

**TOWN OF CHESTERTOWN, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2014**

TOWN OF CHESTERTOWN

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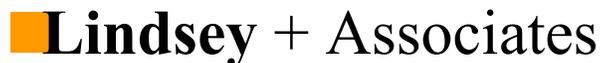
JUNE 30, 2014

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*GOVERNMENT AUDITING STANDARDS***

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Independent Auditor's Report

Honorable Mayor, Members of the Town Council and Town Manager
Town of Chestertown, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chestertown, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chestertown, Maryland, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity 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 discussion and analysis, budgetary comparison information and the schedule of funding progress – retiree medical program on pages 4 through 14 and 46 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Chestertown, Maryland's financial statements as a whole. The combining statements of net position, revenues, expenses and changes in net position and cash flows – non-major proprietary funds, the schedule of revenues, expenses and changes in net position – budget and actual – utility fund, and the schedule of revenues, expenses and changes in net position – budget and actual – marina fund (“supplemental schedules”) on pages 55 through 60 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2014, on our consideration of the Town of Chestertown, 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 Town of Chestertown, Maryland's internal control over financial reporting and compliance.

October 17, 2014

Hindley & Associates, LLC

TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2014

The following analysis is designed to assist readers in understanding the Town of Chestertown's basic financial statements, the relationship of different types of statements, and the significant differences in the information they provide for the fiscal year ended June 30, 2014. This analysis is best understood if reviewed in conjunction with the Town's basic financial statements.

Financial Highlights

- The general fund reported a fund balance this year of \$1,603,799 compared to \$1,555,554 in 2013.
- The Town's General Fund had an excess of revenues over expenses of \$48,245 in 2014 compared to \$216,949 in 2013.
- The Utilities Commission operating loss was \$385,807 and \$267,047 in 2014 and 2013, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The government-wide financial statements consist of the Statement of Net Position and the Statement of Activities and provide both long-term and short-term information about the Town's overall financial status. The government-wide statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid.

The Statement of Net Position presents information on all of the Town's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or declining.

TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2014

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

Government-wide Financial Statements – continued

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, public works, culture and recreation, tourism and community affairs. The business-type activities include Utilities Commission (water and sewer services), Satterfield Court Apartments (senior low income housing), Cannon Street Apartments (family low income housing) and Chestertown Marina a public marina.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town has two types of funds: governmental funds and proprietary funds.

Governmental Funds

The Town's services are reported in governmental funds, which focus on how money flows in to and out of those funds, and the balances left at year-end that are available for spending. These funds are reported using the *modified accrual accounting method*, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed *short-term view* of the Town's operations and the services it provides.

Proprietary Funds

Proprietary funds, or enterprise funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises where costs are recovered primarily through user charges. Proprietary fund financial statements provide both long-term and short-term financial information. The Town has four enterprise funds: Utilities Commission, Satterfield Court Apartments, Cannon Street Apartments and the Chestertown Marina.

TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2014

Fiduciary Funds

Fiduciary funds, if any, are used to account for assets held for the benefit of employees by private organizations. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's programs.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

Statement of Net Position

The following table summarizes the Statement of Net Position as of June 30, 2014.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total 2014</u>	<u>Total 2013</u>
Assets:				
Current assets	\$ 1,893,690	\$ 1,437,482	\$ 3,331,172	\$ 3,264,477
Noncurrent assets	6,397,305	13,831,807	20,229,112	21,045,372
Total Assets	<u>8,290,995</u>	<u>15,269,289</u>	<u>23,560,284</u>	<u>24,309,849</u>
Deferred outflows	-	-	-	-
Liabilities:				
Current liabilities	159,333	538,938	698,271	688,995
Noncurrent liabilities	672,635	4,814,607	5,487,242	5,603,233
Total Liabilities	<u>831,968</u>	<u>5,353,545</u>	<u>6,185,513</u>	<u>6,292,228</u>
Deferred inflows	-	-	-	-
Net Position:				
Net investment in capital assets	6,222,835	8,803,010	15,025,845	15,635,841
Restricted for capital projects	-	29,065	29,065	29,065
Unrestricted	1,236,192	1,083,669	2,319,861	2,352,715
Total Net Position	<u>\$ 7,459,027</u>	<u>\$ 9,915,744</u>	<u>\$ 17,374,771</u>	<u>\$ 18,017,621</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$17,374,771 at the close of the fiscal year. The largest portion of the Town's net position reflects its investment in capital assets (e.g. land, buildings, improvements, infrastructure, machinery and equipment), less any related outstanding debt used to acquire those assets. These capital assets may provide services to citizens; consequently, these assets are not available for future spending. Unrestricted net position was \$2,319,861 in 2014 compared to \$2,352,715 in 2013.

TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2014

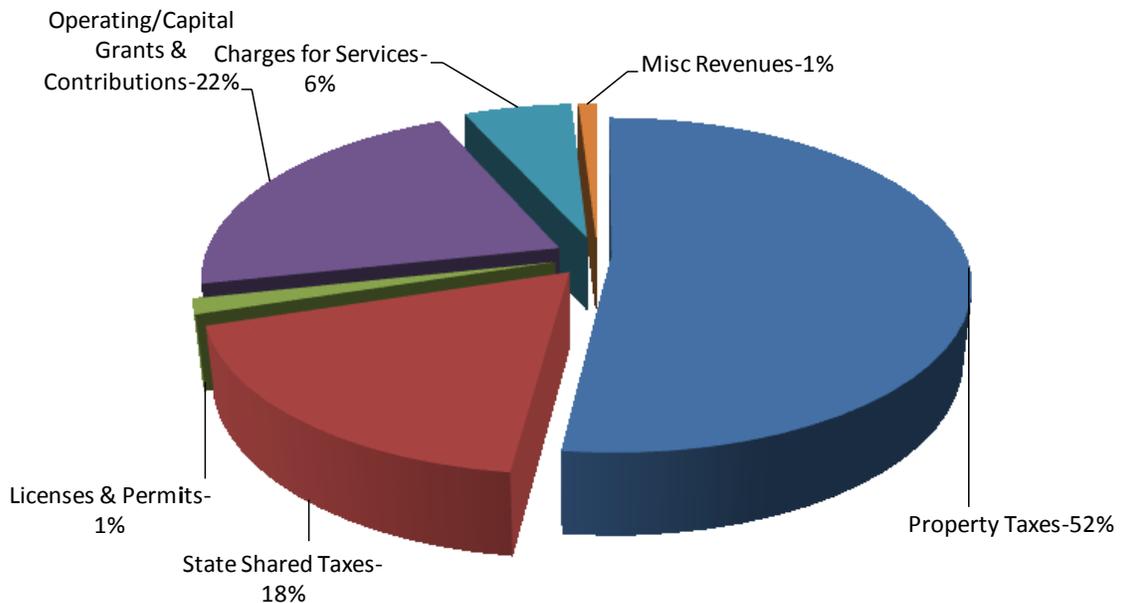
Statement of Activities

The following table summarizes the Town's change in net position for the year ended June 30, 2014.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total 2014</u>	<u>Total 2013</u>
Revenues:				
Program revenues:				
Charges for services	\$ 241,001	\$ 1,881,881	\$ 2,122,882	\$ 2,059,232
Operating and capital grants and contributions	907,033	-	907,033	2,403,672
General revenues:				
Property taxes	2,168,396	-	2,168,396	2,131,531
Income taxes	738,986	-	738,986	514,084
Other	116,857	15,174	132,031	311,616
Total Revenue	<u>4,172,273</u>	<u>1,897,055</u>	<u>6,069,328</u>	<u>7,420,135</u>
Operating expenses	<u>4,342,018</u>	<u>2,370,160</u>	<u>6,712,178</u>	<u>5,804,676</u>
Change in Net Position	<u>\$ (169,745)</u>	<u>\$ (473,105)</u>	<u>\$ (642,850)</u>	<u>\$ 1,615,459</u>

Revenues for the Town's governmental activities were \$4,172,273 compared to \$4,627,967 for 2013. Revenues for the fiscal year ended June 30, 2014 consisted of:

Revenues by Source - Governmental Activities 2014



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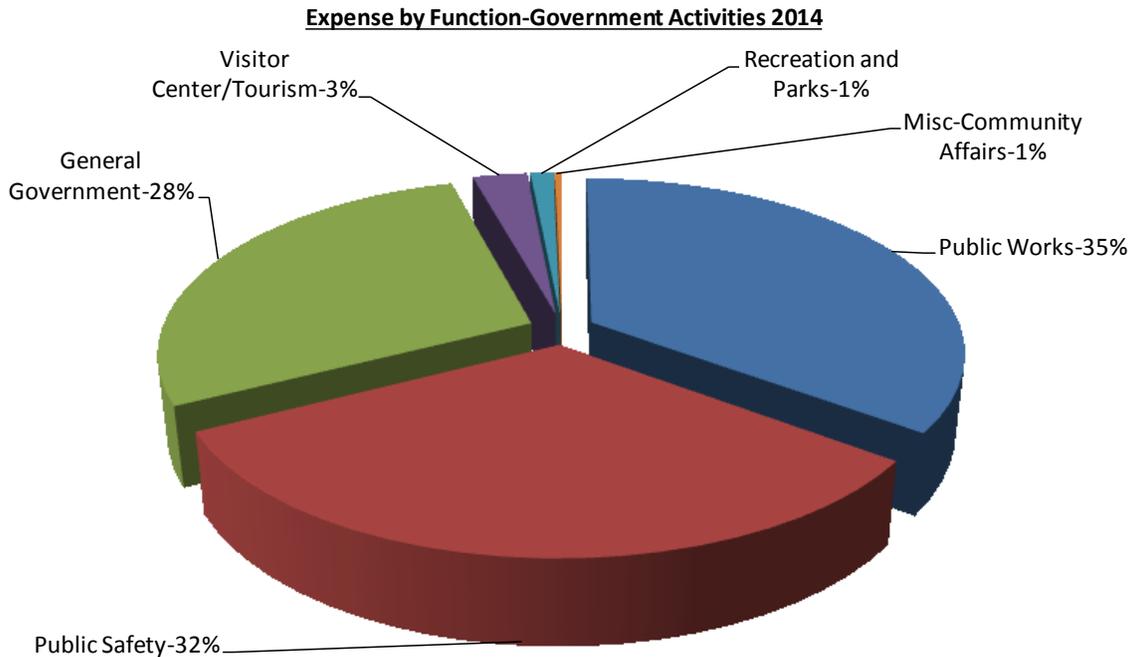
Management’s Discussion and Analysis (MD&A)

June 30, 2014

Statement of Activities – continued

- Property taxes are the Town’s largest source of revenue at 52%, totaling \$2,168,396 for fiscal year 2014 compared to \$2,131,531 in 2013. The Town’s property tax rate is set at \$.37 per \$100 of full-assessed property value.
- Income and state shared taxes are \$755,349 for 2014 compared to \$531,211 in 2013. The increase of state income tax was due to the improvements in the job market with more individuals back to work.
- Operating Grants, Capital Grants, and Contributions of \$907,033 which represent revenues received from the federal, state, and Kent County governments. The decrease from 2013 was due to a one time contribution of fixed assets of Coventry II housing development that the Town received in 2013.
- Change in Net Position is a decrease of \$169,745 for the governmental activities in 2014. This compares to an increase of \$987,713 for the governmental activities in 2013. The major projects for 2014 that are in process are the Rails to Trails Phase III and Gateway Park.

Expenses for governmental activities were \$4,342,018 for 2014 compared to \$3,637,113 for 2013. Expenses for the fiscal year ended June 30, 2014 were allocated as indicated below:



TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2014

Statement of Activities – continued

- Public safety department is the largest expense at \$1,406,816 in 2014, compared to \$1,407,954 in 2013, and includes funding for the police department, Chestertown Fire Co., and Kent and Queen Anne Rescue Squad. This represents a slight decrease in spending.
- Public works department expense at \$1,523,565 compared to \$1,292,093 in 2013, includes funding for the maintenance of all roads, parks, curbs and sidewalks, code enforcement, along with trash collection and recycling tipping fees. This represents approximately an 18% increase due to the Town rate increase with workers compensation being doubled, repairs of equipment, and the grueling winter requiring an increase of salt being purchased at the height of the season and overtime needed during the snow storms.
- General government expenses total \$1,224,274 for 2014, which is 28% of total expenses, as compared \$767,228 in 2013. This function includes expenses for the mayor and council, executive and financial, legal, planning and zoning, municipal properties, and other general government expenses.
- Of the Town's total \$4,342,018 of governmental expenses, \$1,148,034 was recovered through program revenues in the form of charges for services, contributions, or federal, state, and local grants. The remaining portion of the expenses was funded through general revenues, primarily property and income taxes. The Town's total expenses represent an overall increase of \$704,905 from 2013.

