55,320)	(21.81)
Public safety	483,224	488,630	(5,406)	(1.11)
Public works	430,792	465,467	(34,675)	(7.45)
Capital outlay	36,309	2,934,874	(2,898,565)	(98.76)
Debt service	581,292	622,731	(41,439)	(6.65)
Transfers out	<u>305,528</u>	<u>126,900</u>	<u>178,628</u>	<u>140.76</u>
	<u>\$2,694,899</u>	<u>\$5,651,527</u>	<u>\$(2,956,628)</u>	<u>(52.32)</u>

Expenditures decreased by \$2,956,628 in 2013-2014 compared to 2012-2013. Major fluctuations in expenditures compared to the prior year are as follows:

- General government expenses decreased \$99,851 due to professional expenses related to bond issuance in 2012-2013, offset by increases in cleanup of hazardous properties and parking lot rental.
- Community development expenses decreased \$55,320 due to Bayside museum expenses decreases, Boardwalk memorial expense decrease related to decrease in associated revenue, decreases in Welcome Center wages and concession stand expense.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2014

- Decreases in public works expenses of \$34,675 were primarily due to decreases in trash collection and landfill costs offset by increase in stormwater maintenance.
- Capital outlays decreased \$2,898,565 due to land acquisitions intended for future sites of a park and a municipal parking lot funded by long-term debt in 2012-2013.
- Debt service principal and interest decreased by \$41,439 as a result of the payoff of some loans in the prior and current years.
- Transfers out increased \$178,628 due to increased capital projects funded through the General Fund in the current year.

Capital Projects Fund

The Capital Projects Fund accounts for funding for major capital expenditures of the Town. Revenue is provided by General Fund transfers and intergovernmental revenues. During the year ended June 30, 2014, the General Fund transferred \$305,528 to the Capital Projects Fund to fund current year capital expenditures.

The major capital projects and purchases funded by the Capital Projects Fund during the year ended June 30, 2014 were as follows:

- Construction costs associated with the Welcome center rehabilitation project
- Construction costs associated with the Trail project
- Construction costs associated with Bike Path
- Construction and engineering cost associated with 3rd Street Park

GENERAL FUND BUDGET INFORMATION

The Town maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The Town budgets and expends funds according to procedures mandated by the Town Charter. An annual operating budget is prepared by management and submitted to the Town Council prior to the beginning of fiscal year on July 1 each year. The significant budgeted fund is the General Fund.

The schedule comparing the Town's budget and actual results can be found on page 34 and 35. Actual revenues and other financing sources were \$446,756 more than budgeted amounts and actual expenditures and other financing uses were \$78,184 more than budgeted amounts resulting in a net positive variance of \$368,572. A summary of significant variations between budget amounts and actual results are as follows:

- Real property taxes did not meet budgeted amounts by \$74,764 as a result of poorer than expected collection in 2013-2014 of current and outstanding property taxes by the County.
 - State-shared revenues were \$211,161 higher than budgeted amounts as a result of management being conservative in their budget estimates for local income taxes, highway user tax, and the new gambling revenue.
 - Excise tax was \$67,833 higher than budgeted as management was conservative in their budget estimates.
 - General government expenditures were less than budgeted amount by \$51,661 as a result of several factors. Various administrative expenses were lower than budgeted amounts by \$17,659 and benefit expenses were under budget by \$21,460 due to less than budgeted vacation pay and workers compensation rates.
 - Community development expenditures were less than budgeted amount by \$40,720 due to underspending in events and promotions and public relations. Amounts spent at the Bayside History museum for oil and electric were less than budgeted. Also, less was spent at the Welcome Center for salaries than was budgeted as management budgeted conservatively.
 - Public safety expenditures were over budget by \$31,925 due to increased beach patrols.
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TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2014

- Public works expenditures were under budget by \$68,237 primarily due to trash and recycling expenses being less than anticipated.
- Debt service was more than budgeted by \$25,960 due to principal from prior year bond issuance being different than anticipated.
- Sale of capital assets was underbudgeted by \$214,680 due to conservative budgeting as sale of real property was uncertain at time of budget preparation.
- Transfers were underbudgeted by \$194,393 due to more than anticipated funding needed for capital projects due to project timing.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totaled \$18,963,669 (net of accumulated depreciation). Capital assets include land, land improvements, buildings and improvements, machinery and equipment and infrastructure. The total net increase in the Town's capital assets for the current fiscal year was \$326,476 or 1.75%. The increase was the result of current year capital additions in excess of current year depreciation and disposals. Current year capital additions were \$983,655 and depreciation expense and disposals were \$657,179.

More detailed information about the Town's capital assets is presented in the notes to the basic financial statements.

Debt Administration

The power and obligation of the Town to borrow money by the issuance of its general obligation bonds, notes or any other evidences of indebtedness, whether issued pursuant to the authority of Section 19-719(A) of the Town Charter or other applicable law, shall be limited, exclusive of amounts being repaid by the water and sewer operations, to a total principal amount of general obligation indebtedness outstanding at the time any such debt is incurred equal to an amount not in excess of 20 percent of the assessable basis of property located in the Town. At June 30, 2014, the Town's outstanding debt, exclusive of amounts being repaid by the water and sewer operations, was 2.01% (\$4,885,123 governmental activities long-term debt/\$243,447,800 assessable taxable base) of the debt limit. The water and sewer revenues of the Town are pledged to liquidate long-term debt related to the water and sewer operations.

As of June 30, 2014, the Town had outstanding notes and bonds payable totaling \$7,243,277 in both the governmental and business-type activities. The total net decrease in the Town's outstanding notes and bonds payable for the current fiscal year was \$166,301 or 2.24%.

Other long-term debt consists of the Town's liability for compensated absences which consists solely of its accrued vacation payable.

More detailed information about the Town's long-term debt is presented in the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The adopted budget for 2014-2015 kept the real property tax rate of \$.6337 per \$100 of assessed valuation in relation to the 2013-2014 fiscal year. The Town has experienced a moderate increase in its assessable tax based which can be attributed to the construction of 25 additional townhomes at the San Francisco by the Bay subdivision. To date there are 106 units sold and the remaining units are currently under construction with a total build out for the San Francisco Development of 135 units. Property tax revenue makes up approximately 60 percent of General Fund budgeted revenues and other financing sources.

TOWN OF NORTH BEACH, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2014

Fees for trash, water and sewer services experienced no changes in rates for the 2014-2015 budget.

Currently, there is opportunity for development along the waterfront that could generate more tourist activity and monies for the community by way of the planned construction of a hotel and convention center. The development and increase in visitors will be significant to the Town's continued economic development.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Town's finances. If you have questions about this report or need any additional information, contact The Town of North Beach, 8916 Chesapeake Avenue, North Beach, Maryland, 20714 or call (301) 855-6681.

TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF NET POSITION

June 30, 2014 with summarized comparative totals for 2013

	Governmental Activities	Business-Type Activities	Totals	
			2014	2013
ASSETS				
CURRENT ASSETS				
Cash	\$ 1,167,300	\$1,407,556	\$ 2,574,856	\$ 2,182,222
Taxes and refuse fees receivable	202,841	23,290	226,131	137,820
Due from other governments	209,161	-	209,161	313,209
Prepaid expenses	91,832	2,748	94,580	-
Accounts receivable	6,250	277,001	283,251	283,423
Total current assets	<u>1,677,384</u>	<u>1,710,595</u>	<u>3,387,979</u>	<u>2,916,674</u>
NONCURRENT ASSETS				
Capital assets, net	<u>14,553,108</u>	<u>4,410,561</u>	<u>18,963,669</u>	<u>18,637,193</u>
Total assets	<u>16,230,492</u>	<u>6,121,156</u>	<u>22,351,648</u>	<u>21,553,867</u>
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Accounts payable	109,456	25,749	135,205	213,738
Accrued expenses	82,264	27,179	109,443	104,452
Unearned revenue	27,450	-	27,450	54,900
Total current liabilities	<u>219,170</u>	<u>52,928</u>	<u>272,098</u>	<u>373,090</u>
NONCURRENT LIABILITIES				
Due within one year	433,705	111,213	544,918	543,848
Due in more than one year	<u>4,517,628</u>	<u>2,246,941</u>	<u>6,764,569</u>	<u>6,915,139</u>
Total noncurrent liabilities	<u>4,951,333</u>	<u>2,358,154</u>	<u>7,309,487</u>	<u>7,458,987</u>
Total liabilities	<u>5,170,503</u>	<u>2,411,082</u>	<u>7,581,585</u>	<u>7,832,077</u>
NET POSITION				
Net investment in capital assets	9,667,985	2,052,407	11,720,392	11,363,578
Restricted for				
Economic development	44,480	-	44,480	28,472
Unrestricted	<u>1,347,524</u>	<u>1,657,667</u>	<u>3,005,191</u>	<u>2,329,740</u>
Total net position	<u>\$11,059,989</u>	<u>\$3,710,074</u>	<u>\$14,770,063</u>	<u>\$13,721,790</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF ACTIVITIES

Year ended June 30, 2014 with summarized comparative totals for 2013

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>	
							<u>2014</u>	<u>2013</u>
GOVERNMENTAL ACTIVITIES								
General government	\$ 760,488	\$ -	\$25,041	\$ -	\$ (735,447)	\$ -	\$ (735,447)	\$ (759,659)
Community development	409,555	457,046	-	81,203	128,694	-	128,694	578,199
Public safety	484,724	-	22,035	-	(462,689)	-	(462,689)	(476,070)
Public works	573,887	252,576	-	-	(321,311)	-	(321,311)	(316,712)
Interest on long-term debt	131,526	-	-	-	(131,526)	-	(131,526)	(131,430)
Total governmental activities	<u>2,360,180</u>	<u>709,622</u>	<u>47,076</u>	<u>81,203</u>	<u>(1,522,279)</u>	<u>-</u>	<u>(1,522,279)</u>	<u>(1,105,672)</u>
BUSINESS-TYPE ACTIVITIES								
Water	372,020	360,628	-	-	-	(11,392)	(11,392)	(28,764)
Sewer	582,175	797,746	-	-	-	215,571	215,571	208,408
Total business-type activities	<u>954,195</u>	<u>1,158,374</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>204,179</u>	<u>204,179</u>	<u>179,644</u>
Total primary government	<u>\$3,314,375</u>	<u>\$1,867,996</u>	<u>\$47,076</u>	<u>\$ 81,203</u>	<u>(1,522,279)</u>	<u>204,179</u>	<u>(1,318,100)</u>	<u>(926,028)</u>
GENERAL REVENUES								
Taxes								
Real property taxes					1,541,357	-	1,541,357	1,510,066
Personal property taxes					10,667	-	10,667	11,211
Property tax penalties					22,923	-	22,923	52,231
State-shared revenues					479,160	-	479,160	232,423
Investment earnings					1,335	1	1,336	3,352
Franchise fees					37,736	-	37,736	28,102
Cell tower revenue					107,889	-	107,889	79,338
Excise tax fund					67,833	-	67,833	867
Gain on sale of capital assets					97,472	-	97,472	11,500
Total general revenues					<u>2,366,372</u>	<u>1</u>	<u>2,366,373</u>	<u>1,929,090</u>
CHANGE IN NET POSITION					844,093	204,180	1,048,273	1,003,062
NET POSITION								
Beginning of year					<u>10,215,896</u>	<u>3,505,894</u>	<u>13,721,790</u>	<u>12,718,728</u>
End of year					<u>\$11,059,989</u>	<u>\$3,710,074</u>	<u>\$14,770,063</u>	<u>\$13,721,790</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2014 with summarized comparative totals for 2013

