

**TOWN OF CHESTERTOWN, MARYLAND  
FINANCIAL STATEMENTS  
JUNE 30, 2016**

**TOWN OF CHESTERTOWN**

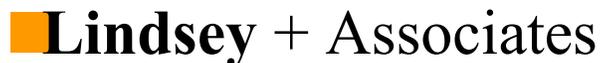
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*GOVERNMENT AUDITING STANDARDS***

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606 Baltimore Avenue  
Suite 101  
Towson, MD 21204

410.825.1994 phone  
410.825.1997 fax

[www.acpafirm.com](http://www.acpafirm.com)

## **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, 2016, 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, 2016, 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.

### **Emphasis of Matter**

As discussed in Note 16, in 2015, in *Comptroller of the Treasury of Maryland v. Wynne*, the Supreme Court invalidated a portion of Maryland's personal income tax scheme after determining that it inherently burdened the earnings of individuals who resided in one state but earned income in another. As a result of this ruling, the Town has recognized a noncurrent liability Due to the State in the amount of \$100,744. Our opinion is not modified with respect to this matter.

## **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 5 through 16 and 55 through 63 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 65 through 67 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 28, 2016, 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.

*Audsey + Associates, LLC*

October 28, 2016

**TOWN OF CHESTERTOWN, MARYLAND**

**Management's Discussion and Analysis (MD&A)**

**June 30, 2016**

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, 2016. 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 \$1,767,311 compared to \$1,927,075 in 2015.
- The Town's General Fund had an excess of expenses over revenues of \$159,764 in 2016 compared to an excess of revenues over expenses of \$323,276 in 2015.
- The Utilities Commission operating loss was \$71,503 and \$292,296 in 2016 and 2015, 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, 2016**

**Government-wide Financial Statements – continued**

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).

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), and the 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, 2016**

*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, 2016.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total 2016</u>	<u>Total 2015</u>
Assets:				
Current assets	\$ 1,887,366	\$ 1,738,012	\$ 3,625,378	\$ 3,414,795
Noncurrent assets	<u>7,470,101</u>	<u>12,057,175</u>	<u>19,527,276</u>	<u>19,869,754</u>
Total Assets	<u>9,357,467</u>	<u>13,795,187</u>	<u>23,152,654</u>	<u>23,284,549</u>
Deferred outflows	<u>522,681</u>	-	<u>522,681</u>	<u>248,982</u>
Liabilities:				
Current liabilities	329,078	585,359	914,437	776,091
Noncurrent liabilities	<u>3,418,404</u>	<u>4,145,090</u>	<u>7,563,494</u>	<u>7,363,462</u>
Total Liabilities	<u>3,747,482</u>	<u>4,730,449</u>	<u>8,477,931</u>	<u>8,139,553</u>
Deferred inflows	<u>152,212</u>	-	<u>152,212</u>	<u>191,119</u>
Net Position:				
Net investment in capital assets	6,873,105	7,727,704	14,600,809	14,545,908
Unrestricted	<u>(892,651)</u>	<u>1,337,034</u>	<u>444,383</u>	<u>656,951</u>
Total Net Position	<u>\$ 5,980,454</u>	<u>\$ 9,064,738</u>	<u>\$ 15,045,192</u>	<u>\$ 15,202,859</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 \$15,045,192 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 \$444,383 in 2016 compared to \$656,951 in 2015.

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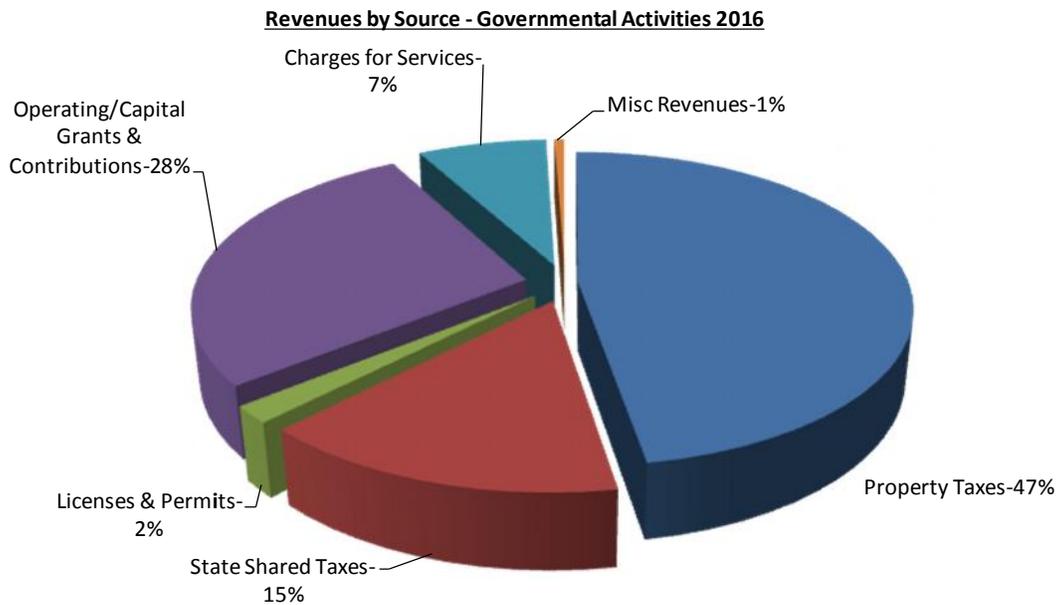
**Management’s Discussion and Analysis (MD&A)  
June 30, 2016**

**Statement of Activities**

The following table summarizes the Town’s change in net position for the year ended June 30, 2016.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total 2016</u>	<u>Total 2015</u>
Revenues:				
Program revenues:				
Charges for services	\$ 335,388	\$ 2,145,423	\$ 2,480,811	\$ 2,294,679
Operating and capital grants and contributions	1,258,142	-	1,258,142	541,177
General revenues:				
Property taxes	2,138,196	-	2,138,196	2,117,303
Income taxes	665,058	-	665,058	801,646
Other	121,042	14,970	136,012	17,433
<b>Total Revenue</b>	<u>4,517,826</u>	<u>2,160,393</u>	<u>6,678,219</u>	<u>5,772,238</u>
Operating expenses	<u>4,459,241</u>	<u>2,275,901</u>	<u>6,735,142</u>	<u>6,248,372</u>
Contingency loss	(100,744)	-	(100,744)	-
<b>Change in Net Position</b>	<u>\$ (42,159)</u>	<u>\$ (115,508)</u>	<u>\$ (157,667)</u>	<u>\$ (476,134)</u>

Revenues for the Town’s governmental activities were \$4,517,826 compared to \$3,948,112 for 2015. Revenues for the fiscal year ended June 30, 2016 consisted of:



**TOWN OF CHESTERTOWN, MARYLAND**

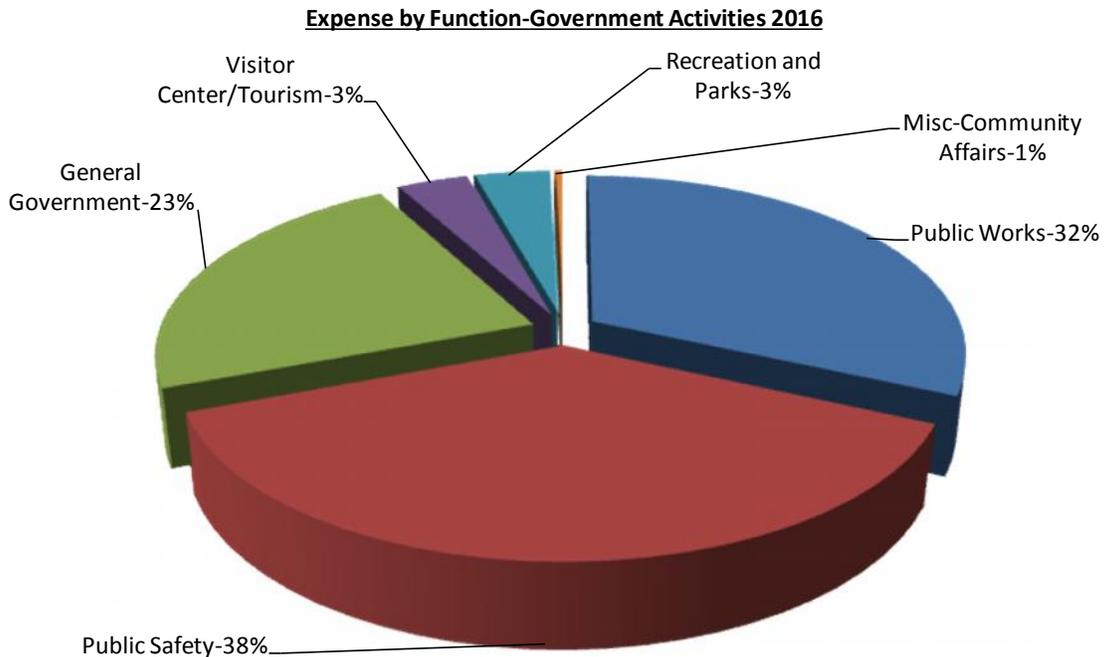
**Management’s Discussion and Analysis (MD&A)**

**June 30, 2016**

**Statement of Activities – continued**

- Property taxes are the Town’s largest source of revenue at 47%, totaling \$2,138,196 for fiscal year 2016 compared to \$2,117,303 in 2015. The Town’s property tax rate is set at \$.37 per \$100 of full-assessed property value.
- Income and state shared taxes are \$679,901 for 2016 compared to \$815,402 in 2015. The decrease of state income tax was due to the change in the tax law regarding the calculation of the local share income tax because of the Wynne case.
- An increase in operating grants, capital grants, and contributions from \$541,177 2015 to \$1,258,142 in 2016 resulted from a \$500,000 grant for dredging the main basin at the marina.
- Change in Net Position is a decrease of \$42,159 for the governmental activities in 2016. This compares to an increase of \$259,362 for the governmental activities in 2015 which includes \$265,150 transferred into governmental activities as a result of the sale of two low-income housing projects. The decrease in 2016 includes \$100,744 loss contingency as discussed in Note 16.

Expenses for governmental activities were \$4,459,241 for 2016 compared to \$3,953,900 for 2015. Expenses for the fiscal year ended June 30, 2016 were allocated as indicated below:



**TOWN OF CHESTERTOWN, MARYLAND**

**Management's Discussion and Analysis (MD&A)**

**June 30, 2016**

**Statement of Activities – continued**

- Public safety department is the second largest expense at \$1,674,875 in 2016, compared to \$1,498,245 in 2015, and includes funding for the police department, Chestertown Fire Co., and Kent and Queen Anne Rescue Squad. This represents an increase in spending.
- Public works department expense total \$1,414,075 compared to \$1,518,955 in 2015, includes funding for the maintenance of all roads, parks, curbs and sidewalks, code enforcement, along with trash collection and recycling tipping fees. This represents a slight decrease in spending.
- General government expenses total \$1,012,944 for 2016, which is 23% of total expenses, as compared \$708,882 in 2015. 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 \$4,459,241 of governmental expenses, \$1,593,530 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 \$505,341 from 2015.

**Business-type Activities**

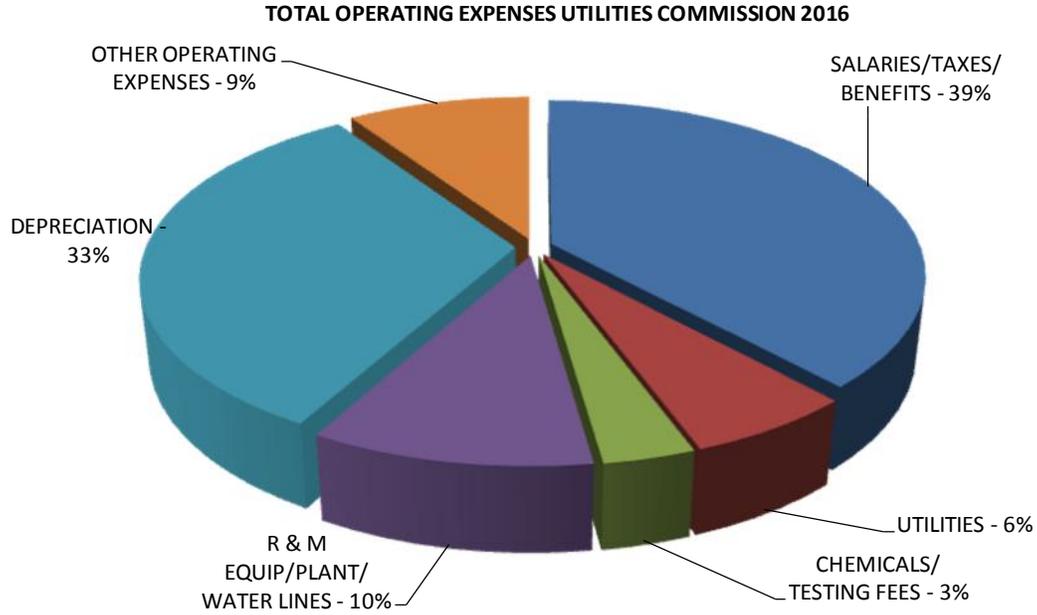
The Town has two funds comprising the business-type activities: Utilities Commission providing town water and wastewater services, a Marina.

- Charges for water and sewer services of \$1,952,586 compared to \$1,740,958 for 2015, include water and sewer usage and new water and sewer connection fees for the Utilities Commission.
- Operating expenses for the Utilities Commission were \$2,040,296 for 2016, compared to \$2,046,816 in 2015, which is a slight decrease.

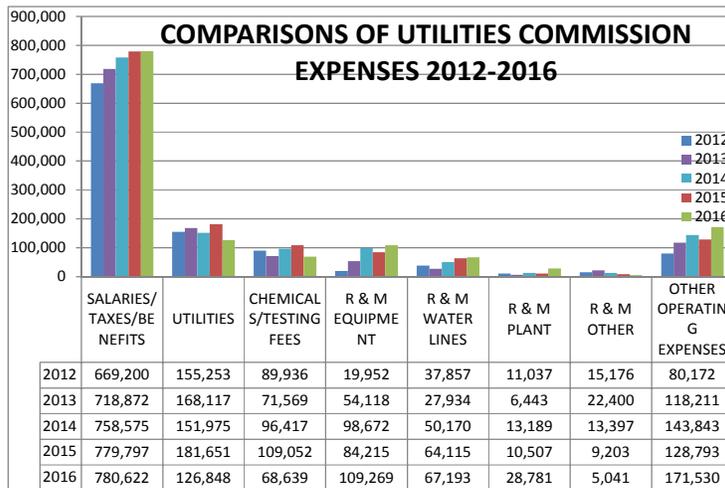
**TOWN OF CHESTERTOWN, MARYLAND**

**Management’s Discussion and Analysis (MD&A)  
June 30, 2016**

**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, 2016**

**Business-type Activities – continued**

- Net Position for the Business-type Activities decreased \$115,508 in 2016, compared to a decrease of \$735,498 in 2015. The sale of the apartments contributed to the decrease in 2015.

**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 \$1,767,311 compared to \$1,927,075 in 2015. Of the total, \$1,528,131 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 two major funds. Unrestricted net position of the Utilities Commission was \$1,501,237 at year end. Unrestricted net position in 2015 was \$1,197,495.

**Budgetary Highlights**

All 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, 2016 are as follows:

- The addition of \$696,483 in fixed assets during 2016 in the governmental activities was for park improvements, the purchase of a police car, building improvements, and a new phone system for the police headquarters and marina construction in progress.

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**TOWN OF CHESTERTOWN, MARYLAND**

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**Management's Discussion and Analysis (MD&A)**

**June 30, 2016**

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**Long-Term Debt**

The Town's total debt as of June 30, 2016 was \$4,926,467 not including compensated absences.

- Total general fund debt at June 30, 2016 is \$596,996, with \$76,955 retired during the year.
- Total utility fund debt at June 30, 2016 is \$2,612,471, with \$266,193 retired during the year.
- Total marina fund debt at June 30, 2016 is \$1,717,000 with \$84,500 retired during the year.

**Outlook for the Future**

- This year the state economy continued to improve and State Income Tax revenues amounts were substantial, though slightly lower than the previous year due to the permanent effects of the Wynne court decision. The economic position of the town is generally tied to that of the State of Maryland and the first two bullets below show Highway User Funds and Police Aid funds rising. Accordingly the financial position of the Town is healthy 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 up from \$146,940 last year to \$160,655 this year.
- Police Aid Grant increased slightly from \$70,494 to \$74,109.
- State income tax was down \$117,750 from \$774,869 last year to \$657,119 this year.
- The Town general fund surplus decreased from \$1,927,075 last year to \$1,767,311 this year.
- Building and development in the Town has continued the forward pace that began two years ago, with permits for four new dwelling units being issued this fiscal year. The increased value of the residential new construction alone was \$892,000. The value of all construction permits awarded last year in the categories of commercial, institutional and residential was stated as \$17,629,191 (with \$10,000,000 being nontaxable as a College dormitory), showing the improvement in the economy last year.

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## TOWN OF CHESTERTOWN, MARYLAND

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### Management's Discussion and Analysis (MD&A)

June 30, 2016

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- The Mayor and Council of Chestertown are continuing the priority of encouraging the development and creation of new businesses and new ways of doing business. They support the Downtown with an assortment of new initiatives, including having a full time Director of Arts and Entertainment, continuing a rebranding study, creating regulations to allow Food Trucks, reviving the Maryland Main Street Program, and supporting frequent and varied weekend events. The Town also adopted a new Enterprise Zone covering 1,187 acres Chestertown's commercial, professional office, industrial, commercial marine and Traditional Neighborhood Development zones. Finally, through Annexation Resolution 2016-1, the Town annexed 80 acres of vacant Industrial and Professional Office zoned land at the northeast end of Town. This acreage is owned by the largest manufacturer in Town and their plans are to create workforce housing, and a mixed use Industrial environment where people can live, work and recreate.
- Though the Town still monitors the Hospital's oil recovery operations at the University of Maryland Medical System at Chester River Hospital on Brown Street, 2016 was a breakthrough year for the protection of the Town's production wells. A 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 has 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. The Maryland Department of the Environment (MDE) approved the Hospital's consultant to perform a pilot study two years ago with a 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. As a result of the pilot study, the MDE then allowed the consultant for the Hospital to embark on a larger recovery effort with Iveysol. Very small amounts of the remaining oil underground were recovered in this process. The Utilities Department was understandably extremely concerned about the thousands of gallons of oil under the Hospital and their parking lot. Although over 85,000 gallons have been removed using the pump and treat method of the past, many gallons remain beneath the surface of the ground and all up gradient from the Town's well fields. The Town and the Utilities Commission spent a good deal of time and money with specialized environmental attorneys to ensure the future safety of the water supply. In late 2015 and early 2016 the Town asked the Maryland Legislature to support legislation that would indemnify the Town for damages to its public water system should the Hospital spill find its way to the Town's well field. Though this legislation failed to pass, it opened a dialogue between the Town and the Hospital that resulted in an agreement being signed between the two parties in June of 2016. The agreement would

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**TOWN OF CHESTERTOWN, MARYLAND**

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**Management's Discussion and Analysis (MD&A)**

**June 30, 2016**

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hold the Town harmless for damages to its water system should oil from the Hospital spill ultimately reach the Town well field. To ascertain the origin of the oil, the Hospital would monitor their current wells on a monthly basis, share all their data and installed additional sentinel wells along Campus Avenue in the western median of the street (1,000 feet from the Town's Kent Street well field).

- The acquisition of the Chestertown Marina became a reality in May of 2012. The Town purchased the Marina using the State of Maryland Infrastructure Improvement Bond program. The issue was for \$2,045,443 payable over payable over a 20 year period at 3.562% interest. A \$40,000 grant application for engineering was funded in 2012 by the Department of Natural Resources (Waterways Improvement Division) and was bid out and awarded in May 2014. The redesign and rebuilding at the Marina had been a priority in 2014. 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 plans from the two Charrettes were incorporated into the permit documents for dredging, bulkhead, pier, ground raising and submitted to DNR and the Army Corp of Engineers. Since 2014 three Waterway Improvement matching grants of \$200,000 each have been awarded to the town. The Town matching dollars for the first \$200,000 from the Armory payment received from Washington College. The Town also received a 100% grant of \$500,000 for dredging and was allowed to use a 2010 dredging permit in early 2016 to remove 6,000 cubic yards of dredge spoils from the main basin of the Marina, which created about 20 more useable slips for the following summer season (dredging to a 6' depth). In the spring of 2015 a Maryland MDE/DNR hearing on the permit application was held with neighbors to answer their concerns. Months went by and no action was taken by the permitting agency despite the Town's continual request for action. The permit was approved by the State of Maryland in October 2015 and forwarded to the Maryland Board of Public Works for November consideration. However, the Corps of Engineers did not finalize their approval of the permit application until late spring of 2016 and the signed permit was finally received in June 2016. The Town is redoubling its effort to rebuild the Marina and add it as an economic engine to the Town's arsenal. So many visitors come by water that they are turned away, which does not help the cash flow of the Marina. To that end, a Capital Budget request of \$1.5 million is being presented to the Maryland Legislature in the fall of 2016 to

**TOWN OF CHESTERTOWN, MARYLAND**

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**Management's Discussion and Analysis (MD&A)**

**June 30, 2016**

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obtain the dollars needed to complete the total renovation and expansion of the Marina. The Town is also pursuing a large USDA loan/grant of \$1,000,000 for raising the Marina property and smaller State grants to assist with the design and construction of the Interpretive Center, which includes a marina store and facilities, tourist center, second story community meeting room and small commercial shop space for things like bike and kayak rental.

**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, 2016**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 396,645	\$ 1,010,866	\$ 1,407,511
Certificates of deposit	549,409	513,654	1,063,063
Accounts receivable - taxes	82,491	-	82,491
Accounts receivable - water and sewer service	-	476,394	476,394
Accounts receivable - other	7,511	4,446	11,957
Amounts due from other governments	539,635	-	539,635
Prepaid expenses	34,498	5,704	40,202
Meter inventory	-	4,125	4,125
Due from other funds	277,177	(277,177)	-
Total Current Assets	<u>1,887,366</u>	<u>1,738,012</u>	<u>3,625,378</u>
Noncurrent Assets			
Investment	308,000	-	308,000
Nondepreciable assets	2,343,415	1,524,243	3,867,658
Depreciable assets, net	4,818,686	10,532,932	15,351,618
Total Noncurrent Assets	<u>7,470,101</u>	<u>12,057,175</u>	<u>19,527,276</u>
<b>TOTAL ASSETS</b>	<u>9,357,467</u>	<u>13,795,187</u>	<u>23,152,654</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>522,681</u>	<u>-</u>	<u>522,681</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 9,880,148</u>	<u>\$ 13,795,187</u>	<u>\$ 23,675,335</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$ 167,532	\$ 111,361	\$ 278,893
Bay fee payable	-	53,738	53,738
Accrued payroll expense	77,754	30,937	108,691
Accrued interest payable	-	14,767	14,767
Unearned revenue	-	21,298	21,298
Other liabilities	3,532	-	3,532
Current portion of long-term debt	80,260	353,258	433,518
Total Current Liabilities	<u>329,078</u>	<u>585,359</u>	<u>914,437</u>
Noncurrent Liabilities			
Employees benefits payable	654,395	168,877	823,272
Due to State (Note 16)	100,744	-	100,744
Net pension liability	2,146,529	-	2,146,529
Bonds, leases and notes due in more than one year	516,736	3,976,213	4,492,949
Total Noncurrent Liabilities	<u>3,418,404</u>	<u>4,145,090</u>	<u>7,563,494</u>
<b>TOTAL LIABILITIES</b>	<u>3,747,482</u>	<u>4,730,449</u>	<u>8,477,931</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>152,212</u>	<u>-</u>	<u>152,212</u>
<b>NET POSITION</b>			
Net investment in capital assets	6,873,105	7,727,704	14,600,809
Restricted for capital projects	-	-	-
Unrestricted	(892,651)	1,337,034	444,383
<b>TOTAL NET POSITION</b>	<u>5,980,454</u>	<u>9,064,738</u>	<u>15,045,192</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 9,880,148</u>	<u>\$ 13,795,187</u>	<u>\$ 23,675,335</u>

See accompanying notes to financial statements.

**TOWN OF CHESTERTOWN, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
General government	\$ 1,012,944	\$ 105,774	\$ -	\$ 580,868	\$ (326,302)	\$ -	\$ (326,302)
Public safety	1,674,875	155,408	83,484	-	(1,435,983)	-	(1,435,983)
Public works	1,414,075	14,065	166,117	260,127	(973,766)	-	(973,766)
Recreation and parks	175,134	-	8,093	-	(167,041)	-	(167,041)
Visitors' center and tourism	163,275	51,900	159,453	-	48,078	-	48,078
Miscellaneous - community affairs	18,938	8,241	-	-	(10,697)	-	(10,697)
<b>Total Governmental Activities</b>	<b>4,459,241</b>	<b>335,388</b>	<b>417,147</b>	<b>840,995</b>	<b>(2,865,711)</b>	<b>-</b>	<b>(2,865,711)</b>
<b>Business-type Activities</b>							
Water and sewer services	2,040,296	1,952,586	-	-	-	(87,710)	(87,710)
Chestertown marina	235,605	192,837	-	-	-	(42,768)	(42,768)
<b>Total Business-Type Activities</b>	<b>2,275,901</b>	<b>2,145,423</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(130,478)</b>	<b>(130,478)</b>
<b>Total Primary Government</b>	<b>\$ 6,735,142</b>	<b>\$ 2,480,811</b>	<b>\$ 417,147</b>	<b>\$ 840,995</b>	<b>\$ (2,865,711)</b>	<b>\$ (130,478)</b>	<b>\$ (2,996,189)</b>
<b>General revenues:</b>							
<b>Taxes</b>							
Property taxes					2,138,196	-	2,138,196
Income taxes					665,058	-	665,058
Other taxes					14,843	-	14,843
Licenses and permits					80,562	-	80,562
Interest and investment earnings					11,769	14,945	26,714
Miscellaneous					11,939	-	11,939
Sale of assets					1,929	25	1,954
<b>Total General Revenues</b>					<b>2,924,296</b>	<b>14,970</b>	<b>2,939,266</b>
Contingency loss (Note 16)					(100,744)	-	(100,744)
Change in Net Position					(42,159)	(115,508)	(157,667)
Net Position, beginning of year					6,022,613	9,180,246	15,202,859
Net Position, end of year					\$ 5,980,454	\$ 9,064,738	\$ 15,045,192

See accompanying notes to financial statements.

**TOWN OF CHESTERTOWN, MARYLAND  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2016**

**RECONCILIATