

**TOWN OF CHESAPEAKE BEACH,
MARYLAND**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
WITH INDEPENDENT AUDITORS' REPORT**

Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Town Council
Town of Chesapeake Beach, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chesapeake Beach, Maryland (the Town), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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, each major fund, and the aggregate remaining fund information of the Town of Chesapeake Beach, Maryland, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Chesapeake Beach, Maryland. The budget and actual schedules, listed in the table of contents, as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The revenue and expense budget and actual schedules are the responsibility of management and were derived from and relate directly to the underlying accounting data and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting data and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

States of America. In our opinion, the budget and actual schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2018 on our consideration of the Town's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Rubins & Company". The signature is written in a cursive, flowing style.

February 20, 2018
Bethesda, Maryland

TOWN OF CHESAPEAKE BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

This Management's Discussion and Analysis (MD&A) offers readers of the financial statements of the Town a narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017. Readers are encouraged to consider the information presented here in conjunction with the financial statements and notes to the financial statements (which immediately follow this discussion).

Financial Highlights

- The net position of the Town of Chesapeake Beach on June 30, 2017, was \$36,031,097 (net position). Approximately 49% of this amount is attributable to business-type activities that include the Utility and Water Park funds. The remaining 51% is attributable to government activities. Of total net position, \$9,856,649 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors. This includes \$2,575,691 set aside into the Rainy Day Fund, created as a contingency for emergency situations. The remaining net position of \$26,174,448 represents a net investment in capital assets and restricted net position.
- The property tax rate for the Town was maintained at \$0.35/\$100.
- Water and sewer user rates maintained a fixed charge per quarter of \$50 and the rates for Sewer per thousand gallons decreased to \$5.00 and for Water per thousand gallons decreased to \$1.80 in fiscal year 2017.
- In the Utility Fund, work continued on the water and sewer line relocation project at the 261 bridge.
- At the Chesapeake Beach Wastewater Treatment Plant, construction is continuing on the enhanced nutrient removal (ENR) project and is scheduled for completion in FY18.

Overview of the Financial Statements

This annual report comprises three components: (1) Government-wide financial statements, (2) Fund financial statements and (3) Notes to the financial statements.

The Statement of Net Position and the Statement of Activities are government-wide statements that provide information about the activities of the Town as a whole and present a longer-term view of the finances of the Town.

The fund financial statements report the operations of the Town in greater detail than the government-wide statements by providing information about the Town's most significant funds and individual components.

The notes to the 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 statements can be found immediately following the basic financial statements in this report.

TOWN OF CHESAPEAKE BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Government-Wide Financial Statements (Reporting on the Town as a Whole)

The government-wide financial statements are designed to provide readers with a broad overview of the finances of the Town of Chesapeake Beach. The Statement of Net Position and the Statement of Activities include all assets and liabilities using the accrual basis of accounting. The accrual basis of accounting requires that revenues be reported when they are earned and that expenses be reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received as of June 30, 2017, and earned but unused vacation leave will be included in the Statement of Activities as revenues and expenses, even though the cash associated with these items will not be received or distributed until after June 30, 2017.

These two statements report changes in the net position of the Town. You can think of the net position (the difference between assets and liabilities) of the Town as one way to measure the financial health or position of the Town. Over time, increases or decreases in the net position of the Town are one indicator of whether its financial health is improving or deteriorating. You will also need to consider other non-financial factors, such as changes in the property tax base of the Town and the condition of the Town's roads to assess the overall health of the Town.

In these statements, we divide the Town into two kinds of activities:

- Governmental activities- Most of the basic services provided by the Town are reported here, including police protection, general administration, public works and recreation. Taxes, fees and state and county grants finance most of these activities.
- Proprietary (Business-type) activities – The Town charges a fee to customers to help it cover all or most of the costs of certain services it provides. The Town's utility fund, treatment plant fund and water park are reported here.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds- not the Town as a whole. The Town's two types of funds, governmental and proprietary, use different accounting approaches.

- Government Funds – Most of the basic services provided by the Town are reported in the governmental funds, which focus on how money flows into and out of the funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations of the Town and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs offered by the Town. We describe the relationship (or differences) between governmental activities (reported in the

TOWN OF CHESAPEAKE BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

- Proprietary Funds – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities but provide more detail.
- Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.
- Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information. Detailed schedules of revenue and expenditures comparing budget to actual for the general fund are presented immediately after the basic financial statements.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's combined assets exceeded liabilities by \$36,031,097 at the close of the most recent fiscal year.

Of the Town's net position, 71.9% reflects its net investment in capital assets (e.g., land, buildings, machinery and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for spending. Although the Town's investment in capital assets is reported 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 CHESAPEAKE BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Condensed Statement of Net Position

	Governmental Activities		Business Type-Activities		Total Town	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	9,823,499	8,636,247	1,757,014	1,385,813	11,580,513	10,022,060
Capital assets, net	10,490,380	9,957,845	25,209,863	24,324,761	35,700,243	34,282,606
Total Assets	20,313,879	18,594,092	26,966,877	25,710,574	47,280,756	44,304,666
Liabilities						
Long-term liabilities	1,478,887	1,790,759	8,378,050	8,595,672	9,856,937	10,386,431
Other liabilities	402,840	430,826	989,882	314,768	1,392,722	745,594
Total liabilities	1,881,727	2,221,585	9,367,932	8,910,440	11,249,659	11,132,025
Net Position						
Net investment in capital assets	9,076,124	8,224,392	16,847,624	15,742,403	25,923,748	23,966,795
Restricted	250,700	250,504	-	-	250,700	-
Unrestricted	9,105,328	7,897,611	751,321	1,057,731	9,856,649	8,955,342
Total Net Position	18,432,152	16,372,507	17,598,945	16,800,134	36,031,097	32,922,137

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

Proprietary (Business-Type) Activities

In reviewing the departmental net (expense)/revenue, there are three departments, Utility Fund (water and sewer), Wastewater Treatment Plant and Water Park. The Water Park has historically shown net revenue. The Utility Fund shows net revenue partially as a result of impact fees being charged for future capital expenses. The wastewater treatment plant always operates at breakeven because revenues are collected from the partners to offset all expenditures. The Town's share of these expenditures is reflected in the Utility Fund.

**TOWN OF CHESAPEAKE BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total Town	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for services	222,117	112,364	2,832,147	2,750,127	3,054,264	2,862,491
Operating Grants and Contributions	51,196	45,879	-	-	51,196	45,879
Capital Grants and Contributions	246,194	248,157	549,740	1,477,491	795,934	1,725,648
General Revenues:						
Property Tax	2,712,586	2,760,090	-	-	2,712,586	2,760,090
Income Tax	1,172,164	838,855	-	-	1,172,164	838,855
Admissions and Amusements Tax	1,590,479	1,051,690	-	-	1,590,479	1,051,690
Hotel Tax	99,502	109,540	-	-	99,502	109,540
Franchise Tax	82,940	103,743	-	-	82,940	103,743
Investment Earnings	39,117	15,762	2,545	16,168	41,662	31,930
Miscellaneous	12,622	328,535	12,041	11,457	24,663	339,992
Transfers	40,000	40,000	(40,000)	(40,000)	-	-
Total Revenues	6,268,917	5,654,615	3,356,473	4,215,243	9,625,390	9,869,858
Expenses						
General government	1,754,705	2,119,087	-	-	1,754,705	2,119,087
Public Safety	953,457	925,969	-	-	953,457	925,969
Public Works	1,436,363	1,494,516	-	-	1,436,363	1,494,516
Water Park	-	-	1,175,175	1,105,872	1,175,175	1,105,872
Water and Sewer Services	-	-	1,382,487	1,382,339	1,382,487	1,382,339
Interest on long-term debt	64,747	75,061	-	-	64,747	75,061
Total Expenses	4,209,272	4,614,633	2,557,662	2,488,211	6,766,934	7,102,844
Change in Net Position	2,059,645	1,039,982	798,811	1,727,032	2,858,456	2,767,014

General Fund Budgetary Highlights

Most of the significant variations between the original budget, the final budget, and the actual results are directly related to capital projects. Projects frequently take significantly longer to complete than anticipated because of meeting regulatory agencies' requirements, which impacts the expenditures. And, since grant and loan revenues are tied to project's progress, they are impacted as well.