	Major Funds			Totals	
	General Fund	Capital Projects Fund	Economic Development Fund	2014	2013
ASSETS					
Cash	\$1,098,526	\$ -	\$68,774	\$1,167,300	\$ 791,971
Taxes and refuse fees receivable	202,841	-	-	202,841	137,820
Due from other governments	169,161	40,000	-	209,161	313,209
Prepaid items	1,832	90,000	-	91,832	-
Other receivables	6,250	-	-	6,250	37,900
Due from other funds	<u>102,869</u>	<u>-</u>	<u>-</u>	<u>102,869</u>	<u>262,722</u>
Total assets	<u>\$1,581,479</u>	<u>\$130,000</u>	<u>\$68,774</u>	<u>\$1,780,253</u>	<u>\$1,543,622</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 58,031	\$ 27,131	\$24,294	\$ 109,456	\$ 169,509
Accrued expenses	82,264	-	-	82,264	92,426
Unearned revenue	27,450	-	-	27,450	54,900
Due to other funds	<u>-</u>	<u>102,869</u>	<u>-</u>	<u>102,869</u>	<u>262,722</u>
Total liabilities	<u>167,745</u>	<u>130,000</u>	<u>24,294</u>	<u>322,039</u>	<u>579,557</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues – property taxes	170,914	-	-	170,914	66,978
Unavailable revenues – refuse fees	<u>18,835</u>	<u>-</u>	<u>-</u>	<u>18,835</u>	<u>13,202</u>
Total deferred inflows of resources	<u>189,749</u>	<u>-</u>	<u>-</u>	<u>189,749</u>	<u>80,180</u>
FUND BALANCES					
Nonspendable					
Prepaid items	1,832	-	-	1,832	-
Committed to					
Economic development	-	-	44,480	44,480	28,472
Unassigned	<u>1,222,153</u>	<u>-</u>	<u>-</u>	<u>1,222,153</u>	<u>855,413</u>
Total fund balances	<u>1,223,985</u>	<u>-</u>	<u>44,480</u>	<u>1,268,465</u>	<u>883,885</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$1,581,479</u>	<u>\$130,000</u>	<u>\$68,774</u>	<u>\$1,780,253</u>	<u>\$1,543,622</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

June 30, 2014

TOTAL GOVERNMENTAL FUND BALANCES	\$ 1,268,465
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet.	14,553,108
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	(4,951,333)
Some of the Town's revenues are not available soon enough to pay for the current period's expenditures, and, therefore, are reported as deferred inflows of resources in the governmental funds balance sheet.	<u>189,749</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$11,059,989</u>

TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Year ended June 30, 2014 with summarized comparative totals for 2013

	Major Funds			Totals	
	General	Capital	Economic	2014	2013
	Fund	Projects	Development		
		Fund	Fund		
REVENUES					
Real property taxes	\$1,437,420	\$ -	\$ -	\$1,437,420	\$ 1,624,026
Property tax penalties	22,923	-	-	22,923	52,231
Personal property taxes	10,667	-	-	10,667	11,211
Charges for services	383,402	-	66,447	449,849	352,153
Refuse collection fees	246,943	-	-	246,943	262,409
State shared revenues	479,160	-	-	479,160	232,423
Contributions and donations	-	8,000	-	8,000	6,500
Cell tower revenue	107,889	-	-	107,889	79,338
Intergovernmental revenues	47,076	73,203	-	120,279	750,553
Excise tax fund	67,833	-	-	67,833	867
Franchise fees	37,736	-	-	37,736	28,102
Earnings on investments	45	1,290	-	1,335	3,351
Miscellaneous	7,197	-	-	7,197	377
Total revenues	<u>2,848,291</u>	<u>82,493</u>	<u>66,447</u>	<u>2,997,231</u>	<u>3,403,541</u>
EXPENDITURES					
Current					
General government	659,465	-	-	659,465	759,316
Community development	198,289	-	33,784	232,073	281,984
Public safety	483,224	-	-	483,224	488,630
Public works	430,792	9,062	-	439,854	475,970
Capital outlay	36,309	378,959	16,655	431,923	3,732,730
Debt service	581,292	-	-	581,292	622,731
Total expenditures	<u>2,389,371</u>	<u>388,021</u>	<u>50,439</u>	<u>2,827,831</u>	<u>6,361,361</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>458,920</u>	<u>(305,528)</u>	<u>16,008</u>	<u>169,400</u>	<u>(2,957,820)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of long-term debt	-	-	-	-	2,526,000
Sale of capital assets	215,180	-	-	215,180	11,500
Transfers in	-	305,528	-	305,528	126,900
Transfers out	(305,528)	-	-	(305,528)	(126,900)
Total other financing sources (uses)	<u>(90,348)</u>	<u>305,528</u>	<u>-</u>	<u>215,180</u>	<u>2,537,500</u>
NET CHANGE IN FUND BALANCES	368,572	-	16,008	384,580	(420,320)
FUND BALANCE					
Beginning of year	855,413	-	28,472	883,885	1,304,205
End of year	<u>\$1,223,985</u>	<u>\$ -</u>	<u>\$44,480</u>	<u>\$1,268,465</u>	<u>\$ 883,885</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2014

NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	\$384,580
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense and the net book value of disposed capital assets exceeded capital outlay expenditures in the current period.

Capital outlay expenditures	\$ 431,924	
Net book value of disposed capital assets	(117,710)	
Depreciation expense	<u>(397,236)</u>	(83,022)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position in governmental activities. This amount is the net effect of these differences in the treatment of long-term debt.

Repayment of long-term debt	449,767
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Because some property taxes and refuse fees will not be collected for several months after the Town's fiscal year ends, they are not considered as "available" revenues in the governmental fund. Deferred inflows of resources increased by this amount this year.

Deferred inflows of resources at June 30, 2013	(80,180)	
Deferred inflows of resources at June 30, 2014	<u>189,749</u>	109,569

Some liabilities are not due and payable in the current period and, therefore, are not reported as expenditures in the governmental funds.

