

CITY OF CAMBRIDGE, MARYLAND

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

CITY OF CAMBRIDGE, MARYLAND

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 – 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 9
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements	
Statement of net position	10
Statement of activities	11
Fund financial statements	
Balance sheet – governmental funds	12
Reconciliation of the governmental funds balance sheet to the statement of net position	13
Statement of revenues, expenditures and changes in fund balances – governmental funds	14
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	15 – 16
Statement of net position – proprietary funds	17
Statement of revenues, expenses and changes in fund net position – proprietary funds	18
Statement of cash flows – proprietary funds	19
Notes to financial statements	20 – 43
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of revenues and expenditures budget (non-GAAP and Budgetary basis) and actual – general fund	44 – 59
Schedule of funding progress	60

GOVERNMENT AUDITING STANDARDS REPORT

Independent auditors' 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*

61 – 62

Schedule of findings and responses

63



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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Council
City of Cambridge, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Cambridge, Maryland as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Cambridge, Maryland's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Cambridge, Maryland, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress on pages 3–9 and 44–60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2013, on our consideration of the City of Cambridge, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cambridge, Maryland's internal control over financial reporting and compliance.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 16, 2013



CITY OF CAMBRIDGE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

This section of the City of Cambridge's (the City) annual report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the city's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, recreation and culture, economic development, non-departmental, and interest on long-term debt. The business-type activities of the City include Water, Sewer, and Marina operations.

The government-wide financial statements include the City of Cambridge and the Municipal Utilities Commission, which is a component unit of the City. The government-wide financial statements can be found on pages 10- 11 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

CITY OF CAMBRIDGE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By so doing, readers may better understand the long-term impact of the government's near term financing decisions. Both the Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains one individual governmental fund, the General Fund. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 12 and 14. The budgetary comparison can be found on pages 44 – 59.

Proprietary Funds

The City maintains one proprietary-type fund: an enterprise fund. *Enterprise* funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, and Marina activities. The basic proprietary fund financial statements can be found on pages 17 – 19 of this report.

Summary of Significant Accounting Policies and Notes to the Financial Statements

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. Notes to the financial statements are part of the basic financial statements and can be found on pages 20 – 43 of this report.

CITY OF CAMBRIDGE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Government Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's overall financial condition and position. In the case of the City, assets exceeded liabilities by \$43.6 million at the close of the current fiscal year. The City's net position is divided into three categories – invested in capital assets, net of related debt, restricted, and unrestricted net position. The largest portion of the City's net position reflects its investment in capital assets (e.g., land, improvements, buildings, machinery, equipment, vehicles and sewer system), less accumulated depreciation and any unmatured debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its 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.

Restricted net position on the Statement of Net Position represent impact fees received reserved for capital expenditures or debt repayment.

Unrestricted net position at June 30, 2013 of governmental activities was a deficit of \$1,158,656. The unrestricted net position for business-type activities totaled \$1,696,676.

	Net Position					
	2013			2012		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current and other assets	\$ 4,238,488	\$ 3,572,517	\$ 7,811,005	\$ 4,832,096	\$ 3,078,886	\$ 7,910,982
Capital assets	18,521,964	44,883,892	63,405,856	17,245,326	43,999,763	61,245,089
Total assets	<u>22,760,452</u>	<u>48,456,409</u>	<u>71,216,861</u>	<u>22,077,422</u>	<u>47,078,649</u>	<u>69,156,071</u>
Liabilities						
Current and other liabilities	2,284,202	1,526,523	3,810,725	2,887,303	1,566,723	4,454,026
Long-term liabilities outstanding	14,249,105	9,550,749	23,799,854	13,958,354	9,758,085	23,716,439
Total liabilities	<u>16,533,307</u>	<u>11,077,272</u>	<u>27,610,579</u>	<u>16,845,657</u>	<u>11,324,808</u>	<u>28,170,465</u>
Net position						
Invested in capital assets, net of related debt	7,209,881	35,033,624	42,243,505	6,063,597	33,740,186	39,803,783
Restricted	175,920	648,837	824,757		786,906	786,906
Unrestricted (deficit)	(1,158,656)	1,696,676	538,020	(567,548)	958,773	391,225
Total net position	<u>\$ 6,227,145</u>	<u>\$ 37,379,137</u>	<u>\$ 43,606,282</u>	<u>\$ 5,496,049</u>	<u>\$ 35,485,865</u>	<u>\$ 40,981,914</u>

CITY OF CAMBRIDGE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

The following table indicates the changes in net position for governmental and business-type activities:

	Changes in Net Position					
	2013			2012		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues						
Program revenues						
Charges for services	\$ 1,280,887	\$ 5,688,839	\$ 6,969,726	\$ 1,250,471	\$ 5,075,718	\$ 6,326,189
Operating grants and contributions	496,117	385,329	881,446	924,711	1,289,744	2,214,455
Capital grants and contributions	397,822	1,809,746	2,207,568	1,737,964	7,294,133	9,032,097
General revenues						
Property taxes	6,839,282		6,839,282	6,686,712		6,686,712
Shared taxes	1,438,033		1,438,033	1,564,184		1,564,184
Miscellaneous	1,358,163		1,358,163	95,838		95,838
Unrestricted investment earnings	3,062	6,025	9,087	19,359	9,588	28,947
Total revenues	<u>\$ 11,813,366</u>	<u>\$ 7,889,939</u>	<u>\$ 19,703,305</u>	<u>\$ 12,279,239</u>	<u>\$ 13,669,183</u>	<u>\$ 25,948,422</u>
Expenses						
General government	1,216,596		1,216,596	1,016,181		1,016,181
Public safety	3,899,963		3,899,963	4,070,748		4,070,748
Public works	2,325,720		2,325,720	2,615,589		2,615,589
Recreation and culture	4,241		4,241	89,791		89,791
Economic development	238,949		238,949	993,407		993,407
Non-departmental	2,927,507		2,927,507	3,274,348		3,274,348
Interest on long-term debt	469,294		469,294	444,084		444,084
Water		1,651,416	1,651,416		1,742,695	1,742,695
Sewer		3,810,764	3,810,764		3,667,455	3,667,455
Marina		534,487	534,487		629,630	629,630
Total expenses	<u>11,082,270</u>	<u>5,996,667</u>	<u>17,078,937</u>	<u>12,504,148</u>	<u>6,039,780</u>	<u>18,543,928</u>
Change in net position	731,096	1,893,272	2,624,368	(224,909)	7,629,403	7,404,494
Net position, beginning, as restated	<u>5,496,049</u>	<u>35,485,865</u>	<u>40,981,914</u>	<u>5,720,958</u>	<u>27,856,462</u>	<u>33,577,420</u>
Total net position	<u><u>6,227,145</u></u>	<u><u>37,379,137</u></u>	<u><u>43,606,282</u></u>	<u><u>5,496,049</u></u>	<u><u>35,485,865</u></u>	<u><u>40,981,914</u></u>

Financial Analysis of the City's Funds

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

CITY OF CAMBRIDGE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Governmental Funds

The focus of the City's *governmental funds* statements tell how government services like public safety, public works, recreation and culture, and administration were financed in the *short-term* as well as what remains for future spending

Governmental funds – Most of the City's basic services are included in governmental funds which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information on the subsequent pages that explains the relationship (or differences) between them.

Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Municipal Utilities Commission, Sewer, and Marina Fund totaled \$1,496,714. Other factors concerning these funds finances are addressed on pages 17, 18, and 19.

General Fund Budgetary Highlights

A budget and actual comparison schedule is provided in the required supplementary information for the General Fund. In addition, a budget and actual comparison schedule is provided for the Municipal Utilities Commission as other supplementary information. The budget and actual comparison schedules show the original adopted budgets, the final revised budget, actual results and variance between the final budget and actual results. Major variances between the final budget and actual results are as follows:

- Total revenues were over the final budget by \$897,920.
- Total expenditures over the final budget by \$592,876.

CITY OF CAMBRIDGE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental (government-wide) and business-type activities as of June 30, 2013 was \$63,405,856 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and fixtures, vehicles and water and sewer systems.

The following table of the City's capital assets is listed below. Additional information can be found on pages 31 – 33 of this report.

	Capital Assets (net of depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 2,117,006	\$ 2,117,006	\$ 125,363	\$ 125,363	\$ 2,242,369	\$ 2,242,369
Construction in progress	7,700		11,338,597	9,275,202	11,346,297	9,275,202
Building and improvements	12,721,837	11,784,193	5,097,544	5,240,462	17,819,381	17,024,655
Water and sewer systems			27,952,086	29,149,880	27,952,086	29,149,880
Furniture and equipment	788,882	495,835	15,884	24,804	804,766	520,639
Infrastructure	2,272,957	2,101,948			2,272,957	2,101,948
Vehicles	613,582	746,344	354,418	184,052	968,000	930,396
Total net capital assets	\$ 18,521,964	\$ 17,245,326	\$ 44,883,892	\$ 43,999,763	\$ 63,405,856	\$ 61,245,089

Purchases this year included:

Governmental Activities

1. Purchase of new world software for \$199,334.
2. Purchase of five police patrol vehicles for \$112,935.
3. Purchase of the new Department of Public Works building for \$360,211.
4. Donation of Choptank River Lighthouse for \$943,873.

Business-type activities

1. Purchase of a street sweeper for \$183,655.

CITY OF CAMBRIDGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Debt Administration

	Outstanding Debt					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Short term debt	\$ 907,886	\$ 1,739,094			\$ 907,886	\$ 1,739,094
General obligation bonds	10,480,958	10,878,332	9,611,582	10,127,520	20,092,540	21,005,852
Notes payable	831,125	264,768	38,760	132,057	869,885	396,825
Capital leases		38,629				38,629
Compensated absences	316,545	323,946			316,545	323,946
Total outstanding debt	\$ 12,536,514	\$ 13,244,769	\$ 9,650,342	\$ 10,259,577	\$ 22,186,856	\$ 23,504,346

Additional information on the City's debt can be found on pages 33 – 37 of this report.

Economic Factors

The City of Cambridge outlined a nine point Economic Development Strategic Plan that is the focus of the Economic Development Department. The number one project, Sailwinds 2020, a proposed mixed use, waterfront development, is the key initiative underway in partnership with the State of Maryland. No aspect of economic development in Cambridge is as potentially impactful as it provides an opportunity to redefine the City. The plan's carefully crafted set of local incentives, Senior Tax Credit, Downtown Development District Tax Credit, Impact Fee Waiver and Façade Improvement, have resulted in measurable increased investment in the community. The redesignations of the Maryland Sustainable Community, Arts & Entertainment, and Enterprise Zone Districts are tools that position the City for expanded economic growth in diverse industry sectors.

Requests for Information

This financial report is designed to provide a general overview of the City of Cambridge's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Clerk/Treasurer, City of Cambridge, 410 Academy St, Cambridge, Maryland 21613 or through an email at ekinnamon@ci.cambridge.md.us.