Business-type Activities

The Town has four funds comprising the business-type activities: Utilities Commission providing town water and wastewater services, Satterfield Court Apartments providing senior citizen housing, and Cannon Street Apartments providing family low income housing and a newly required Marina.

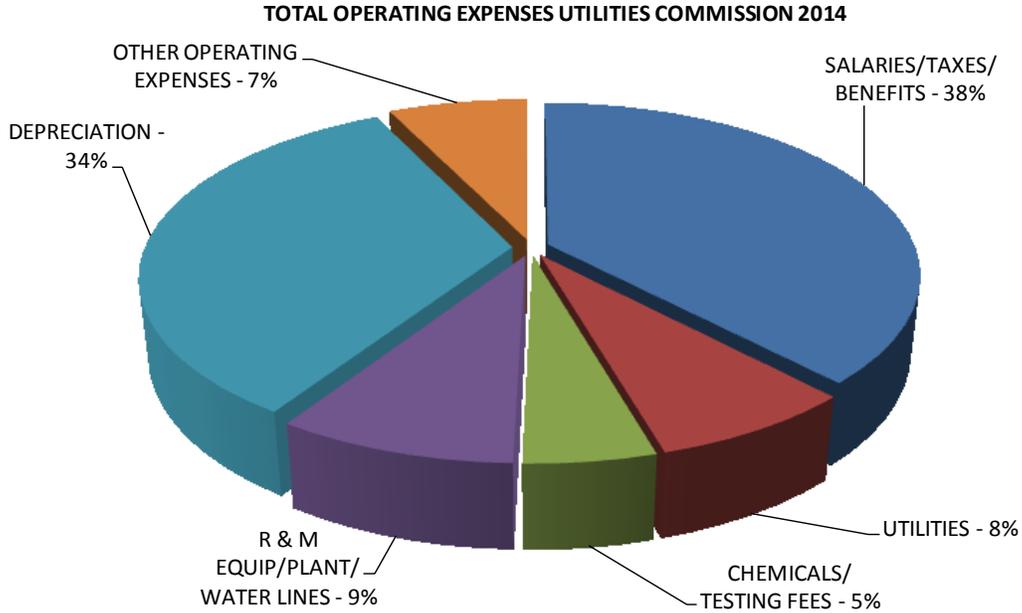
- Charges for water and sewer services of \$1,612,699 compared to \$1,578,080 for 2013, include water and sewer usage and new water and sewer connection fees for the Utilities Commission.
- Operating expenses for the Utilities Commission were \$2,011,609 for 2014, compared to \$1,859,943 in 2013. This 10% increase was attributed to major repairs of the infrastructure and expense due to oil recovery operations at the Chester River Hospital Center explained in the Outlook for the Future section.

TOWN OF CHESTERTOWN, MARYLAND

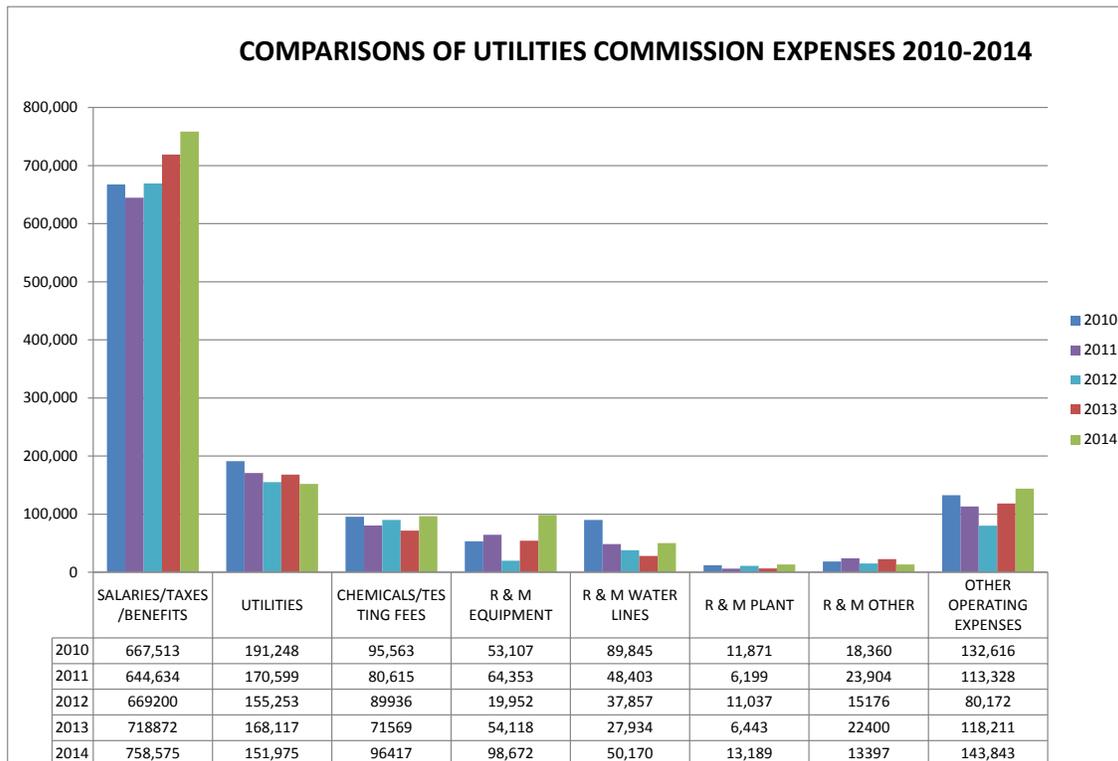
Management's Discussion and Analysis (MD&A)

June 30, 2014

Business-type Activities – continued



- Following is a comparison chart of Utilities Commission operating expenses (excluding depreciation) for the last 5 years.



TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2014

Business-type Activities – continued

- Change in Net Position for the Business-type Activities decreased \$473,105 in 2014, compared to an increase of \$627,746 in 2013. The increase in 2013 was due to a one-time fixed asset contribution from Coventry II housing development.

Financial Analysis of the Funds

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the Town's financing requirements. In particular, an unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the governmental fund reported a total fund balance of \$1,603,709, compared to \$1,555,574 in 2013. Of the total, \$1,378,649 is unassigned and available for spending at the government's discretion.

Proprietary Funds

The financial statements of the Town's proprietary funds provide the same type of information found in the government-wide financial statements but with separate columns for the major and non-major funds. Unrestricted net position of the Utilities Commission was \$1,189,188 at year end. Unrestricted net position in 2013 was \$1,169,859.

Budgetary Highlights

The original general fund budget was increased by \$105,490 to reflect additional HUR funds, police protection grant, and sale of assets. All other budget revisions were transfers of funds within the departments.

Capital Assets and Debt Administration

Capital Assets

The changes in general fixed assets for the fiscal year ended June 30, 2014 are as follows:

- The addition of \$286,782 in fixed assets during 2014 in the general fund was for the construction of Rails to Trails Phase III, purchase of a police car, two used dump trucks, and a new sweeper.

TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2014

Long-Term Debt

The Town's total debt as of June 30, 2014 was \$5,203,267, not including compensated absences.

- Total general fund debt at June 30, 2014 is \$174,470, with \$86,545 retired during the year.
- Total utility fund debt at June 30, 2014 is \$3,143,797, with \$264,077 retired during the year.
- Total marina fund debt at June 30, 2014 is \$1,885,000 with \$82,500 retired during the year.

Outlook for the Future

- The economic position of the town is always closely tied to that of the State of Maryland. This year the state economy continued to stay on the strong side of the balance sheet. The financial position of the Town is strong, with all departments functioning at full strength. All services expected of the Town are being carried out as required by the Charter.
- Highway User Funds were down \$2,555 from \$37,581 last year to \$35,026 this year. However, a one-time HUR payment of \$89,976 for fiscal year 2014 and \$97,327 that was received in July 2015 for fiscal year 2015.
- Police Aid Grant increased to \$70,444 from \$46,000.
- State income tax was up \$130,296 from \$514,084 last year to \$644,380 this year.
- The Town increased its general fund surplus to \$1,603,799 from \$1,555,554 last year.
- The pace of building and development in the Town is slowly picking up, with permits for five new dwelling units being issued this fiscal year and a sharp rise in commercial redevelopment of unused or underutilized commercial properties.
- The loss of the Fresh and Green grocery store had an impact on Chestertown's commercial vitality and shopping choice. The Town hastened to approve the large expansion and improvement of the Acme grocery store and by the end of the fiscal year heard news that a Redner's Store would be replacing the Fresh and Green grocery store and expanding into the former Rite Aid building next door.

TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2014

- The Town is still monitoring the oil recovery operations at the Chester River Hospital Center (now called the University of Maryland Medical System at Chester River Hospital) on Brown Street. This petroleum spill occurred in the 1980's and tens of thousands of gallons have been removed from under the hospital parking lot. Town well #8 is down-gradient from the spill and have been turned off since the early 1990's as a safety measure to keep the plume from moving toward well #8 and the rest of the Town's wells on Kent Street. The Town has a responsibility to protect its source of water for the benefit of the entire town and users served. This topic is still unresolved; however, the Department of the Environment has allowed the Hospital to hire a consultant who is performing a pilot study with surfactant chemical called IveySol. IveySol is supposed to release the remaining petroleum clinging to the soil underground into a form that can be collected more readily at the recovery wells. The Utilities Department is monitoring the pilot program very closely while making sure that they keep an open dialogue with the officials from the Hospital.

- In the fall of 2013 the Town elections resulted in a new Mayor and new Council persons for Wards 1 and 3. Chris Cerino is the Mayor of Chestertown, Liz Gross the Councilwoman for Ward 1 and Sam Shoge is the new Councilman for Ward 3. This change represents a 60% change in the personnel elected but the new Council was soon operating smoothly and publicly addressing important issues. They began by addressing the economy and holding public meeting with businesses from every Commercial district in the Town.

- Status of existing subdivisions under construction or under permits:
 - Village at Chestertown 82 Unit Condo Project which was converted into a 68 unit fee simple project in 2013-14. Infrastructure 95% completed, 3 single family homes and 5 townhouse units completed. Two formerly started single family homes that had basement foundation walls only were reactivated by the owner for completion, with all repairs made.
 - Chester River Landing 49 Unit Condo Project – Infrastructure finished, 23 condos completed and 3 more underway in 2014.

TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

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- The acquisition of the Chestertown Marina became a reality in May 2012. The Town purchased the Marina using the State of Maryland's Infrastructure Improvement Bond program. The issue was for \$2,045,443 payable over a 20 year period at 3.562% interest. A \$40,000 grant application for engineering was funded in 2012 by the Maryland Department of Natural Resources (Waterways Improvement Division) and was bid out and awarded in May 2014. Meanwhile, in 2014 the \$200,000 grant application for bulkhead and dock repairs as well as a possible \$500,000 for dredging. Finally, a \$100,000 one-time Tier 1 Boating Infrastructure Grant Application (BIG) was submitted to the Department of the Interior by the State on the Town's behalf, was funded by BIG. The redesign and rebuilding at the Marina was a priority. An initial Charrette was held in the large building at the Marina with over 100 participants. The comments received there were incorporated into the engineering and rehabilitation design that was put forth for a second Charrette held in the late summer of 2014.

- The Town sold the two low income housing projects to the same group that rebuilt Calvert Heights. This developer will renovate the projects using the Maryland Department of Housing and Community Development rental assistance programs and their energy conservation grants. The tenants will benefit from similar subsidized programs, while the workload on office staff can be shifted to the Marina and other responsibilities.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Town of Chestertown, 118 N. Cross Street, Chestertown, MD 21620.