Current year change in compensated absences	<u>(16,801)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$844,093</u>
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TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

June 30, 2014 with summarized comparative totals for 2013

	<u>Major Funds</u>		<u>Totals</u>	
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>2014</u>	<u>2013</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 534,655	\$ 872,901	\$1,407,556	\$1,390,251
Accounts receivable	76,772	200,229	277,001	245,523
Other receivable	-	23,290	23,290	-
Prepaid expenses	<u>1,374</u>	<u>1,374</u>	<u>2,748</u>	<u>-</u>
Total current assets	<u>612,801</u>	<u>1,097,794</u>	<u>1,710,595</u>	<u>1,635,774</u>
NONCURRENT ASSETS				
Capital assets, net	<u>1,098,843</u>	<u>3,311,718</u>	<u>4,410,561</u>	<u>4,001,063</u>
Total assets	<u>1,711,644</u>	<u>4,409,512</u>	<u>6,121,156</u>	<u>5,636,837</u>
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Accounts payable	2,824	22,925	25,749	44,229
Accrued expenses	<u>11,052</u>	<u>16,127</u>	<u>27,179</u>	<u>12,026</u>
Total current liabilities	<u>13,876</u>	<u>39,052</u>	<u>52,928</u>	<u>56,255</u>
NONCURRENT LIABILITIES				
Due within one year	17,983	93,230	111,213	118,951
Due in more than one year	<u>1,299,033</u>	<u>947,908</u>	<u>2,246,941</u>	<u>1,955,737</u>
Total noncurrent liabilities	<u>1,317,016</u>	<u>1,041,138</u>	<u>2,358,154</u>	<u>2,074,688</u>
Total liabilities	<u>1,330,892</u>	<u>1,080,190</u>	<u>2,411,082</u>	<u>2,130,943</u>
NET POSITION (DEFICIT)				
Net (deficit) investment in capital assets	(218,173)	2,270,580	2,052,407	1,926,375
Unrestricted	<u>598,925</u>	<u>1,058,742</u>	<u>1,657,667</u>	<u>1,579,519</u>
Total net position	<u>\$ 380,752</u>	<u>\$3,329,322</u>	<u>\$3,710,074</u>	<u>\$3,505,894</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – PROPRIETARY FUNDS

Year ended June 30, 2014 with summarized comparative totals for 2013

	Major Funds		Totals	
	Water Fund	Sewer Fund	2014	2013
OPERATING REVENUES				
Charges for services	\$341,794	\$ 773,893	\$1,115,687	\$1,070,086
Water and sewer taps	7,000	17,500	24,500	3,500
Other operating revenues	11,834	6,353	18,187	29,453
Total operating revenues	<u>360,628</u>	<u>797,746</u>	<u>1,158,374</u>	<u>1,103,039</u>
OPERATING EXPENSES				
Salaries and wages	127,120	127,070	254,190	250,857
Employee benefits	45,620	45,620	91,240	93,254
Administrative expenses	4,550	70,019	74,569	70,366
Insurance	9,682	13,582	23,264	22,290
Professional services	24,407	35,263	59,670	38,165
Repairs and maintenance	21,109	16,218	37,327	52,632
Supplies	12,246	377	12,623	11,147
Utilities	15,017	9,261	24,278	19,617
Wastewater treatment expenses	-	174,255	174,255	163,779
Depreciation	70,894	71,339	142,233	145,516
Total operating expenses	<u>330,645</u>	<u>563,004</u>	<u>893,649</u>	<u>867,623</u>
Operating income	<u>29,983</u>	<u>234,742</u>	<u>264,725</u>	<u>235,416</u>
NONOPERATING REVENUES (EXPENSES)				
Earnings on investments	-	1	1	1
Interest expense	(41,375)	(19,171)	(60,546)	(55,772)
Total nonoperating revenues (expenses)	<u>(41,375)</u>	<u>(19,170)</u>	<u>(60,545)</u>	<u>(55,771)</u>
CHANGE IN NET POSITION	(11,392)	215,572	204,180	179,645
NET POSITION				
Beginning of year	<u>392,144</u>	<u>3,113,750</u>	<u>3,505,894</u>	<u>3,326,249</u>
End of year	<u>\$380,752</u>	<u>\$3,329,322</u>	<u>\$3,710,074</u>	<u>\$3,505,894</u>

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

Year ended June 30, 2014 with summarized comparative totals for 2013

	Major Funds		Totals	
	Water Fund	Sewer Fund	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from charges for services	\$ 337,464	\$ 746,745	\$1,084,209	\$1,165,052
Payments to suppliers for goods and services	(90,935)	(359,569)	(450,504)	(345,264)
Payments to employees for services	(172,653)	(172,685)	(345,338)	(345,471)
Cash received for tap fees	7,000	17,500	24,500	3,500
Other operating revenue	11,834	6,353	18,187	29,453
Net cash provided by operating activities	92,710	238,344	331,054	507,270
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from bonds and notes	-	402,417	402,417	-
Principal paid on bonds and notes	(20,071)	(98,880)	(118,951)	(138,571)
Interest paid on bonds and notes	(33,235)	(12,250)	(45,485)	(55,521)
Acquisition of capital assets	(12,000)	(539,731)	(551,731)	(43,177)
Net cash used for capital and related financing activities	(65,306)	(248,444)	(313,750)	(237,269)
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	-	1	1	1
Net increase (decrease) in cash	27,404	(10,099)	17,305	270,002
CASH				
Beginning of year	507,251	883,000	1,390,251	1,120,249
End of year	\$ 534,655	\$ 872,901	\$1,407,556	\$1,390,251
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 29,983	\$ 234,742	\$ 264,725	\$ 235,416
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	70,894	71,339	142,233	145,516
(Increase) decrease in				
Accounts receivable	(4,330)	(27,148)	(31,478)	99,966
Due from other funds	-	-	-	28,500
Prepaid expenses	(1,374)	(1,374)	(2,748)	-
Due from other governments	-	(23,290)	(23,290)	-
Increase (decrease) in				
Accounts payable	(2,550)	(15,931)	(18,481)	32,732
Accrued expenses	87	6	93	(1,360)
Due to other funds	-	-	-	(33,500)
Net cash provided by operating activities	\$ 92,710	\$ 238,344	\$ 331,054	\$ 507,270

See accompanying notes

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of North Beach, in Calvert County, Maryland (the "**Town**") was incorporated in 1910 under the laws of the State of Maryland. The Town operates under a form of government which comprises an elected six-member Town Council and an elected Mayor, and provides the following services: public safety (police); recreation; sanitation; highways and streets; planning and zoning; water and sewer services; and general administrative services.

The financial statements of the Town have been prepared in accordance with generally accepted accounting principles ("**GAAP**") as applied to governmental units. The Governmental Accounting Standards Board ("**GASB**") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the Town as a reporting entity, management has addressed all potential component units which may or may not fall within the Town's accountability. The criteria used to evaluate component units for possible inclusion as part of the Town's reporting entity are financial accountability and the nature and significance of the relationship. The Town is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Town as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide financial statements are prepared 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 timing of related cash flow. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position presents the financial position of the Town which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the Town is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the Town and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the Town.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the Town. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The Town reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the Town. It is used to account for all financial resources except those properly accounted for in another fund.

Capital Projects Fund – The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities not being financed by proprietary funds.

Economic Development Fund – The Economic Development Fund collects fees which are used for specific community development projects.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax and refuse fee revenue to be available if collected within 60 days of the end of the fiscal period. Deferred revenue is reported in connection with receivables for property tax and refuse fee revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific Town expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Rental licenses are recorded as income related to the period in which the revenue relates as the licenses are issued for a three year period. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The Town reports the following major proprietary funds:

Water and Sewer Funds – The Water and Sewer Funds are used to account for the operation of a water supply and sewage collection system.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the Town's proprietary funds are charges for services. Operating expenses for the Town's proprietary funds include the cost of operations and maintenance and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash, Cash Equivalents and Investments

Temporary idle cash within the various funds is combined to form a cash and investment pool. Cash, investments and interest earnings are recorded in the individual funds. Funds available for short periods are transferred to an interest-bearing bank account. Funds available for longer periods are invested in certificates of deposit or the Maryland Local Government Investment Pool. Investments are stated at fair value. Statutes authorize the Town to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, State Treasurer's investment pools or mutual funds.

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes Receivable

Property is assessed at its value on January 1. Property taxes are billed on July 1 and payable in one installment on October 1. Property taxes not paid by October 1 of the levy year are subject to interest charges. Property taxes not paid by January of the second year are subject to tax sale. Taxpayers who have a principal residence within the Town have the option of paying in two installments which are due on September 1 and January 1. The County of Calvert bills and collects property taxes for the Town. Delinquent property taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided. The property tax rate for 2013-2014 was 63.37 cents per \$100 of assessed value.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Accounts Receivable

The Town's accounts receivables are reported at net realizable value. The Town's water and sewer utilities experience very small losses from uncollectible accounts. Water and sewer fees constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the Town for its business-type activities and proprietary funds.

Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Prepaid Items

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements and the proprietary fund financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at time of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

GASB permits Phase III local governments to elect not to report infrastructure retroactively and report general infrastructure prospectively only. Management has assessed the impact of infrastructure capitalization on the financial statements and has determined that the cost outweighs the benefit of reporting the Town's infrastructure retroactively.

Property, plant and equipment (net of salvage value) of the Town is depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 Years
Land improvements and infrastructure	15 – 40 Years
Furniture and fixtures	5 – 7 Years
Office equipment	3 – 5 Years
Water treatment plant	40 Years
Sewer pump stations	50 Years
Machinery and equipment	5 – 10 Years

Impairment of Long-Lived Assets

The Town evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the Town. No impairment losses were recognized in the year ended June 30, 2014.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid accumulated vacation leave balances. All vacation pay is accrued when incurred in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. In the fund financial statements, the face amount of debt issued is reported as other financing sources and uses.

Fund Equity

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The Town reports the following fund balance classifications:

Non-spendable

Non-spendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the Town's highest level of decision-making authority, the Town Council. Committed amounts cannot be used for any other purpose unless the Town Council removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Town Mayor or Treasurer or (b) an appointed body (e.g., finance committee) or (c) an official to which the Town has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

When both restricted and unrestricted resources are available for use, it is the Town's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the Town's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Implementation of New Accounting Pronouncements

GASB Statement No. 67, *Financial Reporting for Pension Plans—an Amendment of FASB Statement 25* was effective for the Town for the year ending June 30, 2014. GASB 67 improved financial reporting by state and local governmental pension plans. The requirements of this statement improved financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The implementation of GASB Statement No. 67 had no impact on the financial statements of the Town.

New Accounting Pronouncements

GASB has issued the following statement not yet implemented by the Town. The Town's management has not yet determined the effect, if any, this statement will have on the Town's financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27* will be effective for the Town for the year ending June 30, 2015. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund and Proprietary Funds. The Town Council also adopts legal project-length budgets for its Capital Projects Fund. Since project periods may differ from the Town's fiscal year, a comparison of budgetary information for the Capital Projects Fund would not be meaningful and has not been presented in the accompanying financial statements. All budgets are adopted on a basis consistent with generally accepted accounting principles.

Budget adjustments are made during the year and approved by the Town Council.

Unused appropriations for all of the annually budgeted funds lapse at year end.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Excess of Expenditures Over Appropriations

The following General Fund functions incurred expenditures and other financing uses in excess of appropriations in the following amounts for the year ended June 30, 2014:

General government	
General liability and property insurance	\$ 435
Public safety	
Beach patrol	\$ 33,569
Debt service	
Principal on long-term debt	\$ 38,908
Transfers out	\$194,393

(3) DEPOSITS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. The Town does not have a policy for custodial credit risk on deposits. At June 30, 2014, the carrying amount of the Town's deposits was \$391,001 and the bank balance was \$413,627. Of the bank balance, all was either covered by Federal Depository Insurance or collateralized in accordance with Article 95, Section 22 of the Annotated Code of Maryland which requires all local government units to fully collateralize all bank deposits in the Town's name.

A portion of the Town's deposits is in the Maryland Local Government Investment Pool ("**MLGIP**"). Although not registered with the Securities and Exchange Commission, the MLGIP is subject to regulatory oversight by the State of Maryland, acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated AAA by a nationally recognized statistical rating organization and subject to an independent annual audit. The carrying amount and bank balance of the Town's deposits in MLGIP at June 30, 2014 was \$2,183,855.

(4) DUE FROM OTHER GOVERNMENTS

As of June 30, 2014, due from other governments consisted of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>
State of Maryland		
Highway Administration – highway user's tax	\$ 8,612	\$ -
Highway Administration – recreational trails grant	-	40,000
Comptroller's Office – admissions and amusements tax	16	-
Calvert County – judiciary	58	-
Calvert County – liquor license	4,290	-
Calvert County – recreation excise tax	68,699	-
Department of Natural Resources – critical areas grant	2,500	-
Comptroller's Office – gambling revenues	84,986	-
	<u>\$169,161</u>	<u>\$40,000</u>

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2014 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	<u>\$102,869</u>	Capital Projects Fund	<u>\$102,869</u>

Interfund balances between funds represent temporary loans recorded at year-end subsequent to a final allocation of revenues and expenditures.