CITY OF CAMBRIDGE, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,753,828	\$ 1,092,373	\$ 3,846,201
Certificates of deposit		443,973	443,973
Accounts receivable, net	879,376	476,935	1,356,311
Inventories		101,646	101,646
Due from other units of government	378,113	1,533,145	1,911,258
Internal balances - net	146,759	(146,759)	
Capital assets, net	18,521,964	44,883,892	63,405,856
Cash - restricted	80,412	71,204	151,616
Total assets	<u>22,760,452</u>	<u>48,456,409</u>	<u>71,216,861</u>
LIABILITIES			
Short term debt	907,886		907,886
Accounts payable	276,937	480,346	757,283
Accrued liabilities	288,086	128,348	416,434
Other liabilities	276,606	14,400	291,006
Current portion of long-term debt	534,687	903,429	1,438,116
Non-current liabilities			
Accrued OPEB	3,155,164	803,836	3,959,000
Accrued other liabilities	316,545		316,545
Bonds, leases, and capital leases payable	10,777,396	8,746,913	19,524,309
Total liabilities	<u>16,533,307</u>	<u>11,077,272</u>	<u>27,610,579</u>
NET POSITION			
Invested in capital assets, net of related debt	7,209,881	35,033,624	42,243,505
Restricted	175,920	648,837	824,757
Unrestricted (deficit)	<u>(1,158,656)</u>	<u>1,696,676</u>	<u>538,020</u>
Total net position	<u>\$ 6,227,145</u>	<u>\$ 37,379,137</u>	<u>\$ 43,606,282</u>

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

CITY OF CAMBRIDGE, MARYLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental activities						
General government	\$ 1,216,596	\$ 540,698	\$	\$	\$ (675,898)	\$ (675,898)
Public safety	3,899,963	56,883	314,018	9,249	(3,519,813)	(3,519,813)
Public works	2,325,720	683,306	98,657	16,900	(1,526,857)	(1,526,857)
Recreation and culture	4,241			1,125	(3,116)	(3,116)
Economic development	238,949		83,442	370,548	215,041	215,041
Nondepartmental	2,927,507				(2,927,507)	(2,927,507)
Interest on long-term debt	469,294				(469,294)	(469,294)
Total governmental activities	<u>11,082,270</u>	<u>1,280,887</u>	<u>496,117</u>	<u>397,822</u>	<u>(8,907,444)</u>	<u>(8,907,444)</u>
Business-type activities						
Water	1,651,416	1,720,201		1,720	70,505	70,505
Sewer	3,810,764	3,582,443	385,329	1,808,026	1,965,034	1,965,034
Marina	534,487	386,195			(148,292)	(148,292)
Total business-type activities	<u>5,996,667</u>	<u>5,688,839</u>	<u>385,329</u>	<u>1,809,746</u>	<u>1,887,247</u>	<u>1,887,247</u>
Total	<u>\$ 17,078,937</u>	<u>\$ 6,969,726</u>	<u>\$ 881,446</u>	<u>\$ 2,207,568</u>	<u>(8,907,444)</u>	<u>(7,020,197)</u>
General revenues						
Taxes						
Property taxes, levied for general purposes				6,839,282		6,839,282
Room tax				703,560		703,560
State income tax				562,115		562,115
Intergovernmental, unrestricted				172,358		172,358
Miscellaneous				313,507		313,507
Donations				1,054,195		1,054,195
Loss on sale of assets				(9,539)		(9,539)
Unrestricted investment earnings				3,062	6,025	9,087
Total general revenues				<u>9,638,540</u>	<u>6,025</u>	<u>9,644,565</u>
Change in net position				731,096	1,893,272	2,624,368
Net position, beginning of year, as restated				5,496,049	35,485,865	40,981,914
Net position, end of year				<u>\$ 6,227,145</u>	<u>\$ 37,379,137</u>	<u>\$ 43,606,282</u>

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

CITY OF CAMBRIDGE, MARYLAND

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2013

	General Fund
ASSETS	
Cash and cash equivalents	\$ 2,753,828
Receivables, net	879,376
Due from other units of government	378,113
Due from other funds - net	146,759
Cash - restricted	80,412
	<hr/>
Total assets	\$ 4,238,488
LIABILITIES	
Short term debt	907,886
Accounts payable and accrued expenses	399,003
Other liabilities	276,084
Deferred revenue	592,095
Total liabilities	<hr/> 2,175,068
FUND BALANCES	
Nonspendable	146,759
Restricted	175,920
Committed	639,073
Unassigned	1,101,668
Total fund balances	<hr/> 2,063,420
Total liabilities and fund balances	<hr/> \$ 4,238,488

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

CITY OF CAMBRIDGE, MARYLAND

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

JUNE 30, 2013

Total fund balances, governmental funds	\$	2,063,420
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 are therefore not reported as assets in governmental funds, but are reported in the governmental activities of the Statement of Net Position.		18,521,964
Some liabilities including notes payable, capital leases payable, compensated absences, and OPEB obligations are not due and payable in the current period and therefore are not reported in the fund financial statements, but are included in the governmental activities in the Statement of Net Position.		(14,783,801)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(166,533)
Certain revenues that do not provide current financial resources are reported as deferred income in the funds financial statements, but are reported as revenue in the governmental activities of the Statement of Net Position.		<u>592,095</u>
Net assets of governmental activities in the Statement of Net Position	\$	<u><u>6,227,145</u></u>

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

CITY OF CAMBRIDGE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>
Revenues	
Taxes and utility fees	\$ 8,426,292
Licenses and permits	315,888
Intergovernmental	817,069
Charges for services	674,940
Fines and forfeitures	219,744
Miscellaneous	522,917
Total revenues	<u>10,976,850</u>
Expenditures	
Current	
General government	1,371,892
Public safety	3,821,203
Public works	2,174,998
Recreation and culture	128,437
Economic development	507,059
Nondepartmental	2,444,551
Debt service	
Principal	504,354
Interest	514,488
Total expenditures	<u>11,466,982</u>
Revenues under expenditures	<u>(490,132)</u>
Other financing sources	
Loan proceeds	<u>673,337</u>
Net change in fund balance	183,205
Fund balances, beginning of year	<u>1,880,215</u>
Fund balance, end of year	<u><u>\$ 2,063,420</u></u>

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

CITY OF CAMBRIDGE, MARYLAND

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

YEAR ENDED JUNE 30, 2013

Net change in fund balances, governmental funds \$ 183,205

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 those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense \$788,551 is exceeded by capital outlay \$1,130,856 in the period. 342,305

In the Statement of Activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balances by the book value of the assets sold. (9,539)

In the Statement of Activities, revenue is recognized for the value of the Choptank River Lighthouse donated to the City. Since the General Fund does not recognize capital assets, it also does not recognize the contribution of a capital asset as revenue. 943,873

Proceeds from the issuance of long-term debt are reported in the governmental fund as a source of financing. On the other hand, loan proceeds are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Assets. (673,337)

Governmental funds report repayment of debt principal and capital leases as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. 542,982

In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds; however, expenditures for compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid or expected to be paid within one year). 7,402

Interest expense in the Statement of Activities differs from the amount reported in governmental funds due to the net change in accrued interest. 6,566

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

CITY OF CAMBRIDGE, MARYLAND

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

(Continued)

YEAR ENDED JUNE 30, 2013

In the Statement of Activities, the net OPEB obligation or annual required contribution is measured by the amount accrued during the year. In the governmental funds; however, expenditures for the OPEB is measured by the amount of financial resources used (essentially, the amounts actually paid or expected to be paid within one year).

(482,958)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned:

Change in deferred revenue affecting income

(129,403)

Change in net position of governmental activities

\$ 731,096

CITY OF CAMBRIDGE, MARYLAND

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

JUNE 30, 2013

	Municipal Utilities Commission	Sewer Fund	Marina Fund	Total
ASSETS				
Cash and cash equivalents	\$ 604,012	\$ 390,265	\$ 98,096	\$ 1,092,373
Certificates of deposit	443,973			443,973
Accounts receivable	140,958	321,179	14,798	476,935
Due from other governments		1,533,145		1,533,145
Due from other funds		1,699,610		1,699,610
Inventory	101,646			101,646
Capital assets, not being depreciated	613,297	10,850,663		11,463,960
Capital assets, being depreciated	1,067,177	27,322,151	5,030,604	33,419,932
Cash - debt service reserve		71,204		71,204
Total assets	<u>2,971,063</u>	<u>42,188,217</u>	<u>5,143,498</u>	<u>50,302,778</u>
LIABILITIES				
Current portion of long-term debt		713,846	189,583	903,429
Accounts payable and accrued expenses	209,405	317,900	95,789	623,094
Due to other funds	199,926		1,646,443	1,846,369
Accrued OPEB obligation	491,787	242,705	69,344	803,836
Bonds, notes, and capital leases payable		6,931,248	1,815,665	8,746,913
Total liabilities	<u>901,118</u>	<u>8,205,699</u>	<u>3,816,824</u>	<u>12,923,641</u>
NET POSITION				
Invested in capital assets, net of related debt	1,480,548	30,527,720	3,025,356	35,033,624
Restricted, impact fees	44,068	533,565		577,633
Restricted, debt service reserve		71,204		71,204
Unrestricted (deficit)	545,329	2,850,029	(1,698,682)	1,696,676
Total net position	<u>\$ 2,069,945</u>	<u>\$ 33,982,518</u>	<u>\$ 1,326,674</u>	<u>\$ 37,379,137</u>

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

CITY OF CAMBRIDGE, MARYLAND

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

YEAR ENDED JUNE 30, 2013

	Municipal Utilities Commission	Sewer Fund	Marina Fund	Total
Operating revenues				
Charges for services	\$ 1,720,201	\$ 3,582,443	\$ 386,195	\$ 5,688,839
Operating expenses				
Operating and distribution				
Salaries	324,048	499,015	126,872	949,935
Transportation	43,269	27,487		70,756
Maintenance	263,348	55,937	2,741	322,026
Distribution and operating expenses	206,830	1,566,868	104,133	1,877,831
Depreciation	99,360	1,165,585	152,631	1,417,576
Total operating and distribution expenses	<u>936,855</u>	<u>3,314,892</u>	<u>386,377</u>	<u>4,638,124</u>
General and administrative				
Salary related expenses	230,671		7,246	237,917
Fringe benefits	331,374	163,023	44,143	538,540
Other general and administrative	145,131	189,509	14,960	349,600
Total general and administrative	<u>707,176</u>	<u>352,532</u>	<u>66,349</u>	<u>1,126,057</u>
Total operating expenses	<u>1,644,031</u>	<u>3,667,424</u>	<u>452,726</u>	<u>5,764,181</u>
Operating income (loss)	<u>76,170</u>	<u>(84,981)</u>	<u>(66,531)</u>	<u>(75,342)</u>
Nonoperating revenues (expenses)				
Grant income		2,170,930		2,170,930
Impact fees	1,720	22,425		24,145
Interest income	4,412	1,239	374	6,025
Interest expense	(7,385)	(143,338)	(81,763)	(232,486)
Total non-operating revenues (expenses)	<u>(1,253)</u>	<u>2,051,256</u>	<u>(81,389)</u>	<u>1,968,614</u>
Change in net position	74,917	1,966,275	(147,920)	1,893,272
Net position, beginning of year, as restated	<u>1,995,028</u>	<u>32,016,243</u>	<u>1,474,594</u>	<u>35,485,865</u>
Net position, end of year	<u>\$ 2,069,945</u>	<u>\$ 33,982,518</u>	<u>\$ 1,326,674</u>	<u>\$ 37,379,137</u>