**TOWN OF CHESAPEAKE BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Capital Asset and Debt Administration

Capital Assets

The only major project during fiscal year 2017, which was still in process at June 30, 2017, was the ENR project at the treatment plant in the amount started in the prior year with current year additions of \$1,464,646 in the Utility Fund. More detailed information about capital assets can be found in Note 5 to the basic financial statements.

Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Town Total	
	2017	2016	2017	2016	2017	2016
Land	1,192,375	1,192,375	21,875	21,875	1,214,250	1,214,250
Construction in Progress	42,826	80,073	10,702,555	9,237,853	10,745,381	9,317,926
Land Improvements	7,836,020	7,251,327	194,233	219,614	8,030,253	7,470,941
Buildings	1,128,656	1,180,276	3,348,314	4,523,271	4,476,970	5,703,547
Water System	-	-	3,651,593	7,504,427	3,651,593	7,504,427
Sewer System	-	-	6,968,319	2,529,443	6,968,319	2,529,443
Vehicles and Equipment	290,503	253,794	322,974	288,278	613,477	542,072
Total	10,490,380	9,957,845	25,209,863	24,324,761	35,700,243	34,282,606

Long-Term Liabilities

At June 30, 2017, the Town had total outstanding long-term liabilities of \$9,856,937. Total debt for the Governmental activities is \$1,478,887. Total outstanding debt for business-type activities is \$8,378,050, which includes the \$3,563,020 in the Utility Fund used for costs associated with the ENR project previously discussed. More detailed information about long-term debt can be found in Note 6 to the basic financial statements.

Long-Term Liabilities

	Governmental Activities		Business-Type Activities		Town Total	
	2017	2016	2017	2016	2017	2016
General obligation Bonds	1,293,592	1,577,607	8,362,239	8,582,358	9,655,831	10,159,965
Notes Payable	120,664	155,846	-	-	120,664	155,846
Compensated Absences	64,631	57,306	15,811	13,314	80,442	70,620
Total	1,478,887	1,790,759	8,378,050	8,595,672	9,856,937	10,386,431

**TOWN OF CHESAPEAKE BEACH, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Economic Factors and Next Year's Budgets and Rates

The fiscal 2017 budget reflects that the Town is not immune to the economic downturn and the impact of a weakened real estate market. Real property tax revenues have remained flat since the 13% decline in FY11. The rate of residential construction continues to grow at a slow but steady rate. The real property tax rate will remain at \$0.35/\$100.

The Town has executed a loan from the Maryland Department of the Environment, up to a maximum of \$3,950,000, to help finance the enhanced nutrient removal (ENR) project.

Water and sewer user rates were changed in FY 2017. There is a fixed charge per quarter of \$50.00 for sewer usage plus a rate of \$5.00/tg (thousand gallons) and \$1.80/tg (thousand gallons) for water use. Capital connection fees are unchanged.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it received. If you have questions about this report or need additional financial information, contact the Town Treasurer at P.O. Box 400, Chesapeake Beach, Maryland 20732.

TOWN OF CHESAPEAKE BEACH
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-Type Activities	Total Primary Government
ASSETS			
Cash and cash equivalents	\$ 8,997,757	\$ 1,276,211	\$ 10,273,968
Accounts receivable			
Property taxes	51,632	-	51,632
Water and sewer services	-	460,533	460,533
Prepaid Expenses	37,763		
Inventory	-	20,258	20,258
Due from TP fund	415,605	-	415,605
Due from WP fund	177,202	-	177,202
Due from Utility fund	143,540	12	143,552
Capital assets			
Non-depreciable assets	1,272,448	10,724,430	11,996,878
Depreciable assets, net	9,217,932	14,485,433	23,703,365
Total assets	\$ 20,313,879	\$ 26,966,877	\$ 47,280,756
LIABILITIES AND NET POSITION			
Liabilities			
Accounts payable	\$ 347,810	\$ -	\$ 347,810
Accrued liabilities	47,665	103,534	151,199
Deposits	7,365	-	7,365
Due to general fund	-	320,742	320,742
Due to TP fund	-	565,594	565,594
Due to WP fund	-	12	12
Non-current liabilities			
Due within one year	142,534	601,434	743,968
Due in more than one year	1,336,353	7,776,616	9,112,969
Total liabilities	1,881,727	9,367,932	11,249,659
Net position			
Net investment in capital assets	9,076,124	16,847,624	25,923,748
Restricted net position	250,700	-	250,700
Unrestricted net position	9,105,328	751,321	9,856,649
Total net position	18,432,152	17,598,945	36,031,097
Total liabilities and net position	20,313,879	26,966,877	47,280,756

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

TOWN OF CHESAPEAKE BEACH
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total Primary Government
Governmental Activities							
General government	\$ 1,754,705	\$ 182,022	\$ 8,000	\$ -	\$ (1,564,683)	\$ -	\$ (1,564,683)
Public safety	953,457	40,069	42,801	-	(870,587)	-	(870,587)
Public works	1,436,363	26	395	246,194	(1,189,748)	-	(1,189,748)
Interest on long-term debt	64,747	-	-	-	(64,747)	-	(64,747)
Total governmental activities	4,209,272	222,117	51,196	246,194	(3,689,765)	-	(3,689,765)
Business-Type Activities							
Water park	1,175,175	1,354,657	-	-	-	179,482	179,482
Water and sewer services	1,382,487	1,477,490	-	549,740	-	644,743	644,743
Total business-type activities	2,557,662	2,832,147	-	549,740	-	824,225	824,225
Total primary government	\$ 6,766,934	\$ 3,054,264	\$ 51,196	\$ 795,934	(3,689,765)	824,225	(2,865,540)
General Revenues:							
Property tax					2,712,586	-	2,712,586
Income tax					1,172,164	-	1,172,164
Admissions and amusement tax					1,590,479	-	1,590,479
Hotel tax					99,502	-	99,502
Franchise tax					82,940	-	82,940
Investment earnings					39,117	2,545	41,662
Miscellaneous					12,622	12,041	24,663
Transfers					40,000	(40,000)	-
Total general revenues and transfers					5,749,410	(25,414)	5,723,996
Change in net position					2,059,645	798,811	2,858,456
Net Position:							
Beginning					16,372,507	16,800,134	33,172,641
Ending					<u>\$ 18,432,152</u>	<u>\$ 17,598,945</u>	<u>\$ 36,031,097</u>

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

TOWN OF CHESAPEAKE BEACH
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2017

General
Fund

ASSETS

Cash and cash equivalents	\$	8,997,757
Property taxes receivable		51,632
Prepaid expenses		37,763
Due from TP fund		415,605
Due from WP fund		177,202
Due from Utility fund		<u>143,540</u>
Total assets	\$	<u>9,823,499</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	347,810
Accrued liabilities		47,665
Deposits		<u>7,365</u>
Total liabilities		<u>402,840</u>

Fund balance

Committed for:		
Dredging projects		250,700
Assigned to:		
Subsequent year expenditures		448,350
Unassigned		<u>8,721,609</u>
Total fund balance		<u>9,420,659</u>
Total liabilities and fund balance	\$	<u>9,823,499</u>

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

TOWN OF CHESAPEAKE BEACH
Reconciliation of the Governmental Fund
Balance Sheet to the Statement of Net Position
June 30, 2017

Total Fund Balance - Governmental Fund	\$	9,420,659
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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 funds:

Cost of capital assets	\$ 20,436,056	
Accumulated depreciation	<u>(9,945,676)</u>	10,490,380

Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds:

General obligation bonds and notes payable	(1,414,256)	
Accumulated unused compensated absences	<u>(64,631)</u>	<u>(1,478,887)</u>

Net position of governmental activities	\$	<u><u>18,432,152</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF CHESAPEAKE BEACH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
Year Ended June 30, 2017

	General Fund
Revenue	
Taxes	\$ 5,657,671
Charges for services	222,117
Grants and contributions	297,390
Investment earnings	39,117
Miscellaneous	12,622
Total revenue	6,228,917
Expenditures	
Current:	
General government	1,165,623
Public safety	953,457
Public works	1,436,363
Capital outlay	1,114,292
Debt service:	
Principal	319,197
Interest	64,747
Total expenditures	5,053,679
Other financing sources	
Transfer in	40,000
Net change in fund balance	1,215,238
Fund Balance	
Beginning	8,205,421
Ending	\$ 9,420,659

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

TOWN OF CHESAPEAKE BEACH
Reconciliation of the Governmental Fund Statement of Revenues,
Expenditures, and Changes in Fund Balance to the Statement of Activities
Year Ended June 30, 2017

Total Net Change in Fund Balance - Governmental Fund \$ 1,215,238

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

Capital outlays are reported in governmental funds as expenditures.
 However, in the statement of activities, the cost of these assets is
 allocated over their estimated useful lives as depreciation expense.
 This is the amount by which depreciation expense exceeds capital
 outlays in the current period:

Capital outlays	\$ 1,114,292	
Accumulated depreciation	<u>(581,757)</u>	532,535

Repayment of loan payable principal is an expenditure in the
 general fund, but the repayment reduces non-current liabilities in
 the statement of net position. 319,197

Some expenses in the statement of activities do not require
 the use of current financial resources, and therefore, are not
 reported as expenditures in the governmental fund. This is the
 amount by which accumulated unused compensated absences
 decreased. (7,325)

Change in net position of governmental activities \$ 2,059,645

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

TOWN OF CHESAPEAKE BEACH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Amended Budget Positive (Negative)
	Original	Amended		
Revenue				
Taxes	\$ 4,356,188	\$ 4,356,188	\$ 5,657,671	\$ 1,301,483
Charges for services	167,500	167,500	222,117	54,617
Grants and contributions	311,117	311,117	297,390	(13,727)
Investment earnings	1,800	1,800	39,117	37,317
Miscellaneous	1,790,000	1,896,930	12,622	(1,884,308)
Total revenue	<u>6,626,605</u>	<u>6,733,535</u>	<u>6,228,917</u>	<u>(504,618)</u>
Expenditures				
Current:				
General government	1,309,265	1,309,265	1,165,623	143,642
Public safety	997,008	997,008	953,457	43,551
Public works	1,611,888	1,611,888	1,436,363	175,525
Capital outlay	2,436,390	2,436,390	1,114,292	1,322,098
Debt service:				
Principal	247,510	351,420	319,197	32,223
Interest	64,544	67,564	64,747	2,817
Total expenditures	<u>6,666,605</u>	<u>6,773,535</u>	<u>5,053,679</u>	<u>1,719,856</u>
Other financing sources				
Transfer in	40,000	40,000	40,000	-
Net change in fund balance	<u>-</u>	<u>-</u>	<u>1,215,238</u>	<u>1,215,238</u>
Fund Balance				
Beginning			<u>8,205,421</u>	
Ending			<u>\$ 9,420,659</u>	

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

TOWN OF CHESAPEAKE BEACH
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2017

	Enterprise Funds		Total
	Water Park Fund	Utility Fund	
ASSETS			
Current assets			
Cash and cash equivalents	709,273	\$ 566,938	\$ 1,276,211
Accounts receivable	-	460,533	460,533
Due from Utility Fund	12	-	12
Inventory	20,258	-	20,258
Total current assets	729,543	1,027,471	1,757,014
Non-current assets			
Capital assets			
Non-depreciable assets	-	10,724,430	10,724,430
Depreciable assets, net	622,787	13,862,646	14,485,433
Total assets	\$ 1,352,330	\$ 25,614,547	\$ 26,966,877
LIABILITIES AND NET POSITION			
Current liabilities			
Accrued liabilities	28,539	74,995	103,534
Due to general fund	177,202	143,540	320,742
Due to TP fund	-	565,594	565,594
Due to WP fund	-	12	12
General obligation bonds payable	-	601,434	601,434
Total current liabilities	205,741	1,385,575	1,591,316
Non-current liabilities			
General obligation bonds payable	-	7,760,805	7,760,805
Compensated absences	15,811	-	15,811
Total liabilities	221,552	9,146,380	9,367,932
Net position			
Net investment in capital assets	622,787	16,224,837	16,847,624
Unrestricted net position	507,991	243,330	751,321
Total net position	1,130,778	16,468,167	17,598,945
Total liabilities and net position	\$ 1,352,330	\$ 25,614,547	\$ 26,966,877

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

TOWN OF CHESAPEAKE BEACH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
Year Ended June 30, 2017

	Enterprise Funds		
	Water Park Fund	Utility Fund	Total
Operating Revenues			
Current use charges	\$ 1,354,657	\$ 1,477,490	\$ 2,832,147
Miscellaneous	180	11,861	12,041
Total operating revenues	<u>1,354,837</u>	<u>1,489,351</u>	<u>2,844,188</u>
Operating Expenses			
Personnel services	596,868	-	596,868
Operations and maintenance	504,744	794,277	1,299,021
Depreciation	<u>73,563</u>	<u>588,210</u>	<u>661,773</u>
Total operating expenses	<u>1,175,175</u>	<u>1,382,487</u>	<u>2,557,662</u>
Operating income (loss)	<u>179,662</u>	<u>106,864</u>	<u>286,526</u>
Non-Operating Revenues (Expenses)			
Investment interest	1,957	588	2,545
Interest income (expense)	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before transfers and connection fees and capital grants and contributions	181,619	107,452	289,071
Transfer out	(40,000)	-	(40,000)
Connection fees	-	43,700	43,700
Capital grants and contributions	<u>-</u>	<u>506,040</u>	<u>506,040</u>
Change in net position	141,619	657,192	798,811
Fund Balance			
Beginning	<u>989,159</u>	<u>15,810,975</u>	<u>16,800,134</u>
Ending	<u>\$ 1,130,778</u>	<u>\$ 16,468,167</u>	<u>\$ 17,598,945</u>

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

TOWN OF CHESAPEAKE BEACH
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2017

	Enterprise Funds		
	Water Park Fund	Utility Fund	Total
Cash flows from operating activities			
Receipts from customers	\$ 1,359,233	\$ 1,420,800	\$ 2,780,033
Payments to suppliers and employees	(1,123,021)	(796,756)	(1,919,777)
Net cash provided by operating activities	<u>236,212</u>	<u>624,044</u>	<u>860,256</u>
Cash flows from non-capital financing activities			
Transfers out	(40,000)	-	(40,000)
Internal activity - payments from (to) other funds	177,190	524,297	701,487
Net cash used in non-capital financing activities	<u>137,190</u>	<u>524,297</u>	<u>661,487</u>
Cash flows from capital and related financing activities			
Purchases of capital assets	(82,229)	(1,464,646)	(1,546,875)
Capital grants received	-	506,040	506,040
Connection fees received	-	43,700	43,700
Issuance of debt	-	420,913	420,913
Principal payments on notes and bonds payable	-	(641,032)	(641,032)
Net cash provided by (used in) capital and related financing activities	<u>(82,229)</u>	<u>(1,135,025)</u>	<u>(1,217,254)</u>
Cash flows from investing activities			
Investment interest earned	1,957	588	2,545
Net cash provided (used) by investing activities	<u>1,957</u>	<u>588</u>	<u>2,545</u>
NET INCREASE (DECREASE) IN CASH	293,130	13,904	307,034
CASH AND CASH EQUIVALENTS, beginning of year	<u>416,143</u>	<u>553,034</u>	<u>969,177</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 709,273</u>	<u>\$ 566,938</u>	<u>\$ 1,276,211</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 179,662	\$ 106,864	\$ 286,526
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation	73,563	588,210	661,773
Changes in operating assets and liabilities			
Accounts receivable, net	3,610	(68,551)	(64,941)
Inventory	786	-	786
Accounts payable	(11,413)	(6,742)	(18,155)
Accrued liabilities	(12,493)	4,263	(8,230)
Compensated absences	2,497	-	2,497
Net cash used in operating activities	<u>\$ 236,212</u>	<u>\$ 624,044</u>	<u>\$ 860,256</u>

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

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Chesapeake Beach, in Calvert County, Maryland (the Town), was incorporated in 1894 under the provisions of Maryland State Law. The Town operates under a form of government that comprises an elected Town Council (six members) and an elected Mayor and provides such services as authorized by its Charter.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the significant accounting policies followed in the preparation of the basic financial statements:

A. Reporting Entity

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds, organizations, agencies, boards, commissions and authorities for which the Town is financially accountable. The Town has also considered all potential organizations for which the nature and significance of their relationships with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of the organization's governing body, and (1) the ability of the Town to impose its will on that organization, or (2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the Town. Based on these criteria, there are no other organizations or agencies that should be included in these basic financial statements.

B. Basis of Accounting

Government-Wide Financial Statements: The government-wide financial statements report information on all of the non-fiduciary activities of the Town. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Statement of Net Position: This statement is designed to display the financial position of the Town as of year-end. Governmental activities and business-type activities are reported on a consolidated basis and are reported on a full accrual, economic resources measurement focus, which recognizes all long-term assets, including infrastructure, as well as long-term debt and obligations. The Town's net assets are reported in three categories: (1) net investment in capital assets; (2) restricted; and (3) unrestricted.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

B. Basis of Accounting (continued)

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

Fund Financial Statements: Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

General Fund Budget-to-Actual Comparison Statement: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual budgets of state and local governments and have a keen interest in following the financial progress of their governments over the course of the year. For this reason, the Town has chosen to make its General Fund budget-to-actual comparison statement part of the basic financial statements. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons; as a result, both the original adopted budget and the final amended budget have been reflected in this statement.

C. Fund Accounting

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund balance/net position, revenues, and expenditures or expenses, as appropriate. The Town has the following funds:

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

C. Fund Accounting (continued)

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions are typically financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; deferred inflows of resources are assigned to the fund in which they will be recognized in the future; and the difference between governmental fund assets, liabilities and deferred inflows of resources, the fund equity, is referred to as “fund balance.” The measurement focus is upon determination of changes in current financial resources, rather than upon net income determination.

The Town has one major governmental fund. The General Fund is the general operating fund of the Town. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some separate fund are accounted for in this fund.

Proprietary Fund Types: Proprietary Fund types are used to account for a government’s ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows. The accrual basis of accounting is used under this measurement focus.

An enterprise fund is used to finance and account for the acquisition, operation, and maintenance of the Town’s facilities and services, which are supported primarily by user charges. The Water Park Fund accounts for the operation and maintenance of the water park activities. The Utility Fund accounts for the operation of the water and wastewater systems.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

D. Measurement Focus and Basis of Accounting (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter, to pay the liabilities of the current period. For this purpose, the Town considers available if they are collected within 60 days of the end of the current fiscal period, except for grants from state and federal governments, which the Town considers available if they are collected within 90 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, compensated absences, and claims and judgements are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services, and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measureable and available.

Property taxes are recognized as a receivable at the time they are levied. The Town's property tax is levied on property values as assessed on January 1, billed on July 1, and payable either by September 30, or in two equal installments on September 30, and December 31. Property taxes are attached as an enforceable lien on the underlying properties as of the succeeding June 1, and are thereafter sold at public auction. Calvert County, Maryland bills and collects property taxes for the Town and remits cash collections to the Town once a month. Property taxes are considered available if received within 60 days of year-end. Delinquent tax receivables not received within 60 days of year-end are reflected as deferred inflows of resources and recognized at the date of receipt. The Town's tax rate for the collection year ended June 30, 2017, was \$0.35 per \$100 of assessed valuation.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

D. Measurement Focus and Basis of Accounting (continued)

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Use of Estimates

The preparation of financial statements requires the Town to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

F. Encumbrances

The Town does not use encumbrances accounting.

G. Budgetary Data

The budget of the General Fund is prepared on the same basis as that used to account for the historical financial data in accordance with accounting principles generally accepted in the United States of America.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

H. Cash and Cash Equivalents (continued)

The Town's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less. Short-term investments are stated at fair value and consist of investments in the Maryland Local Government Investment Pool (MLGIP). Fair value generally approximates cost.

I. Receivables

Accounts receivable are carried at original invoice amount, less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. As of June 30, 2017, management believes all receivables are collectible and has not recorded an allowance for doubtful accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

An accounts receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest is charged on accounts receivable that are outstanding for more than 30 days and is recognized as charged.

J. Inventory

Inventory is maintained on a consumption basis of accounting and is valued at cost using the first-in, first-out basis. Inventory consists of water park gift shop merchandise and sundries.

K. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are reported as prepaid items using the consumption method, by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which services are consumed.

L. Deferred Outflows of Resources

Deferred outflows are the consumption of net position by the government that is applicable to a future reporting period.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

M. Capital Assets

Capital assets, including land, buildings, improvements, equipment, and infrastructure (roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. The Town defines capital assets as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. GASB Statement No. 34 requires the Town to prospectively report all governmental activities' infrastructure assets acquired after June 30, 2003, and encourages, but does not require, the Town to retroactively report infrastructure assets acquired after June 30, 1980. The Town has elected not to retroactively report infrastructure assets, and the accompanying basic financial statements only include infrastructure assets acquired after June 30, 2003.

Major outlays for capital assets and improvements are capitalized as projects are constructed, including interest during the construction period. Interest in the amount of \$196,812 was capitalized on projects for the year ended June 30, 2016. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-75
Improvements other than buildings	2-50
Machinery and equipment	5-20
Infrastructure (including water lines and pumping stations)	5-45

Capital assets are not reported in the governmental funds balance sheet; capital outlay expenditures are reported instead.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

N. Deferred Inflows of Resources

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents and acquisition of net position or fund balances that applies to a future period and so will not be recognized in an inflow of resources (revenue) until that time. One item which qualifies for reporting in this category, which arises only under the modified accrual basis of accounting, is unavailable revenue. Accordingly, it is only reported in the governmental funds balance sheet. The Town reports unavailable receivables from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

O. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year is referred to as “due to/from other funds” or “advances to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” Interfund balances result from the time lag between the dates that (1) Interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund receivables and payables are non-interest-bearing and are normally settled in the subsequent period, except for advances which are long term in nature.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds’ operating statements as either transfers in or transfers out.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

P. Compensated Absences

It is the Town's policy to permit employees to be paid for accumulated earned but unused vacation upon separation of service, up to a maximum of 30 days. Additionally, it is the Town's policy to permit employees to be paid for accumulated compensatory leave upon separation of service, up to a maximum of 240 hours. Vacation and compensatory leave is accrued when earned in the government-wide statements, as well as the proprietary fund statements.

For governmental fund types, the amount of accumulated unpaid vacation and compensatory leave that is payable from available resources is recorded as a liability of the respective fund only if it has matured, for example, as a result of employee retirements and resignations. As of June 30, 2017, no accumulated unpaid vacation or compensatory leave had matured, resulting in it being maintained separately and being a reconciling item between the governmental fund and government-wide financial statement presentations.

Q. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the term of the bonds using the bond-outstanding method which approximates the effective interest method. Bonds payable are reported net of the applicable unamortized bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid bond insurance costs are reported as prepaid items and amortized over the term of the related debt using the straight-line method. In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures along with principal and interest payments due.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

R. Fund Balance

Governmental fund types report fund balances in classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained. Restricted fund balance are amounts that are restricted to specific purposes when the constraints are externally imposed by creditors, grantors, contributors or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. Committed fund balances are amounts that can only be used for specific purposes. The Town Council must approve a motion in order to establish a fund balance commitment or assignment and only needs to approve the elimination of a fund balance commitment. Unassigned fund balance is the residual classification for the General Fund.

The Town first considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. When unrestricted amounts are considered to have been spent, the Town considers committed amounts first, then assigned, and finally unassigned when an expenditure is incurred for which amounts in any of those unrestricted fund balance classifications could be used.

S. Net Position

Net position equals assets plus deferred outflows of resources less liabilities and deferred inflows of resources. The net position category of net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets, excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulation of other governments. Remaining net position amounts are unrestricted.

The Town first applies restricted resources when an expense is incurred, for purposes for which both restricted and unrestricted net position is available.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

2. CASH AND CASH EQUIVALENTS

Deposits: Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Maryland State Law prescribes that local government units, such as the Town, must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2017, all of the Town's deposits were either covered by federal depository insurance or were covered by collateral held by the Town's agent in the Town's name.

Short-Term Investments: Maryland State Law authorizes the Town to invest in obligations of the U.S. Government, federal government obligations, and repurchase agreements secured by direct government or agency obligations, or the state's sponsored investment pool. As of June 30, 2017, short-term investments consist of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The carrying amount and market value of such investments were \$7,681,678 and \$534,912 for governmental activities and business-type activities, respectively, at June 30, 2017.

The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is under the administration of the State Treasurer. The MLGIP seeks to maintain a constant unit value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value. The pool is managed in a "Rule 2(a)-7 like" manner and is reported at amortized cost pursuant to Rule 2(a)-7 under the Investment Company Act of 1940.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

3. RECEIVABLES AND PAYABLES

Receivables and payables at June 30, 2017 consist of the following:

	Governmental Activities	Business-Type Activities		Total
		Water Park Fund	Utility Fund	
Taxes Receivable				
Property taxes	\$ 51,632	\$ -	\$ -	\$ 51,632
Other Receivables				
Utility payments	\$ -	\$ -	\$ 460,533	\$ 460,533
Treatment plant	415,605	-	-	415,605
	\$ -	\$ -	\$ 460,533	\$ 460,533
Accounts Payable				
Vendors	\$ 347,810	\$ -	\$ -	\$ 347,810
Accrued Liabilities				
Payroll and withholdings	\$ 34,374	\$ 28,539	\$ -	\$ 62,913
MDE flush fee	-	-	38,345	38,345
Interest	-	-	36,650	36,650
Treatment plant	-	-	565,594	565,594
Miscellaneous	13,291	-	-	13,291
	\$ 47,665	\$ 28,539	\$ 640,589	\$ 703,502

4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund receivables and payables are non-interest bearing and are normally settled in the subsequent period. At June 30, 2017, intefund receivable and payable balances are as follows:

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (continued)

	Receivable Fund		
<u>Payable Fund</u>	<u>General Fund</u>	<u>Utility Fund</u>	<u>Water Park Fund</u>
General Fund	\$ -	\$ 143,540	\$ 177,202
Water Park Fund	143,540	12	-
Utility Fund	177,202	-	12
	\$ 320,742	\$ 143,552	\$ 177,214

Interfund transfers for the year ended June 30, 2017 consisted of a transfer in the Town's normal course of business from the Water Park of \$40,000 to the General Fund.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

5. CAPITAL ASSETS

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

Governmental Activities	July 1, <u>2016 Balance</u>	Additions and <u>Other Increases</u>	Deletions and <u>Other Decreases</u>	June 30, <u>2017 Balance</u>
Land	\$ 1,192,375	\$ -	\$ -	\$ 1,192,375
Construction in Progress	<u>80,073</u>	<u>-</u>	<u>-</u>	<u>80,073</u>
Total Assets not being depreciated	1,272,448	-	-	1,272,448
Land Improvements	15,034,834	943,484	-	15,978,318
Buildings and Facilities	1,717,055	-	-	1,717,055
Equipment	<u>1,297,427</u>	<u>170,808</u>	<u>-</u>	<u>1,468,235</u>
Total Capital Assets	19,321,764	1,114,292	-	20,436,056
Less Accumulated Depreciation:	<u>(9,363,919)</u>	<u>(581,757)</u>	<u>-</u>	<u>(9,945,676)</u>
Net Book Value	<u>\$ 9,957,845</u>	<u>\$ 532,535</u>	<u>\$ -</u>	<u>\$ 10,490,380</u>
 Business-Type Activities				
	July 1, <u>2016 Balance</u>	Additions and <u>Other Increases</u>	Deletions and <u>Other Decreases</u>	June 30, <u>2017 Balance</u>
Land	\$ 21,875	\$ -	\$ -	\$ 21,875
Construction in Progress	<u>9,237,853</u>	<u>1,464,646</u>	<u>-</u>	<u>10,702,499</u>
Total Assets not being depreciated	9,259,728	1,464,646	-	10,724,374
Land Improvements	676,783	-	-	676,783
Buildings and Facilities	4,948,182	-	-	4,948,182
Water System	6,656,209	-	-	6,656,209
Sewer System	14,557,994	-	-	14,557,994
Equipment	<u>737,948</u>	<u>82,229</u>	<u>-</u>	<u>820,177</u>
Total Capital Assets	36,836,844	1,546,875	-	38,383,719
Less Accumulated Depreciation:	<u>(12,512,083)</u>	<u>(661,773)</u>	<u>-</u>	<u>(13,173,856)</u>
Net Book Value	<u>\$ 24,324,761</u>	<u>\$ 885,102</u>	<u>\$ -</u>	<u>\$ 25,209,863</u>

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

5. CAPITAL ASSETS (continued)

Depreciation expense was charged in the statement of activities for the year ended June 30, 2017 as follows:

Governmental Activities		
General government	\$	134,100
Public works		447,657
	<u>\$</u>	<u>581,757</u>
 Business-Type Activities		
Water park	\$	73,563
Water and sewer services		588,210
	<u>\$</u>	<u>661,773</u>

6. LONG-TERM LIABILITIES

Long-term liabilities for the year ended June 30, 2017 are as follows:

Governmental Activities	Balance			Balance	Due Within
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>	<u>One Year</u>
General obligation bonds payable	\$ 1,577,607	-	\$(284,015)	\$ 1,293,592	\$ 107,352
Note payable	155,846	-	(35,182)	120,664	35,182
Compensated absences	<u>57,306</u>	<u>39,039</u>	<u>(31,714)</u>	<u>64,631</u>	<u>-</u>
Long Term Liabilities	<u>\$ 1,790,759</u>	<u>\$ 39,039</u>	<u>\$(350,911)</u>	<u>\$ 1,478,887</u>	<u>\$ 142,534</u>
Business-Type Activities	Balance			Balance	Due Within
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>	<u>One Year</u>
General obligation bonds payable	\$ 8,582,358	\$ 420,913	\$(641,032)	\$ 8,362,239	\$ 601,434
Compensated absences	<u>13,314</u>	<u>9,147</u>	<u>(6,650)</u>	<u>15,811</u>	<u>-</u>
Long Term Liabilities	<u>\$ 8,595,672</u>	<u>\$ 430,060</u>	<u>\$(647,682)</u>	<u>\$ 8,378,050</u>	<u>\$ 601,434</u>

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

6. LONG-TERM LIABILITIES (continued)

General obligation bonds payable relating to governmental activities at June 30, 2017 consist of the following:

\$2,193,666 Maryland Department of Housing and Community Development Local Government Infrastructure Financing Bond 2007 Series A; interest payable semi-annually on May 1 and November 1 at varying rates ranging from 3.85% to 4.225%; annual principal payments due May 1 at varying amounts up to \$154,468; due May 1, 2027	\$1,293,592
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Notes payable relating to governmental activities at June 30, 2017 consists of the following:

Various non-interest bearing Shore Erosion Control notes payable through the Maryland Department of Natural Resources; currently being liquidated in annual installments totaling \$35,182, with varying due dates through September 2020	\$120,664
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Maturities of the general obligation bonds payable and notes payable relating to governmental activities as of June 30, 2017 are as follows:

Years ending June 30,	General Obligation Bonds	Notes Payable	Total
2018	\$ 107,352	\$ 35,182	\$ 142,534
2019	111,612	35,182	146,794
2020	116,724	25,150	141,874
2021	120,984	25,150	146,134
2022	126,096	-	126,096
2023-2027	710,824	-	710,824
	\$ 1,293,592	\$ 120,664	\$ 1,414,256

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

6. LONG-TERM LIABILITIES (continued)

Interest requirements on general obligation bonds and notes payable relating to governmental activities as of June 30, 2017 are as follows:

Years ending June 30,	General Obligation Bonds	Notes Payable	Total
2018	\$ 53,557	\$ -	\$ 53,557
2019	49,155	-	49,155
2020	44,579	-	44,579
2021	39,793	-	39,793
2022	32,248	-	32,248
2023-2027	34,833	-	34,833
	\$ 254,165	\$ -	\$ 254,165

The entire accumulated unused compensated absences liability for governmental activities will be liquidated by the General Fund.

General obligation bonds payable relating to business-type activities at June 30, 2017 consist of the following:

\$381,059 Maryland Department of Housing and Community Development Local Government Infrastructure Financing Bond 2007 Series A; interest payable semi-annually on May 1 and November 1 at varying rates ranging from 3.45% to 4.125%; annual principal payments due May 1 at varying amounts up to \$26,832; due May 1, 2027	\$224,707
\$683,000 ARRA Sewer Improvement Loan of 2009; interest payable at semi-annually on February 1 and August 1 at 1.00%; annual principal payments due February 1 at varying amounts up to \$38,046; due February 1, 2028	\$378,781

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

6. LONG-TERM LIABILITIES (continued)

\$2,164,385 Maryland Department of Housing and Community Development Local Government Infrastructure Financing Bond 2010 Series A-1; interest payable semi-annually on May 1 and November 1 at varying rates up to 4.25%; annual principal payments due May 1 at varying amounts up to \$149,000; due May 1, 2030	\$1,553,300
\$4,720,489 Water Quality Bond, Series 2007; interest payable semi-annually on February 1 and August 1 at 1.10%; annual principal payments due February 1 at varying amounts up to \$293,499; due February 1, 2027	\$2,642,431
\$3,950,000 Maryland Department of the Environment Water Quality 2014 construction loan; \$420,913 construction draws available at June 30, 2017; interest payable semi-annually on February 1 and August 1 at 1.0%; annual principal payments beginning February 1, 2017 at varying amounts up to \$216,723; due February 1, 2036	\$3,563,020
	\$8,362,239

Maturities and interest requirements of the general obligation bonds payable relating to business-type activities as of June 30, 2017 are as follows:

Years ending June 30,	Principal	Interest	Total
2018	\$ 601,434	\$ 139,584	\$ 741,018
2019	610,825	130,601	741,426
2020	620,417	121,616	742,033
2021	630,416	111,740	742,156
2022	640,119	101,990	742,109
2023-2033	5,259,028	481,919	5,740,947
	\$ 8,362,239	\$ 1,087,450	\$ 9,449,689

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

7. INTER-JURISDICTIONAL AGREEMENT

On January 16, 1981, and further amended on May 29, 1990, the Town, along with the Town of North Beach and Calvert County, Maryland, entered into an inter-jurisdictional agreement to build and operate a wastewater treatment plant located in the Town. The terms of the agreement remain in effect in perpetuity and provide that fee simple title to the plant is held by the Town in trust for all parties with ownership being allocated 47% to the Town, 24% to the Town of North Beach, and 29% to Calvert County, Maryland. On August 15, 1996, the owners above entered into another inter-jurisdictional agreement with Anne Arundel County, Maryland, whereby, Anne Arundel County agreed to construct improvements to increase the capacity of the plant by a minimum of 177,500 gallons per day (g.p.d). Under this agreement, Anne Arundel does not have any ownership of the plant but is entitled to an allocation of 137,500 g.p.d.

Upon the completion of the increased capacity of the plant, all fixed charges of the plant are allocated proportionally to all jurisdictions involved, based upon g.p.d. allocations of 629,975 g.p.d. to the Town; 250,200 g.p.d. to the Town of North Beach; 302,325 g.p.d. to Calvert County, Maryland; and 137,500 g.p.d. to Anne Arundel County, Maryland. Variable charges of the plant are allocated based upon actual EDU flows for the year. All capital expenditures are allocated based upon the plant ownership percentages discussed above. The Town provides all of their accounting functions for the treatment plant and invoices the other government participants for their proportional share of all operating expenses and capital expenditures. The Town accounts for its respective allocations of the operations of the treatment plant in the Utility Fund and recovers its costs through user charges to its citizens.

8. 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. The Town has purchased commercial insurance and joined the Local Government Insurance Trust (LGIT) to handle potential losses. LGIT was organized for the purpose of minimizing the cost of insurance and related administrative expenses. The Town pays an annual premium to LGIT for its general insurance coverage. The agreement with LGIT provides that LGIT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000,000. The Town continues to carry commercial insurance for employee health and accident insurance and workers compensation. Settled claims resulting from these risks have not exceeded coverage amounts, and no significant reductions in insurance coverage have occurred, in any of the past three fiscal years.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

9. RETIREMENT PLAN

The Town sponsors a 401(a) retirement plan on behalf of its eligible employees. Employees are eligible upon obtaining the age of 18. Elective deferrals by employees are not permitted under the plan. The Town makes quarterly contributions to the plan based on 10% of the compensation of all eligible participants during the plan year. All assets and income of the plan are held in trust for the exclusive benefit of each of the participants and their beneficiaries; as such, plan assets are not reflected in the Town's financial statements.

The Town also provides employees the opportunity to participate in a deferred compensation 457(b) plan covering all eligible employees. Employees are eligible upon completion of a six-month probationary period at the start of their employment. Under the plan, participants may make voluntary contributions to the plan up to a maximum amount allowable by law, but not to exceed the lesser of \$15,500 or 100% of an employee's total compensation. The Town makes additional 100% matching contributions of up to 10% of eligible compensation deferred under the plan. Matching contributions made by the Town are made into the 401(a) plan discussed above. Similar to the 401(a) plan, the 457(b) plan assets are not reflected in the Town's financial statements.

Total contributions made by the Town under these plans for the year ended June 30, 2017 was \$165,603.

10. COMMITMENTS AND CONTINGENCIES

Litigation: The Town is contingently liable with respect to lawsuits and other claims that arise in the ordinary course of its operations. The total amount of pending lawsuits and claims not covered by insurance nor expressly provided for in these statements is considered to be immaterial.

Grants: The Town participates in state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. The amount of expenditures that could be disallowed by the granting agencies and would have to be refunded by the Town cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

10. COMMITMENTS AND CONTINGENCIES (continued)

Capital projects: The Town has entered into engineering and construction contracts pertaining to an Enhanced Nutrient Removal (ENR) upgrade project for the wastewater treatment plant totaling \$17,200,608, of which a total project commitment of \$0 was outstanding at June 30, 2017. The Town has received notification from the Maryland Department of the Environment (MDE) that 45.34% of eligible construction costs will be offset directly by a grant from MDE through the Bay Restoration Fund, up to a maximum grant amount of \$7,080,000 (ENR Grant). Under these terms of the inter-jurisdictional agreement discussed in Note 7, the Town is responsible for 49.66% of the net project costs, thus is obligated for \$4,276,842 of remaining project costs not covered by the ENR Grant, of which \$0 is still outstanding at June 30, 2017.

Leasing Arrangements: The Town participates in two separate leases for library services, which are accounted for as operating leases. The Town is responsible for 25% of the combined rents and Calvert County, Maryland is responsible for the remaining 75% of the combined rents. Under the terms of these agreements, annual rent increases are provided based upon the Consumer Price Index, with a minimum of 2% and up to a maximum of 4%. One of the leases renewed July 1, 2015, for a period of five years ending June 30, 2020, with a current monthly payment of \$2,212. The other lease was renewed November 1, 2015, only for a one year period ending October 31, 2016, with a current monthly payment of \$729. The Town's portion of rent expense incurred under these agreements for the year ended June 30, 2017 was \$36,027. The Town also entered into an operating lease on January 1, 2013 for a copier for five years ending December 31, 2017. The Town's lease expense for this copier is \$325 monthly. The Town's portions of future minimum lease payments are as follows:

<u>Years ending June 30,</u>	
2018	29,379
2019	27,980
2020	28,540
	<u>\$ 85,899</u>

TOWN OF CHESAPEAKE BEACH
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

11. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to year ended June 30, 2017 that have effective dates that may impact future financial presentations.

Management has currently not determined what, if any, impact implementation of the following statements may have on the financial statement of the Town:

- GASB 86 – Certain Debt Extinguishment Issues

This Statement improves consistency in accounting and financial reporting for the defeasance and extinguishment of debt by providing guidance for transactions related to cash and other monetary assets used to extinguish debt. This Statement is effective for reporting periods beginning after June 15, 2017.

- GASB 87 – Leases

This Statement requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources and outflows of resources based on payment provisions of the contract. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease assets and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This Statement is effective for financial statements for periods beginning after December 15, 2019, with earlier application encouraged.

TOWN OF CHESAPEAKE BEACH
SCHEDULE OF REVENUES - BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2017
(With Comparative Totals for 2016)

	Budgeted Amounts		Actual	Variance with	2016 Actual
	Original	Amended		Amended Budget Positive (Negative)	
Taxes					
Local Property Taxes:					
Real property	\$ 2,627,000	\$ 2,627,000	\$ 2,626,210	\$ (790)	\$ 2,709,778
Personal property	44,700	44,700	75,359	30,659	46,549
Penalties and interest	5,000	5,000	11,017	6,017	3,763
	<u>2,676,700</u>	<u>2,676,700</u>	<u>2,712,586</u>	<u>35,886</u>	<u>2,760,090</u>
Admission and amusement tax	800,000	800,000	1,590,479	790,479	1,051,690
Hotel tax	88,000	88,000	99,502	11,502	109,540
Total taxes	<u>3,564,700</u>	<u>3,564,700</u>	<u>4,402,567</u>	<u>837,867</u>	<u>3,921,320</u>
Licenses and Permits					
Liquor	4,000	4,000	7,063	3,063	-
Cable franchise	71,488	71,488	82,940	11,452	103,743
Traders	3,500	3,500	3,032	(468)	2,561
Zoning	6,000	6,000	11,922	5,922	26,570
Total licenses and permits	<u>84,988</u>	<u>84,988</u>	<u>104,957</u>	<u>19,969</u>	<u>132,874</u>
Intergovernmental					
State-shared taxes:					
Income	720,000	720,000	1,172,164	452,164	838,855
Highway user	259,699	259,699	246,194	(13,505)	248,157
	<u>979,699</u>	<u>979,699</u>	<u>1,418,358</u>	<u>438,659</u>	<u>1,087,012</u>
Grants from state government:					
State police protection	47,418	47,418	42,801	(4,617)	45,439
State DNR critical areas	4,000	4,000	8,000	4,000	-
Miscellaneous grants	1,000,000	1,000,000	-	(1,000,000)	-
	<u>1,051,418</u>	<u>1,051,418</u>	<u>50,801</u>	<u>(1,000,617)</u>	<u>45,439</u>
Funds from county government:					
County recreation fees	-	-	-	-	-
Total intergovernmental	<u>2,031,117</u>	<u>2,031,117</u>	<u>1,469,159</u>	<u>(561,958)</u>	<u>1,132,451</u>
Charges for services					
Town recreation fees	-	-	-	-	-
Scrap metal fees	-	-	26	26	277
Total charges for services	<u>-</u>	<u>-</u>	<u>26</u>	<u>26</u>	<u>277</u>
Investment earnings	1,800	1,800	39,117	37,317	15,595
Miscellaneous Revenues					
Fines and forfeitures	14,000	14,000	40,950	26,950	15,376
Tower site rental	85,000	85,000	101,026	16,026	94,653
Veterans park brick sales	-	-	395	395	440
Bayfront park admissions	55,000	55,000	56,648	1,648	67,730
Citizen donations	-	-	-	-	-
Miscellaneous	790,000	896,930	14,072	(882,858)	233,732
Total miscellaneous revenues	<u>944,000</u>	<u>1,050,930</u>	<u>213,091</u>	<u>(837,839)</u>	<u>411,931</u>
Total revenues	<u>\$ 6,626,605</u>	<u>\$ 6,733,535</u>	<u>\$ 6,228,917</u>	<u>\$ (504,618)</u>	<u>\$ 5,614,448</u>

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

TOWN OF CHESAPEAKE BEACH
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2017
(With Comparative Totals for 2016)

	Budgeted Amounts		Actual	Variance with	2016 Actual
	Original	Amended		Amended Budget Positive (Negative)	
General Government					
Salaries, payroll taxes, and benefits	\$ 580,808	\$ 580,808	536,299	\$ 44,509	\$ 529,970
Planning and zoning	51,000	51,000	49,837	1,163	53,482
Legal	50,000	50,000	40,157	9,843	64,483
Code enforcement	-	-	-	-	-
Engineering and consulting	80,000	80,000	42,098	37,902	72,399
Special events	119,550	119,550	101,797	17,753	77,395
Economic development	37,000	37,000	34,144	2,856	26,438
Grants to local organizations	11,500	11,500	11,500	-	5,400
Audit and financial expense	37,000	37,000	28,190	8,810	46,693
Newsletter	15,000	15,000	7,950	7,050	13,234
Office expense	62,000	62,000	57,163	4,837	65,605
IT Support	23,000	23,000	21,734	1,266	30,034
Repairs and maintenance	30,000	30,000	28,335	1,665	18,290
Notification system	500	500	-	500	-
Document imaging	4,000	4,000	3,778	222	3,043
Library rent	35,000	35,000	36,027	(1,027)	41,241
Board of elections	5,000	5,000	4,691	309	-
Council expense	24,500	24,500	41,850	(17,350)	33,843
SDAT fees	11,558	11,558	11,558	-	11,558
Annual software license	30,949	30,949	30,949	-	-
Insurance	50,000	50,000	38,043	11,957	42,514
Telephone and utilities	31,500	31,500	23,559	7,941	19,960
Miscellaneous	19,400	19,400	15,964	3,436	235,329
Total general government	<u>1,309,265</u>	<u>1,309,265</u>	<u>1,165,623</u>	<u>143,642</u>	<u>1,390,911</u>
Public Safety					
Police	897,008	897,008	893,501	3,507	847,145
Boardwalk Patrol	50,000	50,000	59,956	(9,956)	53,284
North Beach VFD	50,000	50,000	-	50,000	25,000
Total public safety	<u>997,008</u>	<u>997,008</u>	<u>953,457</u>	<u>43,551</u>	<u>925,429</u>
Public Works					
Salaries, payroll taxes, and benefits	573,902	573,902	552,433	21,469	497,589
Trash removal	300,196	300,196	290,145	10,051	322,888
Landfill tipping fees	165,000	165,000	127,448	37,552	116,006
Property maintenance	35,000	35,000	190,160	(155,160)	251,044
Street lighting	86,525	86,525	76,710	9,815	78,653
Holiday lights	65,000	65,000	68,196	(3,196)	40,996
Streets and equipment maintenance	187,000	187,000	39,740	147,260	22,622
Tree trimming and removals	5,000	5,000	-	5,000	-
Gasoline and oil	20,000	20,000	15,842	4,158	11,583
Snow removal	40,000	40,000	(12,794)	52,794	45,000
Telephone and utilities	13,000	13,000	11,065	1,935	12,602
Supplies	10,215	10,215	9,485	730	11,478
Oyster program	7,050	7,050	7,009	41	12,216
Road and sidewalk repairs	30,000	30,000	-	30,000	13,482
Fishing creek dredging	10,000	10,000	3,252	6,748	-
Recreational operation charges	62,000	62,000	55,858	6,142	56,473
Miscellaneous	2,000	2,000	1,814	186	1,884
Total public works	<u>1,611,888</u>	<u>1,611,888</u>	<u>1,436,363</u>	<u>175,525</u>	<u>1,494,516</u>
Capital Outlay	<u>2,436,390</u>	<u>2,436,390</u>	<u>1,114,292</u>	<u>1,322,098</u>	<u>748,812</u>
Debt Service	<u>312,054</u>	<u>418,984</u>	<u>383,944</u>	<u>35,040</u>	<u>495,396</u>
Total expenditures	<u>\$ 6,666,605</u>	<u>\$ 6,773,535</u>	<u>\$ 5,053,679</u>	<u>\$ 1,719,856</u>	<u>\$ 5,055,064</u>

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

**TOWN OF CHESAPEAKE BEACH,
MARYLAND**

**OMB UNIFORM GUIDANCE
SUPPLEMENTARY FINANCIAL REPORT**

Year Ended June 30, 2017

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**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 Mayor and Town Council
Town of Chesapeake 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, and the aggregate remaining fund information of the Town of Chesapeake Beach, Maryland (the Town), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 20, 2018.

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 opinion 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2017-01 that we consider to be a significant deficiency.

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.

A handwritten signature in cursive script that reads "Rubins & Company". The signature is written in black ink and is positioned to the right of the date and location information.

Bethesda, Maryland
February 20, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE; REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE

To the Mayor and Town Council
Town of Chesapeake Beach, Maryland

Report on Compliance for Each Major Federal Program

We have audited the Town of Chesapeake Beach, Maryland's (the Town) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2017. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon dated February __, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The image shows a handwritten signature in black ink that reads "Rubino & Company". The signature is written in a cursive, flowing style.

Bethesda, Maryland
February 20, 2018

TOWN OF CHESAPEAKE BEACH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2017

Federal Grantor/Pass-Through Grantor/ Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying	Grant Expenditures
<u>U.S. Environmental Protection Agency (EPA)</u>			
<u>Pass-through from Maryland Department of the Environment:</u>			
Clean Water State Revolving Funds	66.458	CS-240001-13	<u>\$2,617,375</u>
Total expenditures of federal awards			<u>\$2,617,375</u>

See Notes to the Schedule of Expenditures of Federal Awards

TOWN OF CHESAPEAKE BEACH
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2017

1. BASIS OF PRESENTATION

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Town of Chesapeake Beach, Maryland (the Town) under programs of the Federal Government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Uniform Guidance, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in the schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule has been prepared on the accrual basis of accounting.

3. RECONCILIATION OF EXPENDITURES OF FEDERAL AWARDS

A reconciliation of expenditures of federal awards reported in the basic financial statements of the Town for the year ended June 30, 2017, is as follows:

Costs incurred and reimbursed from loan proceeds from state revolving loan fund reported for financial statement purposes	\$3,563,020
Less: Costs incurred during fiscal year 2017 which were not reimbursed by the EPA	<u>(420,913)</u>
	3,142,107
Portion of revolving loan funds reimbursed to the state by the EPA	<u>83.3%</u>
Total expenditures of federal awards	<u><u>\$2,617,375</u></u>

TOWN OF CHESAPEAKE BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material Weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No

Type of auditor’s report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Uniform Guidance?	No
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Identification of Major Programs:

<u>Federal Grantor/Program Title</u>	<u>CFDA No.</u>		
Environmental Protection Agency (EPA):			
Clean Water State Revolving Funds	66.458	\$	<u>\$2,617,375</u>
Dollar threshold used to distinguish between Type A and Type B programs:		\$	<u>750,000</u>
Auditee qualified as low-risk auditee under Uniform Guidance, section 530?			Yes

TOWN OF CHESAPEAKE BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2017-01: Adjusting Journal Entries (Significant Deficiency)

Criteria: Management is responsible for presentation of the financial statements in accordance with Generally Accepted Accounting Principles (GAAP). As such, the Town's internal controls and accounting reconciliations to produce the information supporting those financial statements should ensure accuracy and not require significant adjustments to conform to GAAP basis accounting.

Condition: Several audit adjustments were required to reconcile the books and records of the Town to the beginning balance net position reported in the prior year's financial statements as well as adjustments for accruals related to current year activity.

Context: During the current year audit, we noted that the net position reflected on the books and records of the Town did not agree to the ending net position as reported in the prior year's financial statements (\$989,446). In addition, certain activity related to grants (\$506,040) and the reconciliation of interfund balances (\$112,440) were not recorded properly. As a result, adjustments were necessary.

It was recognized that several of these adjustments were the result of the Town effectively maintaining its books and records on the cash basis because of the nature of its operations and limitations of its accounting system. However, the books and records should be reconciled to agree to closed audit periods and accrual adjustments should be made at year end to conform to GAAP basis accounting requirements.

Effect: The Town's ability to produce GAAP basis financial statements, particularly on an interim basis, is limited. This could have an impact on an outsider's understanding of the Town's activities and financial position.

Cause: This appears to be the result of the Town historically recording activity on the cash basis and not reconciling between the fund basis of accounting and GAAP basis used for financial reporting.

Recommendation: We recommend that the Town ensure that net position is reconciled to the audited financial statements for each year and assess the need for recording activity on an accrual basis during the year. If it is determined that this is not necessary, a process should be developed to adjust to the accrual basis periodically during the year or at year-end at a minimum.

TOWN OF CHESAPEAKE BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

As a result of staff turnover, the Treasurer was tasked with performing substantially all closing functions for the year end. In addition, the Town had a system conversion during the year. As a result of these events, audit adjustments were required to reconcile net position and interfund accounts. With additional staffing and the impact of the conversion completed, this issue should be addressed for future years.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

TOWN OF CHESAPEAKE BEACH
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2017

SECTION I – PRIOR YEAR FINANCIAL STATEMENT FINDINGS

Internal Control

Identifying Number: 2016-01 Financial Reporting in Accordance With Generally Accepted Accounting Principles (GAAP) – Accruals – Significant Deficiency

Audit Finding: There were several errors with recorded transactions noted during audit testing including both over and under accruals. The Town’s ability to produce timely accurate financial statements in accordance with GAAP was hampered. Several year-end receivables and accrued liabilities were either not recorded or recorded in duplicated.

Corrective Action Taken: The town treasurer has put internal controls in place and has done a better job monitoring accounting reconciliations and financial reporting. **The finding is repeated in the current year as Finding 2017-01.**

SECTION II – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.