TOWN OF CHESTERTOWN, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 611,616	\$ 541,390	\$ 1,153,006
Cash and cash equivalents - restricted	-	46,307	46,307
Certificates of deposit	526,608	509,556	1,036,164
Accounts receivable - taxes	130,172	-	130,172
Accounts receivable - water and sewer service	-	440,923	440,923
Accounts receivable - other	4,307	6,700	11,007
Amounts due from other governments	483,519	-	483,519
Prepaid expenses	20,468	5,576	26,044
Meter inventory	-	4,030	4,030
Due from other funds	117,000	(117,000)	-
Total Current Assets	<u>1,893,690</u>	<u>1,437,482</u>	<u>3,331,172</u>
Noncurrent Assets			
Nondepreciable assets	1,956,536	1,682,674	3,639,210
Depreciable assets, net	4,440,769	12,149,133	16,589,902
Total Noncurrent Assets	<u>6,397,305</u>	<u>13,831,807</u>	<u>20,229,112</u>
TOTAL ASSETS	<u>8,290,995</u>	<u>15,269,289</u>	<u>23,560,284</u>
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 8,290,995</u>	<u>\$ 15,269,289</u>	<u>\$ 23,560,284</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 54,676	\$ 30,020	\$ 84,696
Bay fee payable	-	104,290	104,290
Accrued payroll expense	65,090	19,025	84,115
Accrued interest payable	-	16,537	16,537
Unearned revenue	-	16,808	16,808
Other liabilities	3,033	3,625	6,658
Current portion of long-term debt	36,534	348,633	385,167
Total Current Liabilities	<u>159,333</u>	<u>538,938</u>	<u>698,271</u>
Noncurrent Liabilities			
Employees benefits payable	534,699	134,443	669,142
Bonds, leases and notes due in more than one year	137,936	4,680,164	4,818,100
Total Noncurrent Liabilities	<u>672,635</u>	<u>4,814,607</u>	<u>5,487,242</u>
TOTAL LIABILITIES	<u>831,968</u>	<u>5,353,545</u>	<u>6,185,513</u>
DEFERRED INFLOWS OF RESOURCES	-	-	-
NET POSITION			
Net investment in capital assets	6,222,835	8,803,010	15,025,845
Restricted for capital projects	-	29,065	29,065
Unrestricted	1,236,192	1,083,669	2,319,861
TOTAL NET POSITION	<u>7,459,027</u>	<u>9,915,744</u>	<u>17,374,771</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 8,290,995</u>	<u>\$ 15,269,289</u>	<u>\$ 23,560,284</u>

See accompanying notes to financial statements.

TOWN OF CHESTERTOWN, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Direct Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General government	\$ 1,224,274	\$ 58,380	\$ 43,206	\$ 451,217	\$ (671,471)	\$ -	\$ (671,471)
Public safety	1,406,816	114,249	80,171	-	(1,212,396)	-	(1,212,396)
Public works	1,523,565	47,072	126,290	99,261	(1,250,942)	-	(1,250,942)
Recreation and parks	51,048	-	16,445	-	(34,603)	-	(34,603)
Visitors' center and tourism	121,365	14,400	90,443	-	(16,522)	-	(16,522)
Miscellaneous - community affairs	14,950	6,900	-	-	(8,050)	-	(8,050)
Total Governmental Activities	4,342,018	241,001	356,555	550,478	(3,193,984)	-	(3,193,984)
Business-type Activities							
Water and sewer services	2,011,609	1,612,699	-	-	-	(398,910)	(398,910)
Chestertown marina	283,010	220,614	-	-	-	(62,396)	(62,396)
Rental housing services	75,541	48,568	-	-	-	(26,973)	(26,973)
Total Business-Type Activities	2,370,160	1,881,881	-	-	-	(488,279)	(488,279)
Total Primary Government	\$ 6,712,178	\$ 2,122,882	\$ 356,555	\$ 550,478	\$ (3,193,984)	\$ (488,279)	\$ (3,682,263)
General revenues:							
Taxes							
Property taxes					2,168,396	-	2,168,396
Income taxes					738,986	-	738,986
Other taxes					16,363	-	16,363
Licenses and permits					61,337	-	61,337
Interest and investment earnings					15,086	14,581	29,667
Miscellaneous					5,626	-	5,626
Sale of assets					18,445	593	19,038
Total General Revenues					3,024,239	15,174	3,039,413
Change in Net Position					(169,745)	(473,105)	(642,850)
Net Position, beginning of year					7,628,772	10,388,849	18,017,621
Net Position, end of year					\$ 7,459,027	\$ 9,915,744	\$ 17,374,771

See accompanying notes to financial statements.

**TOWN OF CHESTERTOWN, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents - unrestricted	\$ 611,616	\$ 611,616
Certificate of deposit	526,608	526,608
Accounts receivable - taxes	57,686	57,686
Accounts receivable - other	4,307	4,307
Amounts due from other governments	483,519	483,519
Prepaid expenses	20,468	20,468
Due from other funds	117,000	117,000
TOTAL ASSETS	1,821,204	1,821,204
DEFERRED OUTFLOWS OF RESOURCES	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,821,204	\$ 1,821,204
LIABILITIES		
Accounts payable	\$ 54,676	\$ 54,676
Accrued payroll	65,090	65,090
Other liabilities	3,033	3,033
TOTAL LIABILITIES	122,799	122,799
DEFERRED INFLOWS OF RESOURCES	94,606	94,606
FUND BALANCES		
Non-spendable	20,468	20,468
Assigned	204,682	204,682
Unassigned	1,378,649	1,378,649
TOTAL FUND BALANCES	1,603,799	1,603,799
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,821,204	\$ 1,821,204

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2014**

<i>Total Governmental Fund Balances</i>	\$	1,603,799
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		6,397,305
Property taxes are shown net of taxes not collected within the sixty-day availability period.		72,486
Receivables pertaining to revenue that is not available in accordance with modified accrual accounting are reported as deferred inflows of resources in the funds.		94,606
Long-term liabilities, including loans payable, OPEB and compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(709,169)
<i>Net Position of Governmental Activities</i>	\$	7,459,027

See accompanying notes to financial statements.

TOWN OF CHESTERTOWN, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Total Governmental Funds
	<u> </u>	<u> </u>
REVENUES		
Property taxes	\$ 2,191,870	\$ 2,191,870
Income taxes	644,380	644,380
State shared taxes	141,365	141,365
Licenses and permits	112,467	112,467
Intergovernmental revenue		
State	630,887	630,887
County	143,627	143,627
Charges for services	171,678	171,678
Miscellaneous revenue	46,422	46,422
Total Revenues	<u>4,082,696</u>	<u>4,082,696</u>
EXPENDITURES		
General government	1,054,108	1,054,108
Public safety	1,334,335	1,334,335
Public works	1,308,553	1,308,553
Crossing guard/meter monitor	47,692	47,692
Recreation and parks	51,048	51,048
Visitors' center and tourism	100,428	100,428
Miscellaneous	14,950	14,950
Capital outlays	286,782	286,782
Debt service		
Principal	86,545	86,545
Interest	6,338	6,338
Total Expenditures	<u>4,290,779</u>	<u>4,290,779</u>
Excess of revenues over (under)		
 expenditures and other financing uses	<u>(208,083)</u>	<u>(208,083)</u>
Other financing sources (uses)		
Transfers in (out)	-	-
Sale of assets	29,470	29,470
Proceeds from long term debt	226,858	226,858
Total other financing sources (uses)	<u>256,328</u>	<u>256,328</u>
Excess of revenue and other financing		
 sources over (under) expenditures		
 and other financing uses	48,245	48,245
Fund balance, beginning of year	<u>1,555,554</u>	<u>1,555,554</u>
Fund balance, end of year	<u>\$ 1,603,799</u>	<u>\$ 1,603,799</u>

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ 48,245
Governmental funds report capital outlays 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 exceeded capital outlays in the current period.	(42,134)
Governmental funds report property taxes receivable less the amount not collected within the sixty-day post-year end period. However, in the statement of activities the full property taxes receivable is reported.	(23,474)
Some expenses, representing the change in long-term liabilities or assets reported in the statement of activities, including compensated absences and OPEB expenses, do not use current financial resources and are not reported as expenditures in the governmental funds.	(95,650)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	86,545
Loss on disposal of assets	(11,025)
Proceeds from debt issuances are an other financing source in the funds, but a debt issuance increases long-term liabilities in the Statement of Net Position.	(226,858)
Increases in deferred inflows of resources relating to income taxes do not use current financial resources and are not reported as revenue in the governmental funds.	<u>94,606</u>
<i>Change in Net Position of Governmental Activities</i>	<u>\$ (169,745)</u>

See accompanying notes to financial statements.

TOWN OF CHESTERTOWN, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2014

	Major		Non-major	Total
	Utilities Commission	Marina	Other	
ASSETS				
Current Assets				
Cash and cash equivalents - unrestricted	\$ 509,208	\$ 26,925	\$ 5,257	\$ 541,390
Cash and cash equivalents - restricted	-	-	46,307	46,307
Certificate of deposit	509,556	-	-	509,556
Water and sewer service receivable	440,923	-	-	440,923
Accounts receivable	-	6,700	-	6,700
Prepaid expenses	5,576	-	-	5,576
Meter inventory	4,030	-	-	4,030
Total Current Assets	<u>1,469,293</u>	<u>33,625</u>	<u>51,564</u>	<u>1,554,482</u>
Noncurrent Assets				
Capital assets, net	<u>11,486,966</u>	<u>1,864,443</u>	<u>480,398</u>	<u>13,831,807</u>
Total Noncurrent Assets	<u>11,486,966</u>	<u>1,864,443</u>	<u>480,398</u>	<u>13,831,807</u>
TOTAL ASSETS	<u>12,956,259</u>	<u>1,898,068</u>	<u>531,962</u>	<u>15,386,289</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 12,956,259</u>	<u>\$ 1,898,068</u>	<u>\$ 531,962</u>	<u>\$ 15,386,289</u>
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 16,059	\$ 11,325	\$ 2,636	\$ 30,020
Bay fee payable	104,290	-	-	104,290
Accrued payroll expense	19,025	-	-	19,025
Accrued interest payable	6,288	10,249	-	16,537
Due to other funds	-	117,000	-	117,000
Unearned revenue	-	16,808	-	16,808
Deposits	-	-	3,625	3,625
Current portion of long-term debt	<u>265,133</u>	<u>83,500</u>	<u>-</u>	<u>348,633</u>
Total Current Liabilities	<u>410,795</u>	<u>238,882</u>	<u>6,261</u>	<u>655,938</u>
Noncurrent Liabilities				
Employee benefits	134,443	-	-	134,443
Long-term debt, net of current liabilities	<u>2,878,664</u>	<u>1,801,500</u>	<u>-</u>	<u>4,680,164</u>
Total Noncurrent Liabilities	<u>3,013,107</u>	<u>1,801,500</u>	<u>-</u>	<u>4,814,607</u>
TOTAL LIABILITIES	<u>3,423,902</u>	<u>2,040,382</u>	<u>6,261</u>	<u>5,470,545</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	8,343,169	(20,557)	480,398	8,803,010
Restricted - expendable for capital assets	-	-	29,065	29,065
Unrestricted	<u>1,189,188</u>	<u>(121,757)</u>	<u>16,238</u>	<u>1,083,669</u>
TOTAL NET POSITION	<u>9,532,357</u>	<u>(142,314)</u>	<u>525,701</u>	<u>9,915,744</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 12,956,259</u>	<u>\$ 1,898,068</u>	<u>\$ 531,962</u>	<u>\$ 15,386,289</u>

See accompanying notes to financial statements.

TOWN OF CHESTERTOWN, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Major		Non-major	Total
	Utility Fund	Marina	Other	
Operating Revenues				
Charges for services				
Sewer fees	\$ 685,348	\$ -	\$ -	\$ 685,348
Water fees	709,002	-	-	709,002
Sewer connections	33,000	-	-	33,000
Water connections	41,250	-	-	41,250
Other water and sewer services	53,276	-	-	53,276
Rental income	2,520	181,438	47,981	231,939
Fuel sales	-	18,635	-	18,635
Tower leases	54,528	-	-	54,528
Grant revenue	30,000	-	-	30,000
Other income	3,775	20,541	587	24,903
Total Operating Revenues	<u>1,612,699</u>	<u>220,614</u>	<u>48,568</u>	<u>1,881,881</u>
Operating Expenses				
Water and sewer expenses	1,326,238	-	-	1,326,238
Marina operating expenses	-	147,664	-	147,664
Urban development and housing expenses	-	-	45,908	45,908
Depreciation and amortization	672,268	66,277	29,633	768,178
Total Operating Expenses	<u>1,998,506</u>	<u>213,941</u>	<u>75,541</u>	<u>2,287,988</u>
Operating Income (Loss)	<u>(385,807)</u>	<u>6,673</u>	<u>(26,973)</u>	<u>(406,107)</u>
Non-operating Revenues (Expenses)				
Sale of assets	593	-	-	593
Interest income	14,532	22	27	14,581
Grant expense	-	(6,874)	-	(6,874)
Interest expense	(13,103)	(62,195)	-	(75,298)
Net Non-operating Revenues (Expenses)	<u>2,022</u>	<u>(69,047)</u>	<u>27</u>	<u>(66,998)</u>
Income Before Contributions and Transfers	<u>(383,785)</u>	<u>(62,374)</u>	<u>(26,946)</u>	<u>(473,105)</u>
Capital contributions	-	-	-	-
Transfers (to) from other funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in Net Position	<u>(383,785)</u>	<u>(62,374)</u>	<u>(26,946)</u>	<u>(473,105)</u>
Total net position at beginning of year	<u>9,916,142</u>	<u>(79,940)</u>	<u>552,647</u>	<u>10,388,849</u>
Total net position at end of year	<u>\$ 9,532,357</u>	<u>\$ (142,314)</u>	<u>\$ 525,701</u>	<u>\$ 9,915,744</u>

See accompanying notes to financial statements.

TOWN OF CHESTERTOWN, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Major		Non-major	Total
	Utility Fund	Marina	Other	
Cash flows from operating activities				
Cash received from customers	\$ 1,543,474	\$ 200,073	\$ 47,581	\$ 1,791,128
Cash paid to suppliers	(803,089)	(145,861)	(47,274)	(996,224)
Cash paid to employees	(529,261)	-	-	(529,261)
Other receipts	88,303	13,841	587	102,731
Net cash provided (used) by operating activities	<u>299,427</u>	<u>68,053</u>	<u>894</u>	<u>368,374</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	(5,077)	-	-	(5,077)
Sale of capital assets	593	-	-	593
Principal paid on debt	(264,077)	(82,500)	-	(346,577)
Interest paid on capital debt	(9,050)	(62,095)	-	(71,145)
Net cash (used) for capital and related financing activities	<u>(277,611)</u>	<u>(144,595)</u>	<u>-</u>	<u>(422,206)</u>
Cash flows from non-capital financing activities				
Grant disbursements	-	(6,874)	-	(6,874)
Transfers (to) from other funds	-	65,000	-	65,000
Net cash (used) for non-capital financing activities	<u>-</u>	<u>58,126</u>	<u>-</u>	<u>58,126</u>
Cash flows from investing activities				
Interest and dividends	14,532	22	27	14,581
Net cash provided by investing activities	<u>14,532</u>	<u>22</u>	<u>27</u>	<u>14,581</u>
Net increase (decrease) in cash and cash equivalents	36,348	(18,394)	921	18,875
Cash and cash equivalents at beginning of year	982,416	45,319	50,643	1,078,378
Cash and cash equivalents at end of year	<u>\$ 1,018,764</u>	<u>\$ 26,925</u>	<u>\$ 51,564</u>	<u>\$ 1,097,253</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (385,807)	\$ 6,673	\$ (26,973)	\$ (406,107)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	672,268	66,277	29,633	768,178
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	19,078	(6,700)	-	12,378
Decrease (increase) in prepaid expense	(5,576)	-	-	(5,576)
Decrease (increase) in other assets	3,320	-	-	3,320
Increase (decrease) in accounts payable	(27,746)	11,033	(1,366)	(18,079)
Increase (decrease) in unearned revenue	-	(9,230)	-	(9,230)
Increase (decrease) in tenant deposits	-	-	(400)	(400)
Increase (decrease) in accrued expenses	4,162	-	-	4,162
Increase (decrease) in compensated absences	19,728	-	-	19,728
Cash provided (used) by operating activities	<u>\$ 299,427</u>	<u>\$ 68,053</u>	<u>\$ 894</u>	<u>\$ 368,374</u>

See accompanying notes to financial statements.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Town of Chestertown, Maryland was incorporated in 1805, under the provisions of Article 24B of the Annotated Code of Maryland. Its municipal corporation charter is generally referred to as the Home Rule Charter. The Town operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety, highways and streets, sanitation and health, culture and recreation, public improvements, and, planning and zoning. A Town Manager is appointed as the Town's chief financial officer.

The accounting policies of the Town of Chestertown conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

In evaluating how to define the Town of Chestertown, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set by the Governmental Accounting Standards Board. Component units are legally separate organizations for which the elected officials of the Town are financially accountable and a financial benefit or burden relationship exists. In addition, component units can be other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's financial statements to be misleading. Based upon the application of criteria set by the Governmental Accounting Standards Board, there are no separate component units of the Town.

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The Town's funds are grouped into two broad fund categories.

Governmental funds include the General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The Proprietary Fund includes the Enterprise Funds. Enterprise Funds are used to account for operations that are financed and operated in manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net position is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town operates four Enterprise Funds: Utility Commission, Marina, Satterfield Court, and Cannon Street Apartments.

Basis of Accounting

Government-Wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, including the reclassification or elimination of internal activity (between funds). This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues, for each segment of the business-type activities of the Town, and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Town does not allocate indirect costs.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first for expenditures with constraint limitations, then unrestricted resources as needed.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Program revenues include charges paid by the recipients of the goods or services offered by the programs, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town. Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Fund Financial Statements

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column.

Governmental Funds

Town activities pertaining to general government, public safety, public works, recreation, culture, and the visitors' center are reported in the governmental funds. All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within two months of year-end and available to pay obligations of the current period). These include property taxes, franchise taxes, investment earnings, charges for services and intergovernmental revenues.

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues are recorded as receivables and deferred inflows of resources.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid.

Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

The proprietary funds are accounted for using the accrual basis of accounting. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to business in the private sector. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The primary operating revenues of the Town's enterprise funds are charges for water and sewer services, and rental income from the Marina, Satterfield Court and Cannon Street Apartments funds. Operating expenses of the Town's enterprise funds include salaries and related benefits and taxes, utilities, maintenance costs, administrative costs, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following is a description of the Town's major enterprise funds:

Utilities Commission: Provides town water and wastewater services
Chestertown Marina: Operates the Town of Chestertown Marina

The Town has two non-major enterprise funds:

Satterfield Court: Provides senior citizen housing
Cannon Street Apartments: Provides low income family housing

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2014 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables

Receivables at June 30, 2014 consist of taxes, accounts (billings for user charged services, including utility services), special assessments, and other receivables. All receivables are deemed collectible in full, and the allowance for doubtful accounts at June 30, 2014 is \$0.

Inventory of Supplies

Inventories, including meter equipment, are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds, and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar items are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial individual cost of \$5,000 or more, and an estimated useful life in excess of one year. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated. The Town recognizes intangible assets if identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

The costs of normal maintenance and repairs that do not add value to the asset or materiality extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Property and equipment are not reported in governmental funds. In the fund financial statements, the cost of assets acquired in the governmental funds is charged to the capital outlay expenditures of the department financing the acquisition. Depreciation is not reported in governmental funds.

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

Buildings and improvements	10 – 40 years
Sewer systems	20 – 40 years
Equipment	5 – 10 years
Water system	25 – 50 years
Infrastructure	20 – 50 years

Deferred Outflows and Inflows of Resources

A *deferred outflow of resources* represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Likewise, a *deferred inflow of resources* represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

As of June 30, 2014, deferred inflows of resources in the general fund consisted of income taxes of \$94,606.

Local Tax Reserve Fund

At June 30, 2014, the Town was advised by the State of Maryland that \$94,606 of the Local Tax Reserve Fund was allocable to the Town. The Town recorded receivable and deferred inflows of resources in the amount of \$94,606 in the fund financial statements. The change in this amount from the prior year is reflected in current year income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

Restricted Reserves

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

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Interest Expense

Interest is expensed as incurred except when interest is incurred during the construction period, and is capitalized as part of the cost of the asset.

Compensated Absences

Permanent full-time employees are granted vacation benefits in varying amounts up to specified maximums, depending on tenure with the town. The estimated current portion of the liability for vested vacation benefits attributable to the Town's governmental funds is recorded as an expenditure and liability in the respective funds. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Sick leave does not vest and is accounted for as an expenditure or expense when it is paid, except when an employee is eligible for retirement based on the state pension system. All accrued compensated absences are recorded in the government-wide financial statements.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that were used.

Equity Classifications

Equity is classified as net position and is displayed in three components:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings, and reduced or increased by deferred inflows and outflows attributable to the acquisition, construction or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on their use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation and are reduced by liabilities and deferred inflows of resources related to those constraints.

Unrestricted net position – the remaining net position that does not meet the definition of “restricted” or “net investment in capital assets.”

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first for expenditures with constraint limitations and then unrestricted resources as needed.

Governmental Fund Balances

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

1. Non-Spendable Fund Balance – amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
2. Restricted Fund Balance – amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the Town Charter, Town Code or enabling legislation.
3. Committed Fund Balance – amounts that can be used only for specific purposes determined by a formal action by Town Council, the Town's highest level of decision-making authority, ordinance or resolution.
4. Assigned Fund Balance – amounts that are constrained by the Town's intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the Town Charter, the Town Council and Town management are authorized to assign amounts for specific purposes.
5. Unassigned Fund Balance – all amounts not included in other spendable classifications.

The Town considers restricted fund balances to be spent for governmental expenditures with constraint limitations first when both restricted and unrestricted resources are available. The Town also considers committed fund balances to spend first when other unrestricted fund balance classifications are available for use.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Requirements for all funds:

Annual budgets are adopted for the Town's general and enterprise funds. The Mayor and Town Council may subsequently amend the budget, and the budget was amended during fiscal year 2014. The annual budget of the general fund is prepared in accordance with the basis of accounting utilized by that fund, with the exception that depreciation expense was included in the general fund budget. Because depreciation in the general fund only applies to the government-wide statements, depreciation expense is not included in the required supplementary information. The budget for the proprietary fund is adopted under a governmental basis, showing capital outlay, debt service, and non-operating income and expense items. The fiscal year 2014 budget included depreciation for all proprietary funds.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

The Mayor and Council are authorized to invest in United States Government bonds or other evidence of indebtedness, or Maryland State or local government securities. They are also authorized to invest in federal insured banking institutions that pledge United States Treasury bills, notes or other obligations to secure, in full, funds so deposited. Deposit sources include unexpended revenues from taxation, bond sales, lawful distributions of funds from other governmental agencies or any other funds properly received and deposited until it determines the funds are needed for proper public purposes. The Town's deposits are insured or collateralized with securities held by the Town, its agent, or by the pledging financial institution's trust department, or agent in the name of the Town.

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned, or the Town will not be able to recover collateral securities in the possession of an outside party. The Town's policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by collateral valued at 100 percent of principal and accrued interest. Collateral is to be held by the Town, its agent, or by the pledging financial institution's trust department or agent, in the name of the Town.

At year-end, the carrying amounts of the Town's deposits were \$2,235,277 and the bank balances totaled \$2,321,024. At year end, the Town's bank balances were not exposed to any custodial credit risk because all deposits were fully insured or collateralized.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

Restricted cash consisted for the following at June 30, 2014:

Security deposits - Satterfield Court	\$ 2,375
Security deposits - Cannon Street	1,577
Maintenance reserves - Cannon Street	42,355
	<u>\$ 46,307</u>

The Town is also authorized to invest in the Maryland Local Government Investment Pool (MLGIP), where deposits are recorded at cost. Due to the nature of the Town's MLGIP investment, it is considered a cash equivalent. MLGIP is not covered by the FDIC, but it is collateralized by United States Treasury instruments. The Maryland State Treasurer oversees the MLGIP.

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Town's policy provides that to the extent practicable, investments are matched with anticipated cash flows.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town has no policy regarding concentration of credit risk.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Town policy provides that investment collateral is held by a third party custodian with whom the Town has a current custodial agreement in the Town's name.

Investments

Certificates of deposit that have maturities of three months or less are classified as cash equivalents.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

A reconciliation of cash and cash equivalents per the statement of cash flows to the statement of net position follows:

	Utilities	Marina	Satterfield Court	Cannon Street
Cash and cash equivalents - unrestricted	\$ 509,208	\$ 26,925	\$ (219)	\$ 5,476
Cash and cash equivalents - restricted	-	-	2,375	43,932
Certificates of Deposit	509,556	-	-	-
Total cash and cash equivalents	<u>\$ 1,018,764</u>	<u>\$ 26,925</u>	<u>\$ 2,156</u>	<u>\$ 49,408</u>

NOTE 4 – ACCOUNTS RECEIVABLE

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

Amusement taxes	\$ 2,374
Highway user	7,329
Income taxes	97,166
State grants	371,207
Traders licenses	5,443
	<u>\$ 483,519</u>

NOTE 5 – PROPERTY TAX

Real estate and personal property taxes are levied based on the State of Maryland assessments. Property taxes include amounts levied against all real and public utility property used in businesses located in the Town. Real property taxes are levied on the first day of July on the assessed value. When taxes are overdue, a lien is placed against the property. Taxes are due and payable on the first day of July in the year for which they are levied and become overdue and in arrears on the first day of the following October. Penalties and interest are charged on any unpaid taxes. The property tax rate for fiscal year 2014 is \$.37 per \$100 of assessed value for real property, \$.90 per \$100 of assessed value for utilities, and \$.00 per \$100 of assessed value for personal property.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 1,956,536	\$ -	\$ -	\$ 1,956,536
Construction in progress	-	-	-	-
Subtotal	<u>1,956,536</u>	<u>-</u>	<u>-</u>	<u>1,956,536</u>
Depreciable capital assets:				
Buildings	2,385,952	-	-	2,385,952
Land improvements	5,037,500	19,936	-	5,057,436
Furniture, equipment and vehicles	1,094,424	266,846	181,646	1,179,624
Subtotal	<u>8,517,876</u>	<u>286,782</u>	<u>181,646</u>	<u>8,623,012</u>
Total capital assets	<u>10,474,412</u>	<u>286,782</u>	<u>181,646</u>	<u>10,579,548</u>
Accumulated depreciation:				
Buildings	1,222,193	63,688	-	1,285,881
Land improvements	1,960,450	162,117	-	2,122,567
Furniture, equipment and vehicles	841,305	103,111	170,621	773,795
Subtotal, accumulated depreciation	<u>4,023,948</u>	<u>328,916</u>	<u>170,621</u>	<u>4,182,243</u>
Net capital assets	<u>\$ 6,450,464</u>	<u>\$ (42,134)</u>	<u>\$ 11,025</u>	<u>\$ 6,397,305</u>

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 138,973
Public safety	57,909
Public works	110,263
Tourism	21,771
Total government activities depreciation expense	<u>\$ 328,916</u>

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION - continued

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Not being depreciated:				
Land	\$ 1,682,674	\$ -	\$ -	\$ 1,682,674
Construction in progress	-	-	-	-
Subtotal	<u>1,682,674</u>	<u>-</u>	<u>-</u>	<u>1,682,674</u>
Other depreciable capital assets:				
Buildings	1,653,823	-	-	1,653,823
Land improvements	19,834,353	-	-	19,834,353
Furniture, equipment and vehicles	841,214	5,077	1,789	844,502
Subtotal	<u>22,329,390</u>	<u>5,077</u>	<u>1,789</u>	<u>22,332,678</u>
Total capital assets	<u>24,012,064</u>	<u>5,077</u>	<u>1,789</u>	<u>24,015,352</u>
Accumulated depreciation:				
Buildings	767,824	86,245	-	854,069
Land improvements	8,001,179	647,500	-	8,648,679
Furniture, equipment and vehicles	648,153	34,433	1,789	680,797
Subtotal accumulated depreciation	<u>9,417,156</u>	<u>768,178</u>	<u>1,789</u>	<u>10,183,545</u>
Net capital assets	<u>\$ 14,594,908</u>	<u>\$ (763,101)</u>	<u>\$ -</u>	<u>\$ 13,831,807</u>

Depreciation was charged as follows:

Business-type activities:	
Utilities fund	\$ 672,268
Marina	66,277
Satterfield	18,867
Cannon Street	10,766
Total business-type activities depreciation expense	<u>\$ 768,178</u>

The Town has no material construction commitments as of June 30, 2014.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – LONG-TERM DEBT

Governmental Activities

An unsecured \$1,000,000 variable rate revolving line of credit was available to the Town for capital purposes during fiscal year 2014. The credit line calls for interest at 68% of the prime rate, less 1%, adjusted periodically. During the year ended June 30, 2014, the Town did not borrow from this line of credit. The interest rate at June 30, 2014 was 1.95%. The balance as of June 30, 2014 is \$0.

Capital lease payable to Ford Motor Credit for the purchase of a police vehicle; interest at 6.6%; payable in annual installments of \$9,027 through January 2015; collateralized by the vehicle. Paid in full during the year ended June 30, 2014 and the balance as of June 30, 2014 is \$0.

Capital lease payable to Ford Motor Credit for the purchase of a police vehicle; interest at 6.6%; payable in annual installments of \$6,712 through July 2015; collateralized by the vehicle. Paid in full during the year ended June 30, 2014 and the balance as of June 30, 2014 is \$0.

Capital lease payable to Ford Motor Credit for the purchase of a police vehicle; interest at 5.45%; payable in annual installments of \$9,198 through July 2016; collateralized by the vehicle. Paid in full during the year ended June 30, 2014 and the balance as of June 30, 2014 is \$0.

Capital lease payable to Wells Fargo Equipment Finance for the purchase of a street sweeper; interest at 3.35%; payable in monthly installments of \$3,485 through December 2018; collateralized by the vehicle. The balance as of June 30, 2014 is \$174,470.

The changes in general long-term debt as of June 30, 2014 are summarized as follows:

Lender	Beginning Balance July 1, 2013	New Loans During Year	Retired During Year	Ending Balance June 30, 2014	Amount Due Within 1 Year
Ford Motor Credit - police truck	\$ 16,411	\$ -	\$ 16,411	\$ -	\$ -
Ford Motor Credit - police car	17,746	-	17,746	-	-
Ford Motor Credit - police car	-	34,038	34,038	-	-
Wells Fargo Equipment Finance	-	192,820	18,350	174,470	36,534
	<u>\$ 34,157</u>	<u>\$ 226,858</u>	<u>\$ 86,545</u>	<u>\$ 174,470</u>	<u>\$ 36,534</u>

Interest costs charged to expense during the year ended June 30, 2014 was \$6,338. \$3,778 was charged to public safety and \$2,560 was charged to public works.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – LONG-TERM DEBT - continued

Business-Type Activities

Water quality bond payable – water treatment upgrade; interest at 0.4%; payable in annual installments of principal and interest of \$98,379 through February 2025; unsecured. The balance as of June 30, 2014 was \$1,023,544.

Water quality bond payable – Waste water treatment plant upgrade; interest at 0.4%; interest payable semi-annually; annual payments of principal and interest of \$180,468 through February 2027; unsecured. The balance as of June 30, 2014 was \$2,120,253.

Infrastructure bond payable – Series 2012A; interest at 3.562%; interest due semi-annually; annual payments of principal and interest of \$143,549 to \$148,627 through May 2032; secured by all current and future bank deposits and investments. The balance as of June 30, 2014 was \$1,885,000.

The changes in long-term debt during the year ended June 30, 2014 follows:

	Beginning Balance July 1, 2013	New Loans During Year	Retired During Year	Ending Balance June 30, 2014	Amount Due Within 1 Year
Water quality bond - 2005	\$ 1,117,453	\$ -	\$ 93,909	\$ 1,023,544	\$ 94,284
Water quality bond - 2006	2,290,421	-	170,168	2,120,253	170,849
Infrastructure Bond - 2012	1,967,500	-	82,500	1,885,000	83,500
	<u>\$ 5,375,374</u>	<u>\$ -</u>	<u>\$ 346,577</u>	<u>\$ 5,028,797</u>	<u>\$ 348,633</u>

The principal and interest requirements to maturity of the long-term debt of all funds are as follows:

Year(s) Ended June 30	Principal			Interest		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
2015	\$ 36,534	\$ 348,633	\$ 385,167	\$ 5,287	\$ 71,964	\$ 77,251
2016	37,777	350,694	388,471	4,044	69,726	73,770
2017	39,062	353,258	392,320	2,759	67,357	70,116
2018	40,390	355,827	396,217	1,430	64,791	66,221
2019	20,707	359,101	379,808	203	59,443	59,646
2020-2024	-	1,847,054	1,847,054	-	248,433	248,433
2025-2029	-	1,013,730	1,013,730	-	147,115	147,115
2030-2034	-	400,500	400,500	-	31,997	31,997
	<u>\$ 174,470</u>	<u>\$ 5,028,797</u>	<u>\$ 5,203,267</u>	<u>\$ 13,723</u>	<u>\$ 760,826</u>	<u>\$ 774,549</u>

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – LONG-TERM DEBT - continued

In May 2008, the Town issued a \$65,500,000 revenue bond (Washington College Project 2008A) pursuant to the provisions of Maryland existing law in order to lend the proceeds to Washington College for the purpose of paying off a \$10,000,000 revenue bond 1998 series and to finance college construction projects. The bond and interest are limited obligations of the Town payable solely from receipts and revenues from the loan made to Washington College. The bond does not constitute an indebtedness or pledge of faith and credit of the Town. The principal amount payable for the 2008A Series at June 30, 2014 was \$55,199,000.

In September 2013, the Town issued a \$29,295,000 revenue bond (Heron Point of Chestertown Project) pursuant to the provisions of Maryland existing law in order to lend the proceeds to Heron Point of Chestertown, Inc. for the purpose of paying off a \$19,600,000 revenue bond 1998 series, paying off a loan and line of credit of \$6,988,475 and to finance construction projects. The bond and interest are limited obligations of the Town payable solely from receipts and revenues from the loan made to Heron Point of Chestertown, Inc. The bond does not constitute an indebtedness or pledge of faith and credit of the Town. The principal amount payable for the 2013 Series at June 30, 2014 was \$28,900,000.

NOTE 8 – CAPITAL LEASES

The Town has entered into an agreement to lease a street sweeper. This agreement is, in substance, a purchase (capital lease) and is reported with long-term debt as capital lease obligations. Included in governmental activities capital assets is the total cost of the leased vehicle of \$192,820. Depreciation of \$13,773 was recorded on the vehicle for the year ended June 30, 2014. Future minimum lease payments are as follows:

Year(s) Ended June 30	
2015	\$ 41,821
2016	41,821
2017	41,821
2018	41,820
2019	20,910
Total minimum lease payments	\$ 188,193
Less interest	(13,723)
Present value of minimum lease payments	\$ 174,470

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 9 – RETIREMENT PLAN

General – The Town of Chestertown participates in the Employees Pension System (EPS) of the Maryland State Retirement and Pension System (SRPS). This is a statewide, cost-sharing, agent multi-employer defined benefit plan. The system is administered by the State Retirement Agency of Maryland (SRA). The plan provides for retirement, death and disability benefits.

LEOPS – The Town’s police officers participate in the Law Enforcement Officers’ Pension system (LEOPS) of the SRPS.

The Maryland State Retirement and Pension System issue a comprehensive annual financial report that includes disclosures regarding: actuarial value of assets; total actuarial accrued liability; unfunded actuarial accrued liability, if any; and funded liability ratio. This report can be obtained from the agency’s office at Maryland State Retirement and Pension Systems, 301 West Preston Street, Baltimore, Maryland 21201.

Obligations to contribute to the plan were established under Title 21 and Title 26 of the Annotated Code of Maryland – State Personnel and Pensions. Members of the EPS contribute 7% of their gross regular employee compensation. Members of the LEOPS contribute 7% of their gross regular compensation.

Contributions by the Town to the State plan are actuarially determined and are based upon salaries for the preceding fiscal year. The Town contribution for the year ended June 30, 2014 is based on salaries for the year ended June 30, 2013. The contribution requirements of plan members of the reporting entity are established and may be amended by the Maryland State Pension System Board of Trustees.

The Town pays its obligation to the SRPS in full each year. Each participant’s account is credited with their personal contributions as well as income earned in that account.

The Plan has a five year vesting schedule beginning with the date of employment. An employee is 100% vested after 5 years of credited service. For new members enrolled on or after July 1, 2011, vesting requires 10 years of credited service.

Under the terms of the general plan, a plan participant may retire with full benefits after completing 30 years of eligible service regardless of age or at age 62 or older with 5 years of eligible service. Early retirement is possible at age 55 with at least 15 years of eligibility service, but with reduced retirement benefit. For new members enrolled on or after July 1, 2011, service retirement will be at age 65 with 10 years of eligibility service when the member’s age plus service equals 90. Early retirement increases to age 60 with at least 15 years of eligibility service. Under the LEOPS plan, a plan participant can retire after 25 years of service or age 50. Benefits are also payable as a result of an employee’s disability.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 9 – RETIREMENT PLAN – continued

On termination of service due to death, disability or retirement, a participant or his beneficiary may elect to receive one of the following types of retirement benefits:

- A monthly allowance during the participant’s lifetime
- A lump-sum amount payable to the participant’s survivor at death (single-life annuities)
- A continuing annuity payment after death to the surviving beneficiary (dual-life annuities)

The cost-of-living adjustment is limited to 2.5% in years when the Plan’s interest assumption is met and 1% in years when it is not. Benefits under the State Retirement and Pension System are established under Title 21 of the Annotated Code of Maryland – State Personnel and Pensions.

Contribution and trend information for the Town’s participation is as follows:

EPS					
Year Ended June 30,	Covered Payroll	Contribution Rate	Employer Contribution	Employee Contribution	Plan Participants
2014	\$ 1,189,862	10.00%	\$ 118,986	\$ 83,699	30
2013	1,088,765	8.99%	97,880	83,916	29
2012	1,165,165	10.94%	127,469	70,810	32
2011	1,094,779	10.83%	118,565	50,179	29
2010	1,077,097	7.58%	81,644	53,848	30

LEOPS					
Year Ended June 30,	Covered Payroll	Contribution Rate	Employer Contribution	Employee Contribution	Plan Participants
2014	\$ 509,370	31.76%	\$ 110,295	\$ 34,889	11
2013	437,482	28.71%	74,120	32,985	10
2012	401,978	33.09%	81,534	32,210	9
2011	467,159	32.74%	101,467	20,470	10

The LEOPS employer contribution is net of new entrant payments and credits.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10 – DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all Town Employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In compliance with the Internal Revenue Code Section 457(g), all assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the investments designated for compensation benefits are not reflected in the Town's financial statements.

Nationwide Retirement Solutions administers the Plan.

Town employees also participate in a Code Section 125 pre-tax medical insurance plan.

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS

Plan Description

The Town has a single-employer defined benefit gap healthcare program entitled Town of Chestertown Retiree Medical Program (the "Program"). The Program provides lifetime healthcare insurance for eligible employees who retire after the age of 65. The Program also provides for the Town to contribute up to \$5,000 of the cost of supplemental health insurance premiums for retirees.

Funding policy, funding status and funding progress

The Town's contributions are financed on a pay-as you-go basis. The accrued liability for benefits and unfunded actuarial accrued liability (UAAL) was \$832,776 at June 30, 2014. The covered payroll (annual payroll of active employees covered by the Program) was \$1,144,306. The ratio of the unfunded actuarial liability to the covered payroll was 73%. The Program does not issue a publicly available financial report.

Annual OPEB cost and net OPEB obligation

The Town's annual Other Postemployment Benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS - continued

The following table shows the components of the Town’s annual OPEB cost for the year, the amount actually contributed to the Plan and changes in its net OPEB obligation to the program:

Annual required contribution (normal cost)	\$	105,962
Interest on net OPEB obligation		8,019
Adjustment to annual required contribution		-
Annual OPEB cost		113,981
Contributions made		(2,882)
Increase in net OPEB obligation		111,099
Net OPEB obligation - beginning of year		367,811
Net OPEB obligation - end of year	\$	478,910

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for fiscal year 2013, 2012 and 2011:

Fiscal year Ended <u>June 30</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2014	\$ 113,981	3%	\$ 478,910
2013	114,857	3%	367,811
2012	111,520	3%	255,839
2011	70,891	2%	147,143

At June 30, 2014, the accrued actuarial liability for benefits was \$478,910, all of which was unfunded.

The projection of future benefits for an ongoing plan involves estimates of the fair value of reported amounts, and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of a plan and the employer’s annual required contributions 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 following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS – continued

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plans as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made.

Employees and members – based on the age eligibility, active plan members, were assumed to retire at age 65. Life expectancy was based on mortality tables published by the Internal Revenue Service. The probability of remaining employed until the assumed retirement age was developed using non-group specific age-based turnover data from GASB.

Assumptions about healthcare costs – the health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The maximum of \$5,000 annually per retiree was used in the calculation.

Other assumptions and methods – based on the historical and expected returns of the Town's investments, the investment rate of return was assumed to be 2.64%. The UAAL is amortized over the average life expectancy of the participants, if less.

NOTE 12 – LEASE COMMITMENTS

The Utilities Commission has leased ground space to five telecommunications companies. The five year leases are renewable.

NOTE 13 – CONCENTRATIONS

The Town derives most of its revenues, except grants, from its citizens. The Town provides various services to its residents. The Town is located in Kent County, Maryland. Credit is granted to its residents for back taxes and water bills. The Town may place a lien on any property associated with taxes and water services.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 14 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to workers; and natural disasters.

For general, property and excess liability coverage, the Town is a member of the Maryland Local Government Insurance Trust (LGIT). This trust is a public entity risk pool that is owned and directed by the local governments that subscribe to its coverage and operates under the terms of a Trust Agreement.

The Town pays LGIT an annual premium. Claims are processed and recoveries and administrative costs are paid by LGIT. Similar to a commercial insurance carrier, recoveries are subject to deductibles and to annual aggregate/per occurrence dollar limits. There have been no assessments during the year ended June 30, 2014 and no insurance settlements have exceeded the Town's coverage during each of the last three years.

The Town is fully insured for workers compensation through insurance and employees are bonded to limit the loss to the Town in the event of employees committing acts of fraud.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Grants

The Town receives grants from time-to-time. Expenditures from certain grants are subject to audit by the grantor, and the Town is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the Town's management, no material refunds will be required as a result of disallowed expenditures.

Cannon Street Apartments

The Cannon Street Partnership apartments project was placed in service August 1, 1993. The financing for six rental units for low-income households consisted of the Town's contribution of the site, certain site improvements and a \$360,000 loan for construction from the Maryland Department of Housing and Community Development. This loan is intended to be permanent financing with payment deferred indefinitely as long as the Town operates the apartments as required by the loan agreement. A project reserve fund is required by the agreement.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 15 – COMMITMENTS AND CONTINGENCIES - continued

The reserve fund was increased during fiscal year 2014 as follows:

Balance as of June 30, 2013	\$ 29,065
Contributions	13,275
Interest earned	15
Balance as of June 30, 2014	<u><u>\$ 42,355</u></u>

Chestertown Volunteer Fire Company Loan Guarantee

In April 2013, GASB issued statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The Town has implemented this statement as of July 1, 2013.

In December 2013, the Town Council voted to enter into an agreement to guarantee a loan made by the Chestertown Volunteer Fire Company (the Company) for a fire truck. The Company is a legally separate entity that does not constitute a component unit of the Town. The loan amount is \$1,120,685 and matures in December 2034. In the event the Company is unable to make a payment, the Town will be required to make that payment. No liability is reported for this loan in the Town's financial statements as of June 30, 2014.

NOTE 16 – FUND BALANCE REPORTING

Fund balances for the Town's governmental funds consisted of the following as of June 30, 2014:

Non-spendable Fund Balance

At June 30, 2014, there was \$20,468 in non-spendable fund balance pertaining to prepaid expenses.

Assigned Fund Balance

At June 30, 2014, there was \$204,682 in assigned fund balance. \$7,942 pertains to medical deductibles and \$196,740 pertains to infrastructure of the waterfront.

Unassigned Fund Balance

Unassigned fund balance totals \$1,378,649.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 17 – DEFICIT OF UNRESTRICTED NET POSITION

The Satterfield Court fund had a deficit of unrestricted net position of (\$2,193) as of June 30, 2014. Subsequent to June 30, 2014 this property was sold to a private company, see note 19 for additional details.

The Marina Fund had a deficit of unrestricted net position of (\$121,757) as of June 30, 2014. The Town anticipates increased revenues in future years will eliminate this deficit.

NOTE 18 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012, effective for fiscal years beginning after June 15, 2014.

Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, effective for fiscal years beginning after December 15, 2013.

Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, issued November 2013, effective for fiscal years beginning after June 15, 2014.

The Town will implement these statements as necessary as of their effective dates. While the Town is still in the process of determining the effect of implementing these GASB statements, they are not expected to have a material effect on the financial position of the Town.

NOTE 19 – SUBSEQUENT EVENTS

In July 2014, the Town sold the Cannon Street and Satterfield properties to a private company. All remaining liquid assets were transferred to the Marina fund.

Management has evaluated subsequent events through October 17, 2014, the date that the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements, except as described above.

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES -BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes - local				
Real and property				
Real property	\$ 2,170,000	\$ 2,170,000	\$ 2,170,933	\$ 933
Real property - penalties	21,000	21,000	20,937	(63)
Total real and personal property	<u>2,191,000</u>	<u>2,191,000</u>	<u>2,191,870</u>	<u>870</u>
Income taxes	<u>560,000</u>	<u>560,000</u>	<u>644,380</u>	<u>84,380</u>
Total taxes - local	2,751,000	2,751,000	2,836,250	85,250
Taxes - state shared				
Highway users	55,000	117,600	125,002	7,402
Admissions and amusements	16,000	16,000	13,831	(2,169)
Bank shares	2,532	2,532	2,532	-
Total shared taxes	<u>73,532</u>	<u>136,132</u>	<u>141,365</u>	<u>5,233</u>
Licenses and permits				
Building permits	56,000	56,000	32,900	(23,100)
Traders	23,000	23,000	19,060	(3,940)
Cable TV franchise fees	54,000	54,000	49,980	(4,020)
Building code revenue	-	-	10,527	10,527
Total licenses and permits	<u>133,000</u>	<u>133,000</u>	<u>112,467</u>	<u>(20,533)</u>
Intergovernmental				
Grants from federal government	25,000	25,000	-	(25,000)
Grants from state government				
Police protection	46,064	53,564	70,444	16,880
Other state grants	155,000	155,000	560,443	405,443
Total grants from state government	<u>201,064</u>	<u>208,564</u>	<u>630,887</u>	<u>422,323</u>
Grants from county government				
Crossing guard reimbursement	1,200	1,200	1,026	(174)
Tax differential grant and hotel tax	127,207	127,207	127,649	442
Police overtime reimbursements	1,500	1,500	5,662	4,162
Other County grants	3,500	10,790	9,290	(1,500)
Total grants from county government	<u>133,407</u>	<u>140,697</u>	<u>143,627</u>	<u>2,930</u>
Total intergovernmental revenue	<u>3,317,003</u>	<u>3,394,393</u>	<u>3,864,596</u>	<u>470,203</u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES -BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Charges for services				
General government	\$ 6,500	\$ 6,500	\$ 6,900	\$ 400
Zoning appeals board	1,500	1,500	1,000	(500)
Administration services	2,520	2,520	2,520	-
Highways and streets	-	-	3,136	3,136
Waste collection fees	4,400	4,400	4,721	321
Parking fines and parking meter	42,000	42,000	39,595	(2,405)
Municipal infractions	76,000	76,000	113,806	37,806
Total charges for services	<u>132,920</u>	<u>132,920</u>	<u>171,678</u>	<u>38,758</u>
Miscellaneous revenue				
Interest income	8,000	8,000	15,086	7,086
Donations	7,000	7,000	7,355	355
Rental income	16,900	16,900	17,700	800
Private grants	200,000	200,000	-	(200,000)
Other revenues	2,650	2,650	6,281	3,631
Total miscellaneous revenue	<u>234,550</u>	<u>234,550</u>	<u>46,422</u>	<u>(188,128)</u>
Total Revenues	<u>\$ 3,684,473</u>	<u>\$ 3,761,863</u>	<u>\$ 4,082,696</u>	<u>\$ 320,833</u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
General Government				
Legislative				
Council salaries	\$ 18,000	\$ 18,000	\$ 20,250	\$ (2,250)
Payroll taxes	1,377	1,377	1,549	(172)
Workers' compensation	2,948	2,948	3,061	(113)
Other legislative expenditures	370	370	502	(132)
Meetings and travel	15,000	15,000	10,682	4,318
Total legislative	<u>37,695</u>	<u>37,695</u>	<u>36,044</u>	<u>1,651</u>
Executive				
Manager and secretarial salaries	192,355	192,355	198,089	(5,734)
Payroll taxes	14,715	14,715	14,044	671
Workers' compensation	2,166	2,166	2,245	(79)
Medical and life insurance	45,951	45,951	46,438	(487)
Pension expense	18,915	18,915	17,959	956
Professional fees and other expenditures	1,700	1,700	1,027	673
Meetings and travel	2,750	2,750	534	2,216
Total executive	<u>278,552</u>	<u>278,552</u>	<u>280,336</u>	<u>(1,784)</u>
Financial administration				
Finance salaries	56,965	56,965	58,692	(1,727)
Payroll taxes	4,358	4,358	4,464	(106)
Workers' compensation	233	233	246	(13)
Medical and life insurance	29,436	29,436	29,402	34
Pension expense	5,121	5,121	5,445	(324)
Office supplies	7,000	7,000	6,433	567
Postage	2,100	2,100	2,036	64
Telephone	3,500	3,500	3,443	57
Accounting and auditing fees	7,648	7,648	7,648	-
Data processing fees	2,000	2,000	2,105	(105)
Office equipment	5,200	5,200	3,989	1,211
Training and other expenses	350	350	651	(301)
Total financial administration	<u>123,911</u>	<u>123,911</u>	<u>124,554</u>	<u>(643)</u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
Law				
Legal council	\$ 11,000	\$ 11,000	\$ 16,233	\$ (5,233)
Legal notices	500	500	1,194	(694)
Total law	<u>11,500</u>	<u>11,500</u>	<u>17,427</u>	<u>(5,927)</u>
Planning and zoning				
Planning commission	3,000	3,000	17,047	(14,047)
Building and housing inspection fees	5,000	5,000	4,232	768
Building permit software	1,000	1,000	950	50
Office supplies expense	300	300	311	(11)
Recodification service	2,000	2,000	2,185	(185)
Board of appeals	1,500	1,500	562	938
Total planning and zoning	<u>12,800</u>	<u>12,800</u>	<u>25,287</u>	<u>(12,487)</u>
Municipal building				
Utilities	17,000	17,000	18,990	(1,990)
Insurance property and liability	9,581	9,581	8,785	796
Repairs and maintenance	10,000	10,000	8,098	1,902
Operating supplies and cleaning	5,000	5,000	4,623	377
Total municipal building	<u>41,581</u>	<u>41,581</u>	<u>40,496</u>	<u>1,085</u>
Other general government expenditures				
Dues and subscriptions	7,854	7,854	8,208	(354)
Election costs	2,500	2,500	7,372	(4,872)
Other operating expenditures	8,200	8,200	3,424	4,776
Stormwater project	-	-	362,701	(362,701)
G.A.R Post 25	-	-	148,259	(148,259)
Total other general government expenditures	<u>18,554</u>	<u>18,554</u>	<u>529,964</u>	<u>(511,410)</u>
Total General Government	<u>524,593</u>	<u>524,593</u>	<u>1,054,108</u>	<u>(529,515)</u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
Public Safety				
Police				
Police salaries	\$ 804,981	\$ 787,981	\$ 741,713	\$ 46,268
Payroll taxes	61,581	61,581	55,448	6,133
Workers' compensation	24,215	25,215	25,139	76
Medical and life insurance	129,168	117,168	115,399	1,769
Pension expenses	110,294	116,294	116,122	172
Uniforms and clothing	15,000	17,000	17,656	(656)
Training and education	15,000	5,000	4,091	909
Meetings and travel	20,000	3,000	2,474	526
Utilities	3,240	3,240	3,706	(466)
General insurance	16,115	16,115	14,468	1,647
Gas and oil - vehicles	43,000	43,000	38,950	4,050
Repairs and maintenance	16,500	16,500	13,756	2,744
Supplies - operating	10,000	10,000	7,234	2,766
Legal fees and services	2,500	2,500	1,738	762
Office supplies and equipment	14,800	19,800	18,447	1,353
Telephone	13,000	15,000	14,113	887
Accounting and auditing	956	956	956	-
Equipment	25,000	27,500	27,034	466
Canine maintenance	5,000	10,000	9,069	931
Public relations	2,000	2,000	2,101	(101)
Speed camera processing fees	-	40,000	37,714	2,286
Camera upgrades and maintenance	10,000	10,000	9,466	534
Other operating expenditures	6,500	6,500	6,376	124
Total Police	<u>1,348,850</u>	<u>1,356,350</u>	<u>1,283,170</u>	<u>73,180</u>
Other public safety expenditures				
Volunteer fire company	31,500	31,500	34,266	(2,766)
Rescue squad	15,000	15,000	16,899	(1,899)
Drug task force	-	-	-	-
Total other public safety expenditures	<u>46,500</u>	<u>46,500</u>	<u>51,165</u>	<u>(4,665)</u>
TOTAL PUBLIC SAFETY	<u><u>1,395,350</u></u>	<u><u>1,402,850</u></u>	<u><u>1,334,335</u></u>	<u><u>68,515</u></u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Works				
Highways and streets				
Salaries	\$ 383,530	\$ 429,530	\$ 430,718	\$ (1,188)
Payroll taxes	29,340	32,140	32,170	(30)
Workers' compensation	38,378	39,878	39,878	-
Medical and life insurance	98,172	98,172	87,095	11,077
Pension expense	36,793	36,793	37,390	(597)
Uniforms and clothing	10,500	10,500	9,019	1,481
Property and liability insurance	6,791	6,791	5,145	1,646
Gas and oil - vehicles	35,616	35,616	29,523	6,093
Building repairs and maintenance	4,000	4,000	4,529	(529)
Vehicle repairs and maintenance	15,000	15,000	15,672	(672)
Equipment repairs and maintenance	40,000	40,000	41,644	(1,644)
Street repairs and rehabilitation	6,000	51,000	50,720	280
Brick sidewalk & curb & concrete work	60,000	60,000	65,148	(5,148)
Tree maintenance and planting	17,000	17,000	44,960	(27,960)
Operating supplies	10,000	12,500	12,665	(165)
Street lighting	81,200	99,200	99,156	44
Snow removal	13,000	29,000	28,154	846
Utilities	19,405	19,405	22,386	(2,981)
Training	500	500	-	500
Other operating expenditures	-	-	1,223	(1,223)
Total streets and roadways	<u>905,225</u>	<u>1,037,025</u>	<u>1,057,195</u>	<u>(20,170)</u>
Sanitation				
Waste collection	115,000	115,000	115,000	-
Recycling and landfill costs	77,000	77,000	80,944	(3,944)
Curbside recycling pick up	57,000	57,000	53,788	3,212
Mosquito and weed control	2,550	2,550	1,626	924
Total sanitation	<u>251,550</u>	<u>251,550</u>	<u>251,358</u>	<u>192</u>
TOTAL PUBLIC WORKS	<u>1,156,775</u>	<u>1,288,575</u>	<u>1,308,553</u>	<u>(19,978)</u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Crossing guard/meter monitor				
Salaries	\$ 30,650	\$ 30,650	\$ 31,003	\$ (353)
Payroll taxes	2,345	2,345	2,409	(64)
Workers' compensaton	860	860	877	(17)
Medical and life insurance	6,992	6,992	6,518	474
Pension expense	3,064	3,064	2,919	145
Uniforms and clothing	720	720	426	294
Supplies	500	500	185	315
Gas and vehicle maintenance	1,796	1,796	2,310	(514)
Telephone	265	265	420	(155)
Repairs and maintenance	400	400	625	(225)
Total crossing guard/meter monitor	<u>47,592</u>	<u>47,592</u>	<u>47,692</u>	<u>(100)</u>
Recreation				
Music in the park	4,300	4,300	5,110	(810)
Park maintenance	16,000	16,000	18,646	(2,646)
Community relations - recreation	26,150	26,150	27,292	(1,142)
Total recreation and parks	<u>46,450</u>	<u>46,450</u>	<u>51,048</u>	<u>(4,598)</u>
Visitors' Center/Tourism				
Salaries/wages	34,096	34,096	35,832	(1,736)
Payroll taxes and pension expense	6,017	6,017	6,026	(9)
Insurance	1,527	1,527	1,503	24
Fireworks/holiday programs	15,500	15,500	22,024	(6,524)
Housekeeping supplies	10,000	10,000	11,797	(1,797)
Office and other expenditures	200	200	106	94
Telephone	1,700	1,700	2,122	(422)
Web management	7,140	7,140	7,140	-
Repairs and maintenance	7,000	7,000	6,213	787
Workers compensation	-	-	35	(35)
Utilities	5,900	5,900	7,630	(1,730)
Total visitors' center/tourism	<u>89,080</u>	<u>89,080</u>	<u>100,428</u>	<u>(11,348)</u>
Miscellaneous				
MVA bus expense	3,200	3,200	2,971	229
Community affairs	12,140	12,140	8,449	3,691
Other miscellaneous expenses	1,800	1,800	3,530	(1,730)
Total miscellaneous	<u>17,140</u>	<u>17,140</u>	<u>14,950</u>	<u>2,190</u>
Debt Service				
Principal				
Public safety	-	-	68,195	(68,195)
Public works	-	-	18,350	(18,350)
Total principal payments	<u>-</u>	<u>-</u>	<u>86,545</u>	<u>(86,545)</u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Interest expense				
Public safety police	\$ 2,744	\$ 2,744	\$ 3,778	\$ (1,034)
Public works - highway and streets	-	-	2,560	(2,560)
Total interest expense	<u>2,744</u>	<u>2,744</u>	<u>6,338</u>	<u>(3,594)</u>
Capital outlay				
General government	88,000	88,000		
Gateway Park	155,000	155,000	12,237	142,763
Dog park	-	-	6,067	(6,067)
Police car	24,739	24,739	34,038	(9,299)
Streets - vehicles	40,000	40,000	13,000	27,000
Police computer system	15,000	15,000	15,421	(421)
Other equipment	-	-	5,500	(5,500)
Street repaving	200,000	166,190	-	166,190
Street sweeper purchase	-	-	192,820	(192,820)
Rails to Trails	175,000	175,000	7,699	167,301
Total capital outlay	<u>697,739</u>	<u>663,929</u>	<u>286,782</u>	<u>289,147</u>
Total Expenditures	3,977,463	4,082,953	4,290,779	(207,826)
Excess of revenues over expenditures	(292,990)	(321,090)	(208,083)	113,007
Other financing sources (uses)				
Sale of assets	-	28,100	29,470	(1,370)
Capital leases	-	-	226,858	(226,858)
Budget contingencies	292,990	292,990	-	292,990
Total other financing sources (uses)	<u>292,990</u>	<u>321,090</u>	<u>256,328</u>	<u>64,762</u>
Excess of revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	\$ 48,245	<u>\$ 48,245</u>
Fund balance, beginning of year			<u>1,555,554</u>	
Fund balance, end of year			<u>\$ 1,603,799</u>	

**TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
FOR THE TOWN OF CHESTERTOWN RETIREE MEDICAL PROGRAM
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/2014	\$ -	\$ 366,937	\$ 832,776	0.00%	\$ 1,144,306	72.78%
6/30/2013	-	367,811	850,581	0.00%	1,144,306	74.33%
6/30/2012	-	255,839	782,366	0.00%	1,045,781	74.81%
6/30/2011	-	147,143	555,237	0.00%	1,110,360	50.01%

SUPPLEMENTAL SCHEDULES

TOWN OF CHESTERTOWN, MARYLAND
COMBINING STATEMENT OF NET POSITION
NON-MAJOR PROPRIETARY FUNDS
JUNE 30, 2014

	Satterfield Court Fund	Cannon Street Apartments Fund	Total
ASSETS			
Current Assets			
Cash and cash equivalents - unrestricted	\$ (219)	\$ 5,476	\$ 5,257
Cash and cash equivalents - restricted	2,375	43,932	46,307
Total Current Assets	<u>2,156</u>	<u>49,408</u>	<u>51,564</u>
Capital Assets			
Land	57,650	100,780	158,430
Land improvements	23,610	-	23,610
Buildings	632,166	398,446	1,030,612
Equipment	50,000	8,455	58,455
Total Capital Assets	<u>763,426</u>	<u>507,681</u>	<u>1,271,107</u>
Less: accumulated depreciation	(588,792)	(201,917)	(790,709)
Net Capital Assets	<u>174,634</u>	<u>305,764</u>	<u>480,398</u>
TOTAL ASSETS	<u>176,790</u>	<u>355,172</u>	<u>531,962</u>
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 176,790</u>	<u>\$ 355,172</u>	<u>\$ 531,962</u>
LIABILITIES			
Current Liabilities			
Accounts payable	1,974	662	2,636
Deposits	2,375	1,250	3,625
Total Current Liabilities	<u>4,349</u>	<u>1,912</u>	<u>6,261</u>
TOTAL LIABILITIES	<u>4,349</u>	<u>1,912</u>	<u>6,261</u>
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
NET POSITION			
Net investment in capital assets	174,634	305,764	480,398
Restricted - for capital projects	-	29,065	29,065
Unrestricted	(2,193)	18,431	16,238
TOTAL NET POSITION	<u>172,441</u>	<u>353,260</u>	<u>525,701</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 176,790</u>	<u>\$ 355,172</u>	<u>\$ 531,962</u>

TOWN OF CHESTERTOWN, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Satterfield Court Fund	Cannon Street Apartments Fund	Total
Operating Revenues			
Rental income	\$ 34,750	\$ 13,231	\$ 47,981
Other income	565	22	587
Total Operating Revenues	<u>35,315</u>	<u>13,253</u>	<u>48,568</u>
Operating Expenses			
Utilities	21,830	1,328	23,158
Repairs and maintenance	11,400	4,147	15,547
Insurance	1,211	865	2,076
Professional fees	956	956	1,912
Operating supplies	679	-	679
Administrative costs	16	2,520	2,536
Depreciation and amortization	18,867	10,766	29,633
Total Operating Expenses	<u>54,959</u>	<u>20,582</u>	<u>75,541</u>
Operating Income (Loss)	<u>(19,644)</u>	<u>(7,329)</u>	<u>(26,973)</u>
Non-operating Revenues (Expenses)			
Interest income	3	24	27
Net Non-operating Revenues (Expenses)	<u>3</u>	<u>24</u>	<u>27</u>
Changes in Net Position	(19,641)	(7,305)	(26,946)
Total net position at beginning of year	<u>192,082</u>	<u>360,565</u>	<u>552,647</u>
Total net position at end of year	<u><u>\$ 172,441</u></u>	<u><u>\$ 353,260</u></u>	<u><u>\$ 525,701</u></u>

**TOWN OF CHESTERTOWN, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Satterfield Court Fund</u>	<u>Cannon Street Apartments Fund</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from customers	\$ 34,350	\$ 13,231	\$ 47,581
Cash paid to suppliers	(36,473)	(10,801)	(47,274)
Other receipts	565	22	587
Net cash provided (used) by operating activities	<u>(1,558)</u>	<u>2,452</u>	<u>894</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used) for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from non-capital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used) for non-capital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities			
Interest and dividends	<u>3</u>	<u>24</u>	<u>27</u>
Net cash provided by investing activities	<u>3</u>	<u>24</u>	<u>27</u>
Net increase (decrease) in cash and cash equivalents	(1,555)	2,476	921
Cash and cash equivalents at beginning of year	<u>3,711</u>	<u>46,932</u>	<u>50,643</u>
Cash and cash equivalents at end of year	<u>\$ 2,156</u>	<u>\$ 49,408</u>	<u>\$ 51,564</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (19,644)	\$ (7,329)	\$ (26,973)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	18,867	10,766	29,633
Changes in assets and liabilities:			
Increase (decrease) in accounts payable	(381)	(985)	(1,366)
Increase (decrease) in tenant deposits	(400)	-	(400)
Cash provided (used) by operating activities	<u>\$ (1,558)</u>	<u>\$ 2,452</u>	<u>\$ 894</u>

TOWN OF CHESTERTOWN, MARYLAND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - UTILITY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues				
Charges for services				
Sewer fees	\$ 660,000	\$ 660,000	\$ 685,348	\$ 25,348
Water fees	735,000	735,000	709,002	(25,998)
Sewer connections	172,000	172,000	33,000	(139,000)
Water connections	84,000	84,000	41,250	(42,750)
Other water and sewer charges	63,431	63,431	53,276	(10,155)
Rental income	2,520	2,520	2,520	-
Tower leases	61,346	61,346	54,528	(6,818)
Grant revenue	16,200	30,000	30,000	-
Other income	1,000	1,000	3,775	2,775
Total Operating Revenues	<u>1,795,497</u>	<u>1,809,297</u>	<u>1,612,699</u>	<u>(196,598)</u>
Operating Expenses				
Salaries	522,371	522,371	543,889	(21,518)
Council expenses	4,500	4,500	5,100	(600)
Chemicals	60,000	64,065	66,752	(2,687)
Data processing	6,700	6,700	7,393	(693)
General insurance	22,359	22,359	19,891	2,468
Workers' compensation	14,775	14,775	15,354	(579)
Medical and life insurance	87,783	81,283	102,512	(21,229)
Payroll taxes	40,306	40,306	40,470	(164)
Pension	47,944	46,744	46,161	583
Uniforms and clothing	4,000	4,000	3,340	660
Meter parts	12,000	12,000	17,969	(5,969)
Safety equipment	3,500	3,500	2,317	1,183
Supplies	12,000	12,000	10,268	1,732
Small tools	5,000	5,000	3,705	1,295
Office supplies	2,700	2,700	2,894	(194)
Legal services	1,250	1,250	2,567	(1,317)
Accounting and audit services	7,648	7,648	7,648	-
Other professional fees	500	500	-	500
Repairs and maintenance				
Vehicles	3,000	3,000	6,845	(3,845)
Water lines	35,000	50,200	50,170	30
Water tower	15,000	-	-	-
Buildings and plants	17,800	12,800	13,189	(389)
Equipment	67,000	98,700	98,672	28
Grounds	3,000	500	327	173
Office equipment	4,800	4,800	6,225	(1,425)
Postage - freight	4,000	4,000	3,122	878
Telephone	7,000	7,000	7,323	(323)
Travel and training	3,000	3,000	1,749	1,251
Gas and oil - vehicles	15,000	15,000	19,291	(4,291)
Utilities	152,000	152,000	151,975	25
Lab fees and testing	30,000	30,000	29,665	335
Loan administration fees	13,165	13,165	13,165	-
Depreciation expense	-	-	672,268	(672,268)
Hospital oil spill	-	24,735	24,735	-
Miscellaneous	2,541	2,541	1,555	986
Total Operating Expenses	<u>1,227,642</u>	<u>1,273,142</u>	<u>1,998,506</u>	<u>(725,364)</u>
OPERATING INCOME (LOSS)	<u>\$ 567,855</u>	<u>\$ 536,155</u>	<u>\$ (385,807)</u>	<u>\$ (921,962)</u>

TOWN OF CHESTERTOWN, MARYLAND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - UTILITY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
NONOPERATING REVENUE (EXPENSES)				
Interest income	\$ 12,000	\$ 12,000	\$ 14,532	\$ 2,532
Sale of assets	-	-	593	593
MTBE Settlement	505,912	505,912	-	(505,912)
Capital expenditures	(43,000)	-	-	-
Principal reduction	(262,535)	(262,535)	-	262,535
Interest expense	(14,344)	(14,344)	(13,103)	1,241
TOTAL NONOPERATING REVENUE (EXPENSES)	198,033	241,033	2,022	(239,011)
CHANGE IN NET POSITION	<u>\$ 765,888</u>	<u>\$ 777,188</u>	(383,785)	<u>\$ (1,160,973)</u>
NET POSITION, BEGINNING OF YEAR			<u>9,916,142</u>	
NET POSITION, END OF YEAR			<u>\$ 9,532,357</u>	

TOWN OF CHESTERTOWN, MARYLAND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - MARINA FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues				
Rental income				
Slip rental	\$ 44,400	\$ 44,400	\$ 53,857	\$ 9,457
Seasonal storage	8,000	8,000	9,067	1,067
Winter storage	43,000	43,000	41,438	(1,562)
Other storage	1,000	1,000	1,053	53
Utilities	4,500	4,500	4,492	(8)
Transient slip rental	37,000	37,000	30,131	(6,869)
Marina rent	-	-	41,400	41,400
Fuel sales	-	-	18,635	18,635
Other income	8,900	8,900	20,541	11,641
Total Operating Revenues	<u>146,800</u>	<u>146,800</u>	<u>220,614</u>	<u>73,814</u>
Operating Expenses				
Accounting and audit services	956	956	956	-
Advertising	300	300	-	300
Credit card fees	1,800	1,800	1,878	(78)
Depreciation expense	-	-	66,277	(66,277)
Housekeeping/supplies	2,300	2,300	2,785	(485)
Fuel - diesel	-	-	8,440	(8,440)
Fuel - gasoline	-	-	15,922	(15,922)
Insurance - liability/property	1,717	1,717	1,713	4
Licenses and permits	100	100	75	25
Management fees	-	-	48,055	(48,055)
Office supplies	250	250	551	(301)
Operating supplies	500	500	1,480	(980)
Other professional fees	3,000	3,000	3,000	-
Payroll taxes	-	-	74	(74)
Property taxes	16,600	16,600	22,718	(6,118)
Repairs and maintenance				
Buildings	4,000	4,000	12,155	(8,155)
Docks	4,000	4,000	4,988	(988)
Grounds	1,000	1,000	243	757
Equipment	3,500	3,500	3,255	245
Salaries	-	-	972	(972)
Boating Supplies	-	-	498	(498)
Temporary help	-	-	1,608	(1,608)
Telephone	2,520	2,520	2,010	510
Trash removal	2,400	2,400	2,935	(535)
Heating fuel	2,400	2,400	2,664	(264)
Utilities	7,500	7,500	8,609	(1,109)
Miscellaneous	100	100	80	20
Total Operating Expenses	<u>54,943</u>	<u>54,943</u>	<u>213,941</u>	<u>(158,998)</u>
OPERATING INCOME (LOSS)	<u>\$ 91,857</u>	<u>\$ 91,857</u>	<u>\$ 6,673</u>	<u>\$ (85,184)</u>
NONOPERATING REVENUE (EXPENSES)				
Interest income	-	-	22	22
Engineering Grant	40,000	40,000	(6,874)	46,874
Tier 1 infrastructure	100,000	100,000	-	100,000
Principal reduction	(82,500)	(82,500)	-	82,500
Interest expense	(62,194)	(62,194)	(62,195)	(1)
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>(4,694)</u>	<u>(4,694)</u>	<u>(69,047)</u>	<u>(64,353)</u>
CHANGE IN NET POSITION	<u>\$ (4,694)</u>	<u>\$ (4,694)</u>	<u>(62,374)</u>	<u>\$ (64,353)</u>
NET POSITION, BEGINNING OF YEAR			<u>(79,940)</u>	
NET POSITION, END OF YEAR			<u>\$ (142,314)</u>	

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor’s Report

Honorable Mayor
Members of the Town Council
Town of Chestertown, 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, each major fund, and the aggregate remaining fund information of the Town of Chestertown, Maryland (the “Town”), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated October 17, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

October 17, 2014

Hindley & Associates, LLC