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

CITY OF CAMBRIDGE, MARYLAND

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2013

	Municipal Utilities Commission	Sewer Fund	Marina Fund	Total
Cash flows from operating activities				
Cash received from customers	\$ 1,782,380	\$ 3,615,395	\$ 392,905	\$ 5,790,680
Cash paid to vendors	(668,871)	(2,114,261)	(194,091)	(2,977,223)
Cash paid to or on behalf of employees	(828,486)	(419,332)	(108,917)	(1,356,735)
Net cash provided by operating activities	<u>285,023</u>	<u>1,081,802</u>	<u>89,897</u>	<u>1,456,722</u>
Cash flows from noncapital financing activities				
Increase in due to other funds		42,055	144,910	186,965
Increase in due from other funds		(826,467)		(826,467)
Net cash provided (used) in noncapital financing activities		<u>(784,412)</u>	<u>144,910</u>	<u>(639,502)</u>
Cash flows from capital and related financing activities				
Investment in certificates of deposits	(3,941)			(3,941)
Additions to capital	(74,479)	(2,043,571)		(2,118,050)
Grant income		2,350,416		2,350,416
Impact fees	44,720	22,425		67,145
Debt proceeds		277,876		277,876
Principal paid on long-term obligations	(4,636)	(719,283)	(199,879)	(923,798)
Interest paid on long-term obligations	(7,385)	(139,492)	(81,763)	(228,640)
Net cash used in capital and related financing activities	<u>(45,721)</u>	<u>(251,629)</u>	<u>(281,642)</u>	<u>(578,992)</u>
Cash flows from investing activities				
Interest income	4,412	1,239	374	6,025
Net increase (decrease) in cash	243,714	47,000	(46,461)	244,253
Cash at beginning of year	<u>360,298</u>	<u>414,469</u>	<u>144,557</u>	<u>919,324</u>
Cash at end of year	<u>\$ 604,012</u>	<u>\$ 461,469</u>	<u>\$ 98,096</u>	<u>\$ 1,163,577</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	\$ 76,170	\$ (84,981)	\$ (66,531)	\$ (75,342)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities				
Depreciation	99,360	1,165,585	152,631	1,417,576
Effects of changes in operating assets and liabilities				
Accounts and other receivables	(13,169)	32,953	6,710	26,494
Prepaid expense			871	871
Inventory	(10,293)			(10,293)
Due from the City of Cambridge	(43,000)			(43,000)
Due from other governments	98,823			98,823
Accounts payable and accrued expenses	1,855	(274,460)	(73,128)	(345,733)
Accrued OPEB obligation	75,277	242,705	69,344	387,326
Net cash provided by operating activities	<u>\$ 285,023</u>	<u>\$ 1,081,802</u>	<u>\$ 89,897</u>	<u>\$ 1,456,722</u>

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

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cambridge, Maryland (the City) was incorporated on December 28, 1793, under the provisions of the laws of the State of Maryland. The City is governed by a Mayor and five Commissioners and is located in Dorchester County, Maryland. The City provides the following services as authorized by its charter: Public Safety, Public Works, Health, Recreation and Parks, Economic Development, and General Government Services.

The accounting policies of the City of Cambridge, Maryland conform to generally accepted accounting principles applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting standards.

NEW PRONOUNCEMENT

In 2013, the City adopted GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and American Institute of Certified Public Accountants (AICPA) Pronouncements (GASB 62)*. This Standard improves financial reporting by incorporating into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and the AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB 62 superseded Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The adoption of this new standard did not have a significant impact on the City.

In addition, the City adopted GASB Statement No. 63, *Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Adoption of this statement changed the terms and classification of items in the statement of financial position in the government-wide activities and enterprise funds.

FINANCIAL REPORTING ENTITY

The City's financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name);
- The City holds the corporate powers of the organization;
- The City appoints a voting majority of the organization's board;
- The City is able to impose its will on the organization;
- The organization has the potential to impose a financial benefit/burden on the City; and
- There is a fiscal dependency by the organization on the City.

Based on the aforementioned criteria, the Municipal Utilities Commission is included in the accompanying financial statements as a blended component unit. Copies of the Municipal Utilities Commission's financial statements may be obtained from the accounting office at the Municipal Utilities Commission, 410 High Street, Cambridge, Maryland 21613.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Changes in Net Position report information on all of the non-fiduciary activities of the City. Eliminations have been made to remove the effect of interfund activity from these statements. Governmental activities are those which are supported by taxes and intergovernmental revenues, whereas business-type activities are those supported through customer service charges.

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

Separate financial statements are shown for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. The City has elected to treat all proprietary funds as major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

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

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

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

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION (Continued)

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and delivering goods in connection with the fund's principal ongoing operations such as charges to customers for sales and services and expenses such as salaries, product costs, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City has three major proprietary funds. The Municipal Utilities Commission operates the water treatment plants and distribution system. The Sewer Fund is used to record the operations of the sewage treatment plant, pumping stations, and collection system. The Marina Fund is used to record the operations of the marina.

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

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control for the City's General Fund and the Municipal Utilities Commission. The annual budget for the General Fund is prepared in accordance with the budgetary basis of accounting.

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

- (1) Prior to May 1 of each year the Clerk/Treasurer submits to the Mayor and Commissioners a proposed budget for the fiscal year commencing the following July 1. The budget includes requested expenditures and the means of financing them. The total anticipated revenue must equal or exceed total proposed expenditures.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

Budgets and Budgetary Accounting (Continued)

- (2) No later than July 1, the budget is legally enacted by a favorable vote of at least a majority of a quorum of the Commissioners.
- (3) The Clerk/Treasurer is not authorized to make any transfers of budgeted amounts; any commitments which would result in a significant over-expenditure of an appropriation must be approved by the Commissioners.
- (4) All annual appropriations lapse at fiscal year-end.

The City prepares its budget for the General Fund and accounts for certain transactions on a basis other than GAAP. Thus, there are two statements of revenue and expenditures in these financial statements. The first is prepared in accordance with accounting principles generally accepted in the United States of America and the accounting policies discussed in the summary of significant accounting policies and the second is prepared on the budgetary basis of accounting. The difference between the two statements is that encumbrances are recorded as expenditures in the budgetary basis financial statement and as a reservation of fund balance in the GAAP basis financial statement. Encumbrances are purchase order commitments outstanding at year end for which the related goods and services have not been received.

Adjustments necessary to convert the results of operations and fund balances at the end of the year on the GAAP basis to the budgetary basis are as follows:

	General Fund		
	Revenue	Expenditures	Fund Balance
Government GAAP basis	\$ 11,650,187	\$ 11,466,982	\$2,063,420
Encumbrances at June 30, 2012		(639,073)	
Encumbrances at June 30, 2013		517,234	(517,234)
Budgetary basis	<u>\$ 11,650,187</u>	<u>\$ 11,345,143</u>	<u>\$ 1,546,186</u>

Budgetary Basis

The budget for the Municipal Utilities Commission, which is an enterprise fund, is adopted under a basis consistent with GAAP, except that depreciation is not considered. The budget for the Municipal Utilities Commission is used primarily as a management tool. The budget, as presented in the other supplementary information, is the originally approved budget. There were no amendments to the budget as originally adopted.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

ASSETS, LIABILITIES AND NET POSITION OR EQUITY

Cash, Cash Equivalents and Investments

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

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

For the purpose of the Statement of Cash Flows, the City considers all highly-liquid investments (including restricted assets) with an original maturity date of three months or less at the time of purchase to be cash equivalents.

Property Tax Receivables

Taxpayers have the option to pay their real property tax in two installments. The first installment is due July 1 and the second installment is due October 1. Dorchester County bills and receives the tax payments on behalf of the City and remits to the City on a regular basis.

Taxes on real and personal property are levied on a fiscal year basis as of July 1. All unpaid taxes as of 90 days after the levy are subject to interest at 12% per annum. Delinquent property taxes are attached as an enforceable lien on the underlying properties. Property tax revenue is recognized in the year it is levied and becomes available, including amounts expected to be collected soon enough after the end of the year to be available to pay liabilities of the current period.

Real and personal property taxes are levied at rates enacted by the Commissioners in the annual budget ordinance on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The rates of levy cannot exceed the constant yield rate furnished by the Maryland State Department of Assessment and Taxation without public notice and only after public hearings. For fiscal 2013 the City of Cambridge real property tax rate was \$.779 per \$100 of assessed value and the business personal property tax rate was \$1.69 per \$100 of assessed value.

Interfund Receivables and Payables

The City affects a variety of transactions between funds in its operations. To the extent that certain interfund transactions have not been received or disbursed, appropriate interfund receivables and payables have been established.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

ASSETS, LIABILITIES AND NET POSITION OR EQUITY (Continued)

Inventory

Inventory of materials held by the Municipal Utilities Commission consists primarily of meters and supplies, valued at the lower of cost or market on a first-in, first-out basis. The cost of inventories is recorded as capital outlay or expenses when placed in service or consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities or business-type activities columns in the government-wide financial statements. The City defines capital assets as those which have an acquisition cost or donated value of at least \$5,000 and an estimated useful life in excess of five years. Such assets are valued at historical or estimated historical depreciated cost if actual is not available. Donated assets are stated at their fair value at the date of donation.

Expenditures for major assets and improvements are capitalized as the assets are required or constructed. Interest on debt during the construction period is capitalized. Exhaustible capital assets are depreciated, which is charged as an expense against their operations. Accumulated depreciation is reported in the Statement of Net Position. Depreciation has been provided over the estimated useful lives using the straight-line method.

Estimated useful lives are as follows:

<u>Category</u>	<u>Years</u>
Buildings and improvements	10 - 38
Water systems	30 - 60
Vehicles	5
Furniture and equipment	5 - 7

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the 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. In the governmental fund financial statements, the face amount of newly issued debt is reported as other financing sources and the amount of principal repayment is reported as an expenditure.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

ASSETS, LIABILITIES AND NET POSITION OR EQUITY (Continued)

Compensated Absences

Vested or accumulated vacation is accrued when earned by employees and a liability is recorded in the government-wide financial statements. No liability is recorded for non-vesting accumulated rights to receive sick pay benefits as the City does not pay these amounts when employees separate from service.