A summary of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	<u>\$305,528</u>	General Fund	<u>\$305,528</u>

Transfers to Capital Projects Fund from the General Fund represent transfers to subsidize acquisition costs for the purchase and construction of capital assets.

(6) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 3,428,620	\$ -	\$ -	\$ 3,428,620
Construction in progress	<u>74,887</u>	<u>75,162</u>	<u>20,207</u>	<u>129,842</u>
Total capital assets not being depreciated	<u>3,503,507</u>	<u>75,162</u>	<u>20,207</u>	<u>3,558,462</u>
Capital assets being depreciated				
Buildings and improvements	5,362,223	124,868	166,807	5,320,284
Land improvements and infrastructure	9,399,573	189,658	-	9,589,231
Furniture and equipment	<u>776,408</u>	<u>62,443</u>	<u>14,294</u>	<u>824,557</u>
Total capital assets being depreciated	<u>15,538,204</u>	<u>376,969</u>	<u>181,101</u>	<u>15,734,072</u>
Less accumulated depreciation for				
Buildings and improvements	533,893	131,101	49,097	615,897
Land improvements and infrastructure	3,406,433	214,005	-	3,620,438
Furniture and equipment	<u>465,255</u>	<u>52,130</u>	<u>14,294</u>	<u>503,091</u>
Total accumulated depreciation	<u>4,405,581</u>	<u>397,236</u>	<u>63,391</u>	<u>4,739,426</u>
Total capital assets being depreciated, net	<u>11,132,623</u>	<u>(20,267)</u>	<u>117,710</u>	<u>10,994,646</u>
Governmental activities, net	<u>\$14,636,130</u>	<u>\$ 54,895</u>	<u>\$137,917</u>	<u>\$14,553,108</u>

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Business-type activities

Capital assets not being depreciated				
Land	\$ 294,927	\$ -	\$ -	\$ 294,927
Construction in progress	<u>289,551</u>	<u>533,877</u>	<u>-</u>	<u>823,428</u>
Total capital assets not being depreciated	<u>584,478</u>	<u>533,877</u>	<u>-</u>	<u>1,118,355</u>
Capital assets being depreciated				
Buildings and improvements	5,945,778	-	-	5,945,778
Machinery and equipment	<u>400,366</u>	<u>17,854</u>	<u>14,294</u>	<u>403,926</u>
Total capital assets being depreciated	<u>6,346,144</u>	<u>17,854</u>	<u>14,294</u>	<u>6,349,704</u>
Less accumulated depreciation for				
Buildings and improvements	2,654,579	121,520	-	2,776,099
Machinery and equipment	<u>274,980</u>	<u>20,713</u>	<u>14,294</u>	<u>281,399</u>
Total accumulated depreciation	<u>2,929,559</u>	<u>142,233</u>	<u>14,294</u>	<u>3,057,498</u>
Total capital assets being depreciated, net	<u>3,416,585</u>	<u>(124,379)</u>	<u>-</u>	<u>3,292,206</u>
Business-type activities, net	<u>\$ 4,001,063</u>	<u>\$ 409,498</u>	<u>\$ -</u>	<u>\$ 4,410,561</u>

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

Governmental activities

General government	\$ 84,222
Community development	177,482
Public safety	1,500
Public works	<u>134,032</u>

Total depreciation expense – governmental activities

\$397,236

Business-type activities

Water	\$ 70,894
Sewer	<u>71,339</u>

Total depreciation expense – business-type activities

\$142,233

(7) LONG-TERM DEBT

The following is a summary of long-term debt activity and balances for the Town for the year ended June 30, 2014:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014	Amount Due Within One Year
Governmental activities					
Notes payable	\$ 36,533	\$ -	\$ 36,533	\$ -	\$ -
Bonds payable	5,298,357	-	413,234	4,885,123	433,705
Compensated absences	<u>49,409</u>	<u>66,210</u>	<u>49,409</u>	<u>66,210</u>	<u>-</u>
	<u>5,384,299</u>	<u>66,210</u>	<u>499,176</u>	<u>4,951,333</u>	<u>433,705</u>
Business-type activities					
State notes and bonds payable	2,066,304	402,417	110,567	2,358,154	111,213
Notes payable	<u>8,384</u>	<u>-</u>	<u>8,384</u>	<u>-</u>	<u>-</u>
	<u>2,074,688</u>	<u>402,417</u>	<u>118,951</u>	<u>2,358,154</u>	<u>111,213</u>
Total debt	<u>\$7,458,987</u>	<u>\$468,627</u>	<u>\$618,127</u>	<u>7,309,487</u>	<u>\$544,918</u>
Less: current portion				<u>544,918</u>	
Total long-term debt				<u>\$6,764,569</u>	

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Long-term debt of governmental activities is to be liquidated by the General Fund and long-term debt of business-type activities is to be liquidated by sewer and water operations.

Long-term debt outstanding as of June 30, 2014 consists of the following:

Bonds Payable – Governmental Activities

In September 2008, the Town issued its Infrastructure Refunding Bonds of 2008 in the amount of \$617,408. The proceeds were used to refund the Town's outstanding obligation to the Community Development Administration that was incurred in 1998 to refinance the Town's Maryland Infrastructure Bonds, 1992 Series A. The principal on these bonds is payable annually in varying amounts from May 2009 to May 2017. Interest on these bonds is payable semi-annually in November and May at the rate of 3.92%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

\$ 231,719

In September 2008, the Town issued its Taxable Pension Contribution Refunding Bonds of 2008 in the amount of \$200,573. The proceeds of these bonds were used to refund the outstanding balance of the Town's special accrued liability related to its participation in the Employees' Pension System and the Employees' Retirement System of the State of Maryland. The principal on these bonds is payable annually in varying amounts from December 2008 to December 2019. Interest on these bonds is payable semi-annually in December and June at the rate of 5.86%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

119,782

In May 2010, the Town issued its Public Improvements Bonds, Series 2010A in the amount of \$186,000 for the purchase of various equipment, of which \$77,093 was allocated to the governmental activities and \$108,907 was allocated to the business-type activities. The principal of these bonds is payable annually in varying amounts from May 2011 to May 2015. Interest on these bonds is payable semi-annually in November and May at the rate of 2.18%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

17,522

In November 2011, the Town issued its 2011 General Obligation Refunding Bonds in the amount of \$2,561,900. The proceeds of these bonds were used to refund the outstanding balances of its Refunding of 2010B – CDA Refunding bonds. The principal of these bonds is payable annually in varying amounts from May 2012 to May 2025. The interest on these bonds is payable semi-annually in November and May at the rate of 2.55%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

2,142,100

In July 2012, the Town issued its 2012 Taxable Refunding Bonds in the amount of \$200,000. The proceeds of these bonds were used to refund the outstanding balances of its loan related to the construction of the Bayside Boys and Girls Club building. The principal of these bonds is payable annually in varying amounts from January 2013 to 2023. The interest on these bonds is payable semi-annually in January and July at the rate of 2.40%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

172,000

In October 2012, the Town issued its 2012 Public Improvements Bond, Tax Exempt Series 2012A in the amount of \$1,606,000. The proceeds of these bonds were used for land acquisition. The principal of these bonds is payable annually in varying amounts from July 2013 to 2028. The interest on these bonds is payable semi-annually in January and July at the rate of 1.95%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

1,518,000

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

In October 2012, the Town issued its 2012 Public Improvements Bond, Taxable Series 2012B in the amount of \$720,000. The proceeds of these bonds were used for land acquisition. The principal of these bonds is payable annually in varying amounts from July 2013 to 2028. The interest on these bonds is payable semi-annually in January and July at the rate of 2.65%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

684,000

Total bonds payable – governmental activities

\$4,885,123

Annual debt service requirements to maturity on governmental activities long-term debt is as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2015	\$ 433,705	\$122,343	\$ 556,048
2016	428,401	110,320	538,721
2017	443,073	98,283	541,356
2018	371,555	85,863	457,418
2019	379,790	76,265	456,055
2020-2024	1,917,099	239,783	2,156,882
2025-2028	<u>911,500</u>	<u>43,819</u>	<u>955,319</u>
	<u>\$4,885,123</u>	<u>\$776,676</u>	<u>\$5,661,799</u>

State Notes and Bonds Payable – Business-Type Activities

In December 2007, the Town entered into a loan agreement with the Maryland Water Quality Financing Administration to borrow a maximum of \$1,525,000 to finance the costs related to improving the existing regional wastewater treatment plant. The actual amount borrowed of \$1,074,744 is payable annually in varying amounts through February 2022. Interest is payable semi-annually in August and February at the rate of 1.00%. The loan is secured by the full faith and credit and unlimited taxing power of the Town.

\$ 623,227

In May 2010, the Town issued its Public Improvements Bonds, Series 2010A in the amount of \$186,000 for the purchase of various equipment, of which \$77,093 was allocated to the governmental activities and \$108,907 was allocated to the business-type activities. The principal of these bonds is payable annually in varying amounts from May 2011 to May 2015. The interest on these bonds is payable semi-annually in November and May at the rate of 2.18%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

23,477

In June 2012, the Town modified and reissued its Water System Refunding Bond of 2008, the balance of which was \$1,324,033 as of the date of modification and reissuance. The main purpose of the modification and reissuance was to reduce the interest rate on the bond from 4.59% to 2.50%. The principal of the reissued bond is payable annually in varying amounts from September 2012 to September 2031. The interest is payable semi-annually in September and March at the rate of 2.50%. On September 15, 2027, the registered owner of the modified and reissued bond has the right to reset the interest rate for the remaining term or to require repayment of the outstanding principal. This bond is secured by the full faith and credit and unlimited taxing power of the Town.

1,309,033

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

In September 2013, the Town entered into a loan agreement with the Maryland Water Quality Financing Administration to borrow a maximum of \$1,850,000 to finance the costs related to improving the planning, design and construction of Enhanced Nutrient Removal (ENR) treatments facilities at the regional wastewater treatment plant. The actual amount advanced as of June 30, 2014 is \$402,417. The full amount borrowed will be payable annually in varying amounts from February 2017 to February 2036. Interest is payable semi-annually in August and February at the rate of 2.20%. These bonds are secured by the full faith and credit and unlimited taxing power of the Town.

402,417

Total state notes and bonds payable – business-type activities

\$2,358,154

Annual debt service requirements to maturity on business-type activities long-term debt is as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2015	\$ 111,213	\$ 57,736	\$ 168,949
2016	88,513	56,173	144,686
2017	119,128	54,968	174,096
2018	167,090	52,643	219,733
2019	170,038	49,694	219,732
2020-2024	706,544	195,084	901,628
2025-2029	542,097	116,147	658,244
2030-2034	404,963	50,956	455,919
2035-3036	<u>48,568</u>	<u>12,404</u>	<u>60,972</u>
	<u>\$2,358,154</u>	<u>\$645,805</u>	<u>\$3,003,959</u>

Line of Credit

The Town has an unsecured revolving line of credit with a bank that provides for advances up to \$75,000. Advances under the line of credit are payable monthly. A finance fee is charged on delinquent outstanding advances. Advances outstanding under the line of credit were \$2,970 at June 30, 2014.

(8) EMPLOYEE RETIREMENT SYSTEM

Plan Description

Substantially all permanent, full-time employees participate in the statewide contributory system of the State of Maryland. The plan of the Maryland State Retirement and Pension System (the "**MSRPS**") in which the Town participates is a multiple-employer defined benefit pension plan administered by the State of Maryland. The MSRPS 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 MSRPS issues a comprehensive annual financial report that includes financial statements and required supplemental information for the plan. A copy of the report may be obtained by writing to the State Retirement and Pension System of Maryland, 201 West Preston Street, Baltimore, MD 21021, or by accessing its website at www.sra.state.md.us.

Funding Policy

The contribution policy is established by the State Personnel and Pensions Article and requires contributions by active members and the Town depending on the type of plan selected. The Town's selected plan does not require employees to contribute to the plan. The contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2014, the employer rate of contribution was 5.46% of covered payroll. The Town's contributions to MSRPS for the years ended June 30, 2012, 2013 and 2014 were \$31,474, \$26,609 and \$31,956, respectively. The contributions made by the Town equaled the required contributions for the respective years.

TOWN OF NORTH BEACH, MARYLAND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(9) INTER-JURISDICTIONAL AGREEMENTS

Chesapeake Beach Wastewater Treatment Plant

Operating Agreement

The Town entered into an interjurisdictional agreement with Calvert County, Maryland and the Town of Chesapeake Beach, Maryland to share the operation and maintenance costs of the wastewater treatment plant. The Town's share of operation and maintenance costs is based on the Town's allocation of plant capacity. For the year ended June 30, 2014, the Town's allocation of costs was \$110,356 or 19% of fixed costs plus \$59,625 or 20.214% of variable costs.

Construction Agreement – Facility Expansion

The Town also has entered into an agreement to help finance the expansion of the Chesapeake Beach wastewater treatment plan from 550,000 to 1,000,000 gallons per day. For the year ended June 30, 2014, the Town's share of expansion costs was \$533,877 or 18.09%, which will entitle the Town to 240,000 gallons per day reserved capacity. The fourth and final phase of the upgrade is the Enhanced Nutrient Removal ("**ENR**") project. Construction commenced in 2013 and is anticipated to be completed in 2016. The Town funded its portion of the fourth phase through a combination of grant funding and financing through the Maryland Water Quality Financing Administration as described below. The Town's proportionate share of engineering and other costs incurred through June 30, 2014 related to the ENR project have been capitalized and are included in construction in progress in the Sewer Fund.

On September 24, 2013, the Town entered into a loan agreement with the Maryland Water Quality Financing Administration to borrow a maximum of \$1,850,000 to finance the Town's proportionate share of the ENR project. At June 30, 2014, the Town has borrowed \$402,417 of the total as noted under the terms disclosed (**See Note 7**).

(10) 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; injuries to employees; and natural disasters. Property and liability coverages are provided through third-party insurance to cover any such claims relating to losses. There were no significant reductions in insurance coverage during 2013-2014. Amounts of settlements did not exceed insurance coverage for each of the last three years. The Town's exposure is limited to deductibles on a per claim basis and the coverages on each of the Town's policies are as follows:

	<u>Coverage</u>
Equipment breakdown (boiler and machinery)	\$200,000,000
Building and personal property	10,912,160
Public officials liability	1,000,000
General liability	1,000,000
Automobile liability	1,000,000
Excess liability	1,000,000
Employee dishonesty (all employees covered)	100,000
Crime bond (Treasurer covered)	100,000

(11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 10, 2014, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF NORTH BEACH, MARYLAND

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Real property taxes	\$1,512,184	\$1,512,184	\$1,437,420	\$ (74,764)
Property tax penalties	18,000	18,000	22,923	4,923
Personal property taxes	11,212	10,700	10,667	(33)
Charges for services	369,010	370,122	383,402	13,280
Refuse collection fees	248,152	252,577	246,943	(5,634)
State-shared revenues	211,499	267,999	479,160	211,161
Cell tower revenue	93,325	107,890	107,889	(1)
Intergovernmental revenues	38,336	38,753	47,076	8,323
Excise tax fund	-	-	67,833	67,833
Franchise fees	29,000	37,690	37,736	46
Earnings on investments	1,000	250	45	(205)
Miscellaneous	50	50	7,197	7,147
Total revenues	<u>2,531,768</u>	<u>2,616,215</u>	<u>2,848,291</u>	<u>232,076</u>
EXPENDITURES				
General government				
Legislative expenses	39,600	39,600	35,627	3,973
Administrative expenses	241,240	244,326	226,667	17,659
Professional services	89,900	87,900	82,935	4,965
General services	226,200	239,800	235,761	4,039
Benefit expense	76,900	79,400	57,940	21,460
General liability and property insurance	20,000	20,100	20,535	(435)
Total general government	<u>693,840</u>	<u>711,126</u>	<u>659,465</u>	<u>51,661</u>
Community development				
Events expense	81,325	77,151	70,672	6,479
Promotions and public relations	19,550	19,800	13,211	6,589
Bayside History Museum expense	35,100	40,670	33,118	7,552
Welcome Center expense	98,888	101,388	81,288	20,100
Total community development	<u>234,863</u>	<u>239,009</u>	<u>198,289</u>	<u>40,720</u>
Public safety				
Resident deputy services	330,500	338,385	336,741	1,644
Beach patrol	121,314	112,914	146,483	(33,569)
Total public safety	<u>451,814</u>	<u>451,299</u>	<u>483,224</u>	<u>(31,925)</u>
Public works	<u>493,875</u>	<u>499,029</u>	<u>430,792</u>	<u>68,237</u>
Capital outlays	<u>41,310</u>	<u>49,785</u>	<u>36,309</u>	<u>13,476</u>
Debt service				
Principal on long-term debt	410,858	410,858	449,766	(38,908)
Interest on long-term debt	144,474	144,474	131,526	12,948
Total debt service	<u>555,332</u>	<u>555,332</u>	<u>581,292</u>	<u>(25,960)</u>
Total expenditures	<u>2,471,034</u>	<u>2,505,580</u>	<u>2,389,371</u>	<u>116,209</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>60,734</u>	<u>110,635</u>	<u>458,920</u>	<u>348,285</u>

TOWN OF NORTH BEACH, MARYLAND**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

Year ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	500	215,180	214,680
Transfers out	<u>(60,734)</u>	<u>(111,135)</u>	<u>(305,528)</u>	<u>(194,393)</u>
Total other financing sources (uses)	<u>(60,734)</u>	<u>(110,635)</u>	<u>(90,348)</u>	<u>20,287</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	368,572	<u>\$ 368,572</u>
FUND BALANCE				
Beginning of year			<u>855,413</u>	
End of year			<u>\$1,223,985</u>	

OTHER REPORT



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 Town Council
Town of North Beach
North Beach, Maryland**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Town of North Beach, North Beach, Maryland (the "**Town**"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BBD, LLP

Philadelphia, Pennsylvania
December 10, 2014