City ordinance provides that full-time employees may accumulate up to a maximum of forty-five (45) days annual leave based upon years of service and upon termination will be paid for all accumulated leave not to exceed this amount. The accrual is included in “Non-current liabilities” in the government-wide statements and is \$341,273. A liability for vacation pay is recorded in the governmental fund financial statements only if it has matured (i.e. unused reimbursable leave still outstanding following an employee’s resignation or retirement).

Deferred Revenue

Deferred revenue consists of receivables that are not considered to be available to liquidate liabilities of the current period. Deferred revenue at June 30, 2013 consisted solely of property and income taxes not received during the availability period.

Government-wide and Proprietary Fund Net Position

Government-wide and proprietary fund net position are divided into three major categories:

- Invested in capital assets, net of related debt – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted – consist of net position that is restricted by the City’s creditors, state enabling legislation, grantors, or other contributors.
- Unrestricted – all other net position is reported in this category.

When an expense is incurred that can be paid using either restricted or unrestricted net position, the City’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

ASSETS, LIABILITIES AND NET POSITION OR EQUITY (Continued)

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of the City Charter, state or federal laws, or externally imposed conditions by grantors or creditors.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the City Council ordinance or resolution.
- *Assigned fund balance*—amounts that are designated by the Mayor and Council for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval by the City Council.
- *Unassigned fund balance*—all amounts not included in other spendable classifications.

In governmental funds, the City’s policy is to first apply the expenditure toward restricted fund balance and then to other, less restrictive classifications (committed and then assigned fund balances) before using unassigned fund balances.

Deposits

At year-end, the carrying amount of the City’s deposits (including cash on hand of \$3,100 and certificates of deposit of \$443,973) was \$4,441,790 and the bank balance was \$4,917,607. Of the bank balance, \$1,883,719 was covered by federal depository insurance (FDIC) and \$210,310 was covered by collateral held at the banks’ trust department in the name of Municipal Utilities Commission and \$2,823,578 was collateralized with securities held by the bank and segregated on the books as pledged collateral to the City of Cambridge but not in the City’s name.

Investments

At June 30, 2013, the City’s investments were pooled in the State-created Maryland Local Government Investment Pool (MLGIP), a money market fund. The fair values of those investments were \$46,612 and have a maturity of less than one year.

Reconciliation of cash and cash equivalents as shown on the Statement of Net position:

Carrying amount of deposits	\$ 3,951,205
Carrying amount of temporary investments	<u>46,612</u>
Total cash and cash equivalents per the Statement of Net Position	<u>\$ 3,997,817</u>

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

CASH AND CASH EQUIVALENTS

Investments (Continued)

Investment Rate Risk

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the City's exposure to fair value losses arising from increasing interest rates, the City's investment policy limits the term of investment maturities between thirty days to 24 months in order to remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. City management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the City from having to sell investments below original cost for that purpose. The investments at June 30, 2013 met the City's investment policy as of that date. Investment income was comprised entirely of interest and dividends amounting to \$9,087 for the year ended June 30, 2013.

Credit Risk

The investment policy permits investments in the following types of investments as authorized by the State of Maryland; direct U. S. obligations, U. S. agency obligations, repurchase agreements, bankers' acceptances, municipal securities, commercial paper, money market mutual funds and the MLGIP. The MLGIP was established in 1982 under Article 95, Section 22G of the Annotated Code of Maryland and is under the administration of the State Treasurer. It is rated AAA by Standard & Poor's, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. The investments of the City were not exposed to custodial credit risk at June 30, 2013, as \$1,883,719 was covered by FDIC insurance and the remaining was secured by acceptable collateral.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

RECEIVABLES

Summary of Receivables

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

	<u>Governmental Activities General</u>		<u>Business-type Activities</u>			
	<u>Commission</u>	<u>Sewer</u>	<u>Marina</u>	<u>Total</u>		
Taxes	\$ 678,104					
Other		254,159				
Allowance for uncollectibles		<u>(52,887)</u>				
Net receivables	<u>\$ 879,376</u>					
Accounts	\$ 144,558	\$ 321,179	\$ 14,798	\$ 480,535		
Allowance for uncollectibles	<u>(3,600)</u>			<u>(3,600)</u>		
Net receivables	<u>\$ 140,958</u>	<u>\$ 321,179</u>	<u>\$ 14,798</u>	<u>\$ 476,935</u>		

Governmental funds report deferred revenue in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as property taxes not collected within 60 days after fiscal year-end. Deferred revenue also includes rental and program advances, franchise fees and similar prepayments received by the City, grant revenue received prior to the incurrence of qualifying expenditures, and governmental fund non-exchange contributions which did not meet the GASB Statement No. 33 time restriction. Deferred revenue for the general fund at June 30, 2013 consisted solely of items deemed unavailable and was \$592,095.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

DUE FROM OTHER GOVERNMENTS

The June 30, 2013 balance due from other governments is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
State of Maryland:			
Various taxes and fees	\$ 18,035	\$	\$ 18,035
Grants	52,453	167,753	220,206
Total State of Maryland	<u>70,488</u>	<u>167,753</u>	<u>238,241</u>
Dorchester County:			
Room tax	86,407		86,407
Tech Park		1,266,198	1,266,198
Sanitary charges		99,194	99,194
Financial corporation payment	10,698		10,698
Real Estate taxes	210,520		210,520
Total Dorchester County	<u>307,625</u>	<u>1,365,392</u>	<u>1,673,017</u>
Total	<u>\$ 378,113</u>	<u>\$ 1,533,145</u>	<u>\$ 1,911,258</u>

The above receivable from Dorchester County for Tech Park will be received over the same terms as the USDA payment (see pages 36 and 38.)

INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer	Municipal Utilities Commission	\$ 199,926
General	Marina	1,646,443
Sewer	General	1,499,684

The outstanding balances between funds result from actual transfers of dollars between Sewer, Marina and General Fund and 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 the funds are made.

Neither the General Fund receivable from the Marina Fund nor the General Fund payable to the Sewer Fund are expected to be repaid within the next 12 months, therefore the net receivable of \$146,759 is included as a nonspendable fund balance in the General Fund's balance sheet.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

CAPITAL ASSETS

Capital assets of the Governmental Activity are summarized as follows:

	Balance June 30, 2012	Additions & Transfers	Deletions & Transfers	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 2,117,006	\$	\$	\$ 2,117,006
Construction in progress		7,700		7,700
Total capital assets not being depreciated	<u>2,117,006</u>	<u>7,700</u>		<u>2,124,706</u>
Capital Assets being depreciated				
Building and improvements	13,997,939	1,304,084	(41,778)	15,260,245
Furniture and equipment	1,400,894	396,943	(110,009)	1,687,828
Infrastructure	2,857,665	242,450		3,100,115
Vehicles	4,850,184	123,552		4,973,736
Total capital assets being depreciated	<u>23,106,682</u>	<u>2,067,029</u>	<u>(151,787)</u>	<u>25,021,924</u>
Less accumulated depreciation for				
Building and improvements	(2,213,746)	(360,260)	35,598	(2,538,408)
Furniture and equipment	(905,059)	(100,537)	106,650	(898,946)
Infrastructure	(755,717)	(71,441)		(827,158)
Vehicles	(4,103,840)	(256,314)		(4,360,154)
Total accumulated depreciation	<u>(7,978,362)</u>	<u>(788,552)</u>	<u>142,248</u>	<u>(8,624,666)</u>
Governmental activities, capital assets, net	<u>\$ 17,245,326</u>	<u>\$ 1,286,177</u>	<u>\$ (9,539)</u>	<u>\$ 18,521,964</u>

Capital assets of the Sewer Fund are summarized as follows:

	Balance June 30, 2012	Additions & Transfers	Deletions & Transfers	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 65,950	\$	\$	\$ 65,950
Construction in progress	8,741,142	2,043,571		10,784,713
Total capital assets not being depreciated	<u>8,807,092</u>	<u>2,043,571</u>		<u>10,850,663</u>
Capital assets being depreciated				
Building and improvements	1,326,400			1,326,400
Wastewater systems	50,061,901			50,061,901
Furniture and equipment	103,883		(650)	103,233
Vehicles	575,007	183,655	(71,162)	687,500
Total capital assets being depreciated	<u>52,067,191</u>	<u>183,655</u>	<u>(71,812)</u>	<u>52,179,034</u>
Less accumulated depreciation for				
Building and improvements	(1,326,400)			(1,326,400)
Wastewater systems	(21,933,189)	(1,117,522)		(23,050,711)
Furniture and equipment	(103,636)	(84)	650	(103,070)
Vehicles	(399,885)	(47,979)	71,162	(376,702)
Total accumulated depreciation	<u>(23,763,110)</u>	<u>(1,165,585)</u>	<u>71,812</u>	<u>(24,856,883)</u>
Sewer activities, capital assets, net	<u>\$ 37,111,173</u>	<u>\$ 1,061,641</u>	<u>\$</u>	<u>\$ 38,172,814</u>

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

CAPITAL ASSETS (Continued)

Capital assets of the Marina Fund, are summarized as follows:

	Balance June 30, 2012	Additions & Transfers	Deletions & Transfers	Balance June 30, 2013
Capital assets being depreciated				
Building and improvements	\$ 6,085,663	\$	\$	\$ 6,085,663
Vehicles	<u>10,291</u>	<u></u>	<u></u>	<u>10,291</u>
Total capital assets being depreciated	<u>6,095,954</u>	<u></u>	<u></u>	<u>6,095,954</u>
Less accumulated depreciation for				
Building and improvements	(902,919)	(152,141)		(1,055,060)
Vehicles	<u>(9,800)</u>	<u>(490)</u>		<u>(10,290)</u>
Total accumulated depreciation	<u>(912,719)</u>	<u>(152,631)</u>		<u>(1,065,350)</u>
Marina activites, capital assets, net	<u>\$ 5,183,235</u>	<u>\$ (152,631)</u>	<u>\$</u>	<u>\$ 5,030,604</u>

Capital assets of the Municipal Utilities Commission, are summarized as follows

	Balance June 30, 2012	Additions & Transfers	Deletions & Transfers	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 59,413	\$	\$	\$ 59,413
Construction in progress	<u>534,060</u>	<u>19,824</u>		<u>553,884</u>
Total capital assets not being depreciated	<u>593,473</u>	<u>19,824</u>		<u>613,297</u>
Capital assets being depreciated				
Building and improvements	127,557	13,300		140,857
Water systems	5,209,676			5,209,676
Furniture and equipment	261,595			261,595
Vehicles	<u>213,290</u>	<u>41,355</u>		<u>254,645</u>
Total capital assets being depreciated	<u>5,812,118</u>	<u>54,655</u>		<u>5,866,773</u>
Less accumulated depreciation for				
Building and improvements	(69,839)	(4,077)		(73,916)
Water systems	(4,188,508)	(80,272)		(4,268,780)
Furniture and equipment	(237,038)	(8,836)		(245,874)
Vehicles	<u>(204,851)</u>	<u>(6,175)</u>		<u>(211,026)</u>
Total accumulated depreciation	<u>(4,700,236)</u>	<u>(99,360)</u>		<u>(4,799,596)</u>
Municipal Utilities Commission, capital assets, net	<u>\$ 1,705,355</u>	<u>\$ (24,881)</u>	<u>\$</u>	<u>\$ 1,680,474</u>

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

CAPITAL ASSETS (Continued)

Depreciation expense is recorded as follows:

Governmental activities:	
General government	\$ 44,038
Public Safety	205,932
Public Works	<u>538,582</u>
Total governmental activities	<u>\$ 788,552</u>
Business-type activities	
Sewer fund	\$ 1,165,585
Marina fund	152,631
Municipal Utilities Commission	<u>99,360</u>
Total business-type activities	<u>\$ 1,417,576</u>

SHORT-TERM LIABILITIES

The following is a summary of the governmental activities short-term liabilities of the City for the year ended June 30, 2013.

National Bank of Cambridge short term loan payable. Interest is payable quarterly at 5.0%. Payable on demand.	\$ 115,301
National Bank of Cambridge Line of Credit of \$1,500,000 payable as requested. Interest is payable at a rate of 5.0%	792,585
Total short-term liabilities	<u>\$ 907,886</u>

	Beginning Balance	Additions	Principal Repayments	Ending Balance
Governmental activities:				
Note payable	\$ 165,301	\$	\$ 50,000	\$ 115,301
Line of credit	<u>1,573,793</u>		<u>781,208</u>	<u>792,585</u>
Governmental activities short-term liabilities	<u>\$ 1,739,094</u>	<u>\$</u>	<u>\$ 831,208</u>	<u>\$ 907,886</u>

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

LONG-TERM LIABILITIES

Changes in long-term obligations for the year June 30, 2013 are as follows:

	Beginning Balance	Additions	Principal Repayments	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 10,878,332	\$	\$ 397,374	\$ 10,480,958	\$ 412,831
Notes payable	264,768	673,337	106,980	831,125	121,856
Capital leases	38,629		38,629		
Compensated absences	323,946	(7,401)		316,545	
Governmental activities long-term liabilities	<u>\$ 11,505,675</u>	<u>\$ 665,936</u>	<u>\$ 542,983</u>	<u>\$ 11,628,628</u>	<u>\$ 534,687</u>
Business-type activities:					
General obligation bonds	\$ 10,127,520	\$ 277,876	\$ 793,814	\$ 9,611,582	\$ 864,669
Notes payable	132,057		93,297	38,760	38,760
Business-type activities long-term liabilities	<u>\$ 10,259,577</u>	<u>\$ 277,876</u>	<u>\$ 887,111</u>	<u>\$ 9,650,342</u>	<u>\$ 903,429</u>

Governmental Activities

General obligation bonds consist of the following:

\$13,000,000 - Public Facilities Bond of 2005

25 annual installments beginning August 1, 2006.

Semi-annual interest payments of 3.89% are paid over the term of 25 years.

\$ 10,480,958

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

LONG-TERM LIABILITIES (Continued)

Notes payable consist of the following:

Maryland Department of Natural Resources with principal payment in 25 annual installments beginning July 1, 2004. The obligation is without interest.	\$	179,568
Hebron Savings Bank loan of \$90,361 secured by certain equipment with principal payments in monthly installments of \$2,587 beginning January 2013. Interest is payable monthly at 1.97%.		75,667
Hebron Savings Bank loan of \$200,000 secured by mortgage with principal payments in monthly installments of \$1,448 beginning January 2013. Interest is payable monthly at 3.68%.		195,801
Chesapeake Industrial Leasing Co. Inc. with principal and interest payments in annual installments of \$45,824 beginning August 2013. Interest is payable annually at 4.73%.		199,321
Hebron Savings Bank loan of \$183,655 secured by certain equipment with principal payments in monthly installments of \$3,241 beginning June 2013. Interest is payable monthly at 2.27%.		180,768
Total notes payable	\$	<u>831,125</u>

Business-Type Activities

General obligation bonds consist of the following:

	<u>Municipal Utilities Commission</u>	<u>Sewer Fund</u>	<u>Marina Fund</u>	<u>Total</u>
\$3,000,000 – Public Facilities Bond of 2006. 15 annual installments beginning October 30, 2007. Annual payments including principal and interest of 3.98% are paid over the term of 15 years.	\$	\$	\$ 2,005,248	\$ 2,005,248
\$602,925 – Water Quality Bonds – Series 1996. 20 annual installments beginning August 1, 1997. Annual payments including principal and interest of 3.17% are paid over the term of 20 years.		85,376		85,376
\$10,500,000 – Water Quality Bonds – Series 2001. 20 annual installments beginning February 1, 2003. Annual payments including principal and interest of 1.50% are paid over the term of 20 years.		4,784,727		4,784,727

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

LONG-TERM LIABILITIES (Continued)

\$1,619,000 – Water Quality Bonds – Series 2011A/B. 20 annual installments beginning February 1, 2014. Annual payments including principal and interest of 4.60%.

1,070,180 1,070,180

\$1,718,895 – USDA. 120 quarterly installments beginning November 18, 2011. Quarterly payments of \$25,045 including principal and interest of 4.125%.

1,666,051 1,666,051

Total business-type activities general obligation bonds

\$ 7,606,334 \$ 2,005,248 \$ 9,611,582

Notes payable consist of the following:

	Municipal Utilities Commission	Sewer Fund	Marina Fund	Total
Hebron Savings Bank with principal payable in twelve quarterly payments of \$19,410, including interest at 2.14% beginning February 22, 2011.	\$	\$ 38,760	\$	\$ 38,760
Total business-type activities notes payable	\$	\$ 38,760	\$	\$ 38,760

Debt Service Requirements

Total annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Governmental Activities			
	General Obligation Bonds		Notes	
	Principal	Interest	Principal	Interest
2014	\$ 412,831	\$ 399,680	\$ 121,856	\$ 12,027
2015	428,891	383,308	126,232	10,242
2016	445,574	366,300	114,287	8,499
2017	462,907	348,630	102,056	7,129
2018	480,914	330,273	102,124	5,835
2019-2023	2,700,171	1,350,015	122,842	20,134
2024-2028	3,267,834	771,310	130,505	6,697
2029-2033	2,281,836	150,766	11,223	
	\$ 10,480,958	\$ 4,100,282	\$ 831,125	\$ 70,563

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

LONG-TERM LIABILITIES (Continued)

Debt Service Requirements

Year Ending June 30,	Business-Type Activities			
	General Obligation Bonds		Notes	
	Principal	Interest	Principal	Interest
2014	\$ 864,669	\$ 271,616	\$ 38,760	\$ 312
2015	884,996	251,292		
2016	870,232	230,364		
2017	884,533	209,946		
2018	905,365	189,112		
2019-2023	3,304,600	620,017		
2024-2028	576,945	352,399		
2029-2033	630,664	212,991		
2034-2038	398,198	102,702		
2039-2043	291,380	18,834		
	<u>\$ 9,611,582</u>	<u>\$ 2,459,273</u>	<u>\$ 38,760</u>	<u>\$ 312</u>

Technology Park Water and Sewer Systems

The Commissioners of Cambridge and the Municipal Utilities Commission have entered into an agreement with The County Council for Dorchester County, Maryland and Dorchester County Sanitary Commission, Inc. and Maryland Economic Development Corporation to construct water and sewer infrastructure facilities to the Technology Park. Of the total costs of the project, \$1,718,896 was financed with a loan from the United States Department of Agriculture in the City's name. 76% of the loan will be repaid by the County and is recorded as a Due from Dorchester County and 24% will be repaid by the City and MUC. As of June 30, 2013, this loan has a balance of \$1,666,050 with \$1,266,198 due from the county and \$199,926 due from MUC.

Enhanced Nutrient Removal

The Commissioners of Cambridge have acquired a bond with the Maryland Water Quality Financing Administration for \$1,619,000 to provide enhanced nutrient removal to the wastewater plant. The bond is payable in two series of \$1,214,000 and \$405,000 drawn down simultaneously. It is agreed that if all requirements of the loan are met, the \$405,000 portion of the loan will be forgiven. At June 30, 2013, \$1,427,201 has been drawn down. Of this, \$357,021 is being recognized as forgiveness of debt. The remaining \$1,070,180 is shown as bond payable.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

RETIREMENT AND PENSION PLANS

State Retirement and Pension Systems of Maryland

Plan Description

Certain employees of the City including Municipal Utilities Commission are covered by the Pension System for Employees of the State of Maryland, The Employees' Retirement System of the State of Maryland or The Law Enforcement Officers' Pension System. These systems are part of the Maryland State Retirement and Pension System (the State System), and are cost-sharing multiple-employer public employee retirement systems. The State System provides pension, death and disability benefits to plan members and beneficiaries. The plan is administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the State System is vested in a 12-member Board of Trustees. The State System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issued a publicly available financial report that includes basic financial statements and required supplementary information for the State System. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 410-625-5555.

State Retirement and Pension Systems of Maryland

Funding Policy

The State Personnel and Pensions Article requires active members to contribute to the State System at the rate of 4%, 5% or 7% of their covered salary depending upon the retirement option selected. The City is required to contribute at an actuarially determined rate. The three year contribution information for the City is as follows:

	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2011	\$ 1,149,241	100%	0
6/30/2012	1,020,080	100%	0
6/30/2013	929,992	100%	0

Municipal Utilities Commission absorbed \$64,279, \$74,957, and \$78,311, respectively for the years ended June 30, 2013, 2012, and 2011.

POST-EMPLOYMENT HEALTHCARE BENEFITS

The City and Municipal Utilities Commission provide post-employment healthcare benefits for retired employees at a percentage of the total premium. All full-time employees may become eligible for these benefits at retirement, with 20 or more years of employment and/or 62 years old or have been employed for 25 years. The City's cost of retiree healthcare is recognized as an expenditure as the premiums are paid. For the year ended June 30, 2013, 32 retirees were eligible for benefits receiving benefits at an actual cost to the City of \$178,075. Municipal Utilities Commission absorbed \$34,828 of this cost.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

POST-EMPLOYMENT HEALTHCARE BENEFITS (Continued)

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. The basic premise of the statement is that Other Postemployment Benefits (OPEB) is earned by employees and should be recognized by the employer as the employee provides services. GASB 45 requires employers to account for and report the annual cost of OPEB and the outstanding obligations and commitments related to them in the same manner as they currently do for pensions. The City pays a portion of the health insurance premiums for retirees. In fiscal year 2009, the City adopted GASB 45 which resulted in the City reporting an actuarially-based liability for benefits in its government-wide financial statements.

The City contracted for an actuarial study that determined the Actuarially Required Contribution (ARC) for the fiscal year ended June 30, 2009 and 2010, the years ended June 30, 2011 and 2012, and again for the years ended June 30, 2013 and 2014. Although the City had hoped to be able to fully fund the ARC; for the years ended through June 30, 2013, no amount has been contributed. The original 2009 ARC was based on a fully funded basis, whereas the subsequent ARC's are based on an unfunded basis.

Annual OPEB Cost and Net OPEB Obligation

The City's OPEB cost is the ARC, which represents a level of funding that, if paid in an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the City and Municipal Utilities Commission's annual OPEB cost for the year, the amount actually contributed to the plan or paid on behalf of retirees, and changes in the City's net OPEB obligation.

Net OPEB obligation at beginning of year	\$ 3,353,000
Annual required contribution	859,000
Contributions made	(250,000)
Interest on net OPEB obligation	117,000
Net OPEB obligation adjustment	(120,000)
Net OPEB obligation - end of year	<u>\$ 3,959,000</u>
Net OPEB obligation reported by Municipal Utilities Commission	\$ 491,787
Net OPEB obligation reported by City of Cambridge	<u>3,467,213</u>
Net OPEB obligation - end of year	<u>\$ 3,959,000</u>

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

POST-EMPLOYMENT HEALTHCARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 1,103,776	13.1%	\$ 2,531,000
6/30/2012	1,130,000	27.3%	3,353,000
6/30/2013	856,000	29.2%	3,959,000

Schedule of Funding Progress

Based on an actuarial study performed in May, 2013, the most recent actuarial date, the plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$12,646,000 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$12,646,000.

Actuarial accrued liabilities	\$ 12,646,000
Actuarial value of plan assets	-
Unfunded AAL	<u>12,646,000</u>
Funded ratio as of actuarial value dates	0%
Covered payroll	5,087,638
UAAL as a percentage of covered payroll	249%

Actuarial assumptions of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information but included in the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

POST-EMPLOYMENT HEALTHCARE BENEFITS (Continued)

Summary of Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on a substantive plan as understood by the employer and the plan members and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point, and any known changes in the plan going forward. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May, 2013 actuarial valuation as of July 1, 2012, the projected unit credit cost method was used. Mortality calculations were done using the RP 2000 Fully Generational Healthy Mortality Table projected using Scale AA.

The discount rate assumption has been reduced by 50 basis points from 4.00% to 3.50% to be consistent with current economic conditions.

The medical trend assumption is based on a model developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The SOA Model was released in December 2007 and updated in 2011. The following baseline assumptions were used as input variables into this model:

Rate of Inflation	2.5%
Rate of Growth in Real Income/GDP per capita	1.7%
Income Multiplier for Health Spending	1.4
Extra Trend due to Technology and other factors	1.1%
Health Share of GDP Resistance Point	25.0%
Year for Limited Cost Growth to GDP Growth	2075

Payroll is assumed to increase at 3.50% per annum. This assumption is used to determine the level of percentage of payroll amortization factor.

OTHER INFORMATION

Commitments and Contingencies

Legal

The City is a defendant in several lawsuits. After considering all relevant facts and the opinion of legal counsel, it is the opinion that the lawsuits will not, in the aggregate, have a material adverse effect on the financial position of the City.

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

OTHER INFORMATION (Continued)

Health

The City participates in a "minimum premium plan" for its employee healthcare insurance. Under this plan, the City, who uses a third party administrator to process and pay claims, is responsible for paying all claims up to agreed-upon aggregate level with an insurance program responsible for the excess. The City has obtained a stop loss insurance policy of \$60,000 per participant to limit its healthcare costs. The City has been provided by the third party administrator an estimated accrual for claims incurred and included in these financial statements of \$85,434 as of June 30, 2013.

Grants and Cost-Reimbursable Contracts

Most grants and cost-reimbursable contracts specify the types of expenditures for which the grant or contract funds may be used. The expenditures made by the City under some of these grants and contracts are subject to audit. To date, the City has not been notified of any significant unallowable costs relating to its grants or contracts. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits will not have a material effect on the accompanying financial statements.

Maryland Environmental Services

The City has entered into a contract with the Maryland Environmental Services (MES), a body politic and corporate constituting an instrumentality of the State of Maryland. The contract dated June 18, 1993 and amended December 16, 1998 states that MES shall operate and maintain the City's sewage collection and wastewater treatment plant on a full time basis and provide properly trained and licensed personnel to operate and maintain the City's plant and pump stations including all rules, regulations, and analysis and reports as required by local, state, and federal regulator agencies.

The contract states that the City shall be responsible for reimbursing all cost of salary administration cost and overhead at a monthly rate mutually agreed to annually and bear all cost of maintenance and improvements to the system.

PRIOR PERIOD ADJUSTMENT

As of 2012, the City began allocating a portion of the health expense to the proprietary funds. Therefore, according to GASB 45 the City is required to recognize this unfunded OPEB liability in their corresponding funds. The adjustments to net position are as follows:

	General Fund	Sewer Fund	Marina Fund	Municipal Utilities Commission
Net position at June 30, 2012, as previously reported	\$ 5,231,765	\$ 32,221,797	\$ 1,533,324	\$ 1,995,028
Adjustment for OPEB expense	264,284	(205,554)	(58,730)	
Net position at June 30, 2012, as restated	<u>\$ 5,496,049</u>	<u>\$ 32,016,243</u>	<u>\$ 1,474,594</u>	<u>\$ 1,995,028</u>

CITY OF CAMBRIDGE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NEW PRONOUNCEMENTS

GASB approved Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will require certain items that were previously reported as assets and liabilities be reported as deferred outflows of resources or deferred inflows of resources. The City will be required to implement GASB Statement No. 65 for the year ending June 30, 2014.

GASB has also approved Statement No. 68 which will require the City to provide additional information in the financial statements related to cost sharing pension plans such as the Maryland State Retirement and Pension Plans. The City will be required to implement GASB Statement No. 68 for the year ending June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Taxes				
Local property taxes				
Real property	\$ 5,978,000	\$ 5,978,000	\$ 5,921,028	\$ (56,972)
Personal property	650,000	650,000	647,686	(2,314)
RR and public utilities	225,000	225,000	261,902	36,902
Interest on delinquent taxes	60,000	60,000	131,826	71,826
Total local taxes	<u>6,913,000</u>	<u>6,913,000</u>	<u>6,962,442</u>	<u>49,442</u>
Other taxes				
Income taxes	400,000	400,000	562,115	162,115
Admissions and amusements	100,000	100,000	42,134	(57,866)
Southside landing park	22,000	22,000	17,763	(4,237)
Highway user	100,600	100,600	118,703	18,103
Room tax	850,000	850,000	703,560	(146,440)
Impact fees			19,575	19,575
Total other taxes	<u>1,472,600</u>	<u>1,472,600</u>	<u>1,463,850</u>	<u>(8,750)</u>
Total taxes	<u>8,385,600</u>	<u>8,385,600</u>	<u>8,426,292</u>	<u>40,692</u>
Licenses and permits				
Traders	36,000	36,000	34,929	(1,071)
Licenses and permits	49,340	49,340	17,734	(31,606)
Electrical permits	1,050	1,050	1,845	795
Building and equipment	86,480	86,480	53,020	(33,460)
Cable television franchise	72,000	72,000	82,903	10,903
Housing rental inspection	127,000	127,000	125,457	(1,543)
Other	5,000	5,000		(5,000)
Total licenses and permits	<u>376,870</u>	<u>376,870</u>	<u>315,888</u>	<u>(60,982)</u>
Intergovernmental				
Federal				
PILOT	14,500	14,500		(14,500)
FEMA grant			31,366	31,366
Cops hiring grant	83,335	83,335	48,754	(34,581)
CDBG - Maces Lane			244,601	244,601

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Intergovernmental (Continued)				
Federal (Continued)				
CDBG Downtown parking lot	\$	\$	\$ 68,891	\$ 68,891
Coastal Community Rezone grant			35,860	35,860
Total federal	97,835	97,835	429,472	331,637
State				
Police protection	107,705	107,705	111,664	3,959
S.A.I.L.O.F.F.	19,735	19,735		(19,735)
Safe routes to school			10,209	10,209
DWI - impaired driving	12,000	12,000	7,237	(4,763)
Project safe streets	30,000	30,000	47,996	17,996
Aggressive driving			2,767	2,767
DNR grants	5,900	5,900	7,700	1,800
Community legacy			14,552	14,552
Gun reduction violence	9,900	9,900	3,826	(6,074)
Financial corporations	10,698	10,698	10,698	
Bryn grant - equipment	10,513	10,513		(10,513)
Cosby Avenue Park			116,496	116,496
MD Avenue Gateway project			9,452	9,452
Underage drinking	3,500	3,500		(3,500)
Tobacco compliance grant	3,500	3,500		(3,500)
Total state	213,451	213,451	342,597	129,146
County				
Woods Road lights	500	500	500	
County beer and wine licenses	4,000	4,000	5,000	1,000
Alcohol sting			3,500	3,500
County PSB rental	36,000	36,000	36,000	
Total county	40,500	40,500	45,000	4,500
Total intergovernmental	351,786	351,786	817,069	465,283

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Service charges				
Department public works- miscellaneous	\$ 14,000	\$ 14,000	\$ 13,729	\$ (271)
Energy management	10,000	10,000	18,934	8,934
Disposal fees	624,171	624,171	642,277	18,106
Total service charges	<u>648,171</u>	<u>648,171</u>	<u>674,940</u>	<u>26,769</u>
Fines and forfeitures				
Parking citations	4,000	4,000	1,850	(2,150)
Delinquent parking tickets	2,000	2,000	850	(1,150)
Civil citations	4,200	4,200	1,420	(2,780)
Traffic citations	25,000	25,000	159,676	134,676
Forfeitures			15,324	15,324
Municipal infractions	25,000	25,000	40,624	15,624
Total fines and forfeitures	<u>60,200</u>	<u>60,200</u>	<u>219,744</u>	<u>159,544</u>
Miscellaneous revenue				
Miscellaneous interest	10,000	10,000	41	(9,959)
Miscellaneous revenue	153,000	153,000	391,434	238,434
Donation - lighthouse			110,322	110,322
Water tower lease	19,800	19,800	21,120	1,320
Total miscellaneous revenue	<u>182,800</u>	<u>182,800</u>	<u>522,917</u>	<u>340,117</u>
Total revenues	<u>10,005,427</u>	<u>10,005,427</u>	<u>10,976,850</u>	<u>971,423</u>
Other financing sources				
Loan proceeds	746,840	746,840	673,337	(73,503)
Total other financing sources	<u>746,840</u>	<u>746,840</u>	<u>673,337</u>	<u>(73,503)</u>
Total revenues and other financing sources	<u>\$ 10,752,267</u>	<u>\$ 10,752,267</u>	<u>\$ 11,650,187</u>	<u>\$ 897,920</u>

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
General government				
Legislative				
Salary - part-time	\$ 40,000	\$ 40,000	\$ 40,000	\$
Telephone	400	415	347	68
Meetings and conventions	800	1,100	993	107
Vehicle gas and oil		28	28	
Operations supplies	3,600	4,060	3,738	322
Total legislative	44,800	45,603	45,106	497
Executive				
Salary - part-time	9,600	9,600	9,600	
Telephone	960	1,107	1,296	(189)
Meetings and conventions	1,440	2,706	2,682	24
Operations supplies	1,240	705	695	10
Total executive	13,240	14,118	14,273	(155)
Elections				
Professional services	2,000	2,000	2,000	
Miscellaneous operating expense	7,000	7,000	10,071	(3,071)
Total elections	9,000	9,000	12,071	(3,071)
Financial administration				
Salary - supervisor	74,823	74,823	74,823	
Salary - regular	172,699	172,699	177,422	(4,723)
Miscellaneous Benefits	116,725	112,769	112,769	
Office supplies	4,000	4,000	3,475	525
Printing	2,500	2,500	1,753	747
Telephone	4,230	4,750	4,555	195
Postage	3,000	3,000	3,006	(6)
Advertising	400	400		400
Travel	450	450	226	224
Operations supplies	450	450	355	95
Computer software service	3,780	3,780	442	3,338

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
General government (Continued)				
Financial administration (Continued)				
Computer equipment	\$ 4,500	\$ 4,900	\$ 4,859	\$ 41
Computer software	20,700	10,000	209,334	(199,334)
Vehicle gas and oil	360	750	723	27
Vehicle maintenance and repairs		176	176	
Office equipment repair & maintenance	450	450		450
Professional services	18,750	29,000	31,256	(2,256)
Lease payments	9,360	9,360	9,321	39
Total financial administration	<u>437,177</u>	<u>434,257</u>	<u>634,495</u>	<u>(200,238)</u>
Law				
Miscellaneous operating expense	6,800	6,900	6,959	(59)
Meetings and conventions	765	765	638	127
Printing	8,075	8,075	7,582	493
Miscellaneous services	1,785	2,510		2,510
Legal retainer	59,500	59,500	59,500	
Total law	<u>76,925</u>	<u>77,750</u>	<u>74,679</u>	<u>3,071</u>
Risk management				
Salary - regular	48,937			
Substance abuse testing	900	150	(12)	162
Total risk management	<u>49,837</u>	<u>150</u>	<u>(12)</u>	<u>162</u>
Planning and zoning				
Salary - regular	108,938	108,938	108,940	(2)
Substance Abuse Testing		142		142
Communications			(142)	142
Professional services			(1,500)	1,500
Total planning and zoning	<u>108,938</u>	<u>109,080</u>	<u>107,298</u>	<u>1,782</u>
General services				
Operations supplies	87			
Building repairs and maintenance	9,537	9,537	1,735	7,802
Fuel/utilities	56,355	38,355	31,720	6,635

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
General government (Continued)				
General services (Continued)				
Street lighting	\$ 209,814	\$ 250,814	\$ 255,784	\$ (4,970)
Christmas lighting	1,560	1,560	1,234	326
Machinery and equipment capital	200,000	200,000		200,000
Gateway Street scape	75,000			
Maryland Ave/Trenton st intersection		75,000	75,750	(750)
Race Street parking lot	300,000	300,000	250,000	50,000
Total general services	<u>852,353</u>	<u>875,266</u>	<u>616,223</u>	<u>259,043</u>
Other government				
Contributions			(1,625)	1,625
Fireworks	20,000	20,000	20,000	
Special promotions		119	39	80
Association dues	10,464	10,551	10,551	
Total other government	<u>30,464</u>	<u>30,670</u>	<u>28,965</u>	<u>1,705</u>
Total general government	<u>1,622,734</u>	<u>1,595,894</u>	<u>1,533,098</u>	<u>62,796</u>
Public safety				
Police administration				
Salaries	469,750	469,750	460,583	9,167
Recruitment	1,000	1,000	800	200
Office supplies	5,500	5,477	5,178	299
Telephone	300			
Postage	550	550	400	150
Advertising	500	500	324	176
Dues and publications	500	675	570	105
Meetings and conventions	1,000	1,000	305	695
Vehicle gas and oil	97,000	97,000	91,920	5,080
Vehicle maintenance and repairs	26,600	26,600	26,379	221
Uniforms	400	400	349	51
Professional services	5,000	6,000	5,370	630
Awards and appreciation	600	600	542	58
Total police administration	<u>608,700</u>	<u>609,552</u>	<u>592,720</u>	<u>16,832</u>

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public safety (Continued)				
Patrol and investigation				
Salary - regular	\$ 1,055,000	\$ 1,092,000	\$ 1,074,118	\$ 17,882
Salary - overtime	43,025	63,025	54,062	8,963
Postage	200	200	195	5
Vehicle repairs and maintenance			12,075	(12,075)
Operations supplies	2,000	2,000	1,538	462
Equipment	4,250	4,250	4,962	(712)
Uniforms	7,000	6,000	4,232	1,768
Clothing, purchase, alterations	2,500	1,500	1,225	275
Capital acquisitions	63,066	63,066	30,867	32,199
Total patrol and investigation	<u>1,177,041</u>	<u>1,232,041</u>	<u>1,183,274</u>	<u>48,767</u>
Traffic control				
Salary - regular	214,000	214,000	207,311	6,689
Salary - overtime	12,075	12,075	7,220	4,855
Postage	150	150	100	50
Operations supplies	1,000	1,000	984	16
Uniforms	600	600	343	257
Clothing purchase	100	100		100
Total traffic control	<u>227,925</u>	<u>227,925</u>	<u>215,958</u>	<u>11,967</u>
Training				
Recruitment	6,000	6,000	2,502	3,498
Employee training	3,000	3,000	2,743	257
Wellness program	500	550	550	
Postage	80	80	80	
Operations supplies	700	700	585	115
Equipment and parts	500	500	325	175
Firing range maintenance	50	50	24	26
Ammunition	6,000	6,000	5,999	1
Total training	<u>16,830</u>	<u>16,880</u>	<u>12,808</u>	<u>4,072</u>

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public safety (Continued)				
Communications				
Salary - regular	\$ 282,546	\$ 282,546	\$ 262,026	\$ 20,520
Salary - overtime	6,900	6,900	833	6,067
Printing	3,000	3,000	2,929	71
Telephone	4,500	6,200	4,942	1,258
Computer maintenance	38,000	38,023	37,791	232
Operations supplies	500	500	50	450
Office repair/maintenance	150	150	143	7
Equipment	6,000	6,000	4,633	1,367
Uniforms	500	500	490	10
Communications	10,000	10,500	10,086	414
Miles computer	6,000	5,025	2,725	2,300
Total communications	<u>358,096</u>	<u>359,344</u>	<u>326,648</u>	<u>32,696</u>
Crime prevention				
Salary - regular	100,000	100,000	100,000	
Salary - overtime	15,860	15,860	10,991	4,869
Postage	200	200	184	16
Operations supplies	995	995	2,536	(1,541)
Dare program	100	100	100	
Uniforms	100	100	92	8
Clothing purchase	100	100	60	40
Total crime prevention	<u>117,355</u>	<u>117,355</u>	<u>113,963</u>	<u>3,392</u>
Detective division				
Salary - regular	318,000	298,000	292,895	5,105
Salary - overtime	22,550	22,550	22,540	10
Postage	400	400	279	121
Travel	220	220	137	83
Operations supplies	2,500	2,500	2,422	78
Office equipment repairs and maintenanc	50	50	44	6
Clothing purchase and alterations	1,000	1,000	966	34
Total detective division	<u>344,720</u>	<u>324,720</u>	<u>319,283</u>	<u>5,437</u>

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public safety (Continued)				
Drug enforcement				
Salary - overtime	\$ 33,750	\$ 33,750	\$ 45,712	\$ (11,962)
Operations Supplies			18,149	(18,149)
Equipment and parts	2,000	2,000	2,066	(66)
Evidence/buy money	2,000	2,000	14,184	(12,184)
Total drug enforcement	<u>37,750</u>	<u>37,750</u>	<u>80,111</u>	<u>(42,361)</u>
Community policing				
Salary - regular	300,000	300,000	300,419	(419)
Salary - overtime	12,446	12,446	11,177	1,269
Mobile police station	1,000	1,000	827	173
Community outreach program	800	800	783	17
Pine St. substation	1,000	2,250	2,201	49
Operations supplies	1,300	1,050	843	207
Uniforms	2,000	850	366	484
Clothing purchase	100	100	77	23
Total community policing	<u>318,646</u>	<u>318,496</u>	<u>316,693</u>	<u>1,803</u>
Cops deployment grant				
Operating supplies	14,832	14,832	10,513	4,319
Cops hiring grant				
Salary - regular	71,000	34,000	34,000	
School bus safety/safe route to school				
Overtime			8,501	(8,501)
Hot spot community policing				
Overtime	30,000	30,000	10,403	19,597

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public safety (Continued)				
Aggressive driving				
Overtime	\$	\$	\$ 2,866	\$ (2,866)
Impaired driving/DWI education				
Overtime	9,400	9,400	7,668	1,732
Tobacco compliance/drug court curfew				
Overtime			270	(270)
Underage drinking				
Overtime	3,500	3,500	3,320	180
Fire department				
Office supplies	1,500	1,500	1,377	123
Fire prevention advertising	1,250	567	567	
Vehicle gas and oil	11,000	11,000	11,147	(147)
Vehicle repairs and maintenance	20,000	145,539	145,472	67
Tires	3,500	3,500	600	2,900
Operations supplies	4,000	4,000	2,986	1,014
Hazmat supplies	8,000	4,000		4,000
Foam	2,000	2,000	1,981	19
Protective gear	30,000	22,000	19,047	2,953
Water rescue	3,000	2,323	737	1,586
Confined space	2,500			
Hose and appliances	3,500	3,500	2,785	715
Other repairs and maintenance	7,500	7,900	8,283	(383)
Radio repairs	1,000	1,000	985	15
Air mask repairs	1,000	1,000		1,000
Siren maintenance	2,000			
Ambulance Maintenance			1,425	(1,425)
508 expenses			1,537	(1,537)
Equipment and parts	2,000	2,000	1,756	244
Communications	1,000	322	323	(1)

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public safety (Continued)				
Fire department (Continued)				
Contributions	\$ 1,300	\$ 1,300	\$ 1,016	\$ 284
Hazmat collections	3,000	3,000	1,338	1,662
Certification fees	27,000	27,000	16,699	10,301
Volunteer benefits	20,000	20,000	20,000	
Vaccinations/health	1,000	1,000	113	887
Banquet	5,000	5,000	5,000	
Training	2,000	2,000	1,763	237
Total fire department	<u>164,050</u>	<u>271,451</u>	<u>246,937</u>	<u>24,514</u>
Municipal properties maintenance				
Salary - regular	104,145	104,145	102,816	1,329
Salary - overtime	1,800	2,571	2,571	
Computer software	950	950		950
Vehicle gas and oil	4,560	4,560	3,843	717
Vehicle repairs	1,600	1,600	614	986
Operations supplies	640	640	478	162
Professional services	5,900	6,550	6,070	480
Weed and mosquito control	6,700	8,599	7,971	628
Malls	250	157		157
Other repairs and maintenance	9,300	4,629	2,595	2,034
Tools and equipment	100	100	15	85
Energy costs	2,000	2,400	2,341	59
Traffic controller	18,000	18,000		18,000
Machinery and equipment capital	45,000	45,000		45,000
Grant projects			34,982	(34,982)
Total municipal properties maintenance	<u>200,945</u>	<u>199,901</u>	<u>164,296</u>	<u>35,605</u>
Public safety building				
Salary - regular	117,947	113,947	113,187	760
Operations supplies	6,450	4,450	2,922	1,528
Telephone	27,000	24,000	22,813	1,187
Fuel and utilities	147,000	124,000	137,488	(13,488)
Vehicle	275	275	158	117

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public safety (Continued)				
Public safety building (Continued)				
Building repairs and maintenance	\$ 54,045	\$ 23,059	\$ 18,720	\$ 4,339
Communications	4,200	4,200	3,864	336
Total public safety building	356,917	293,931	299,152	(5,221)
Total public safety	4,057,707	4,101,078	3,949,384	151,694
Public works				
General administration				
Salary - supervisor	58,196	58,196	58,196	
Salary - regular	50,559	50,559	49,640	919
Substance abuse testing	91	91		91
Employee training	1,260	1,260	464	796
Office supplies	5,600	6,373	4,351	2,022
Printing	420	420	107	313
Telephone	9,800	9,800	9,027	773
Postage	3,150	3,077	2,406	671
Advertising	2,800	3,660	3,603	57
Dues and publications	1,260	162	102	60
Computer maintenance	3,640	3,640	2,847	793
Vehicle gas and oil	6,300	6,300	4,981	1,319
Vehicle repairs and maintenance	1,050	1,050	984	66
Operations supplies	350	350	342	8
Office equipment repairs/maintenance	70	70		70
Safety equipment	4,900	4,900	4,591	309
Uniforms	9,940	9,940	8,682	1,258
Communications	6,230	6,230	10,072	(3,842)
Lease payments	14,000	13,878	8,317	5,561
Professional fees	9,100	9,100	6,798	2,302
DPW fire			133,184	(133,184)
Committee meeting	1,890	1,190		1,190
Certification fees	22,120	37,420	53,025	(15,605)
Demolitions	8,400	8,400		8,400
Machinery and equipment capital	840	840	413,238	(412,398)
Total general administration	221,966	236,906	774,957	(538,051)

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public works (Continued)				
Engineering services				
Salary - regular	\$ 82,979	\$ 44,276	\$ 64,775	\$ (20,499)
Building safety services				
Salary - regular	152,752	124,952	125,782	(830)
City services division				
Salary - regular	48,618	48,618	48,618	
Salary - overtime		93	93	
Total city services division	48,618	48,711	48,711	
Assistant superintendent				
Salary - regular	27,956	27,956	28,015	(59)
Sanitation and waste				
Salary - regular	181,073	166,073	163,517	2,556
Salary - overtime	3,000	3,000	766	2,234
Vehicle gas and oil	43,200	34,303	29,416	4,887
Vehicle repairs and maintenance	18,000	24,207	22,596	1,611
Operations supplies	450	2,490	2,439	51
Tipping fees	297,000	297,000	286,940	10,060
Total sanitation and waste	542,723	527,073	505,674	21,399
Highways and streets				
Salary - regular	72,691	73,675	70,603	3,072
Salary - overtime	2,100	2,100	1,690	410
Vehicle gas and oil	12,000	12,000	10,519	1,481
Vehicle repairs and maintenance	6,000	7,905	1,429	6,476
Operations supplies	1,500	2,600		2,600
Road salt	10,000	8,900	7,865	1,035
Snow removal equipment	2,500	615	526	89
Equipment maintenance	6,375	6,375	1,144	5,231
Equipment and parts	1,000	1,000	267	733
Maces Lane Crosswalk			1,468	(1,468)

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public works (Continued)				
Highways and streets (Continued)				
Resurfacing	\$ 200,000	\$ 200,000	\$ 199,407	\$ 593
High St. repairs	3,000	3,000	1,500	1,500
Vehicle	8,000	8,494	8,494	
Total highways and streets	<u>325,166</u>	<u>326,664</u>	<u>304,912</u>	<u>21,752</u>
Heavy equipment maintenance				
Salary - regular	54,084	54,084	52,305	1,779
Salary - overtime	800	800	901	(101)
Operations supplies	4,800	4,306	3,055	1,251
Uniforms	1,000	984	843	141
Tools and equipment		16	16	
Total heavy equipment maintenance	<u>60,684</u>	<u>60,190</u>	<u>57,120</u>	<u>3,070</u>
Total public works	<u>1,462,844</u>	<u>1,396,728</u>	<u>1,909,946</u>	<u>(513,218)</u>
Recreation and parks				
Operations supplies	100	100	40	60
ADA portable toilets	3,000	3,000	700	2,300
Repairs and maintenance	3,000	14,900	14,050	850
Trash containers	1,000	1,000		1,000
Capital outlay	100,000	100,000	210,573	(110,573)
Grant projects			116,496	(116,496)
Total recreation and parks	<u>107,100</u>	<u>119,000</u>	<u>341,859</u>	<u>(222,859)</u>
Economic development				
Salary - regular	97,591	97,591	97,591	
Salary - overtime			4,301	(4,301)
Office supplies	425	425	394	31
Printing	700	700	57	643
Telephone	2,500	2,500	2,465	35
Postage	100	300	300	
Advertising	10,765	11,765	7,261	4,504
Travel	500	500	493	7
Dues and subscriptions	975	775	704	71
Meetings and conventions	610	838	738	100

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Economic development (Continued)				
Grant services	\$	\$	\$ 45,702	\$ (45,702)
Computer maintenance	150	150	34	116
Operations supplies	500	525	523	2
Equipment and parts	250	250	47	203
Professional services	2,000	1,000	40	960
Maple St. project coordinator			1,845	(1,845)
Gateway Signage			314	(314)
Machinery and equipment capital				
Total economic development	<u>117,066</u>	<u>117,319</u>	<u>162,809</u>	<u>(45,490)</u>
Miscellaneous				
FICA	354,027	354,027	369,269	(15,242)
Health and life insurance	773,100	773,100	815,483	(42,383)
Pension	737,881	737,881	819,056	(81,175)
Workers' compensation	279,175	279,175	265,126	14,049
Unemployment insurance	11,167	11,167	233	10,934
Insurance - property	137,440	137,440	154,110	(16,670)
Bad debts			(5,353)	5,353
Contingency fund	10,000	10,000	10,000	
Reimbursable expenditures			1,281	(1,281)
Total miscellaneous	<u>2,302,790</u>	<u>2,302,790</u>	<u>2,429,205</u>	<u>(126,415)</u>
Debt service				
Principal	584,772	622,204	504,354	117,850
Interest	497,254	497,254	514,488	(17,234)
Total debt service	<u>1,082,026</u>	<u>1,119,458</u>	<u>1,018,842</u>	<u>100,616</u>
Total expenditures	<u>10,752,267</u>	<u>10,752,267</u>	<u>11,345,143</u>	<u>(592,876)</u>

CITY OF CAMBRIDGE, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES,
BUDGET (NON-GAAP AND BUDGETARY BASIS) AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2013

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Summary				
Total revenues and other financing sources	\$ 10,752,267	\$ 10,752,267	\$ 11,650,187	\$ 897,920
Total expenditures	<u>10,752,267</u>	<u>10,752,267</u>	<u>11,345,143</u>	<u>(592,876)</u>
Revenues and other financing sources over expenditures	<u>\$</u>	<u>\$</u>	305,044	<u>\$ 305,044</u>
Encumbrances - 2012			(639,073)	
Encumbrances - 2013			517,234	
Revenues and other financing sources over expenditures - GAAP Basis			<u>\$ 183,205</u>	

CITY OF CAMBRIDGE, MARYLAND
 SCHEDULE OF FUNDING PROGRESS
 SINGLE EMPLOYER POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN
 (UNAUDITED)
 YEAR ENDED JUNE 30, 2013

Actual Valuation Date	Actuarial Value of Assets	Actual Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2008	-	7,144,000	7,144,000	0.0%	7,221,131	98.9%
7/1/2009	-	7,144,000	7,144,000	0.0%	7,221,131	98.9%
7/1/2010	-	12,673,000	12,673,000	0.0%	5,258,000	241.0%
7/1/2011	-	13,462,000	13,462,000	0.0%	5,111,281	263.4%
7/1/2012	-	12,646,000	12,646,000	0.0%	5,087,638	248.6%

GOVERNMENT AUDITING STANDARDS REPORT



PKS & Company, P.A.
Pigg, Krahl & Stern

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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

The Honorable Mayor and Council
City of Cambridge, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Cambridge, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Cambridge, Maryland's basic financial statements and have issued our report thereon dated October 16, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 13-01 to be a material weakness.

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. We consider the deficiency described in the accompany schedule of findings and responses as item 13-02 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cambridge, Maryland's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

City of Cambridge, Maryland's Response to Findings

The City of Cambridge, Maryland's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City of Cambridge, Maryland's response and, accordingly, we express no opinion on it.

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.

PKS + Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 16, 2013

CITY OF CAMBRIDGE, MARYLAND
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013

13-01 Criteria – A financial software package should effectively process financial transactions producing meaningful data in a timely manner.

Condition – The prior software package was outdated and stopped working in June 2012. A new software was quickly purchased but was not implemented until April 2013. The first nine months of financial information was recorded in a variety of formats and meaningful reports were not available until the new software was implemented.

Effect – There is a danger that data could be missed and reports were not available in a timely fashion.

Cause – The software was not operational for nine months of the year.

Recommendation – The new software is implemented and running effectively. Management should not encounter a problem like this again.

Views of responsible officials and planned corrective actions – Management now has the new software implemented, and this issue should not persist.

13-02 Criteria – Controls should be in place to detect, prevent, or correct misstatements in the City's drafted financial statements.

Condition – Management relies on the auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements are reviewed and approved by management prior to their issuance. In addition, management relies on the auditor to perform certain tasks such as the preparation of approved adjusting entries to the trial balance.

Effect – There is a danger that intentional or unintentional errors could be made and not detected.

Cause – Management does not have sufficient knowledge of required generally accepted accounting principles to prepare the financial statements and related disclosures.

Recommendation – None.

Views of responsible officials and planned corrective actions – Management acknowledges the condition and is willing to accept the risks associated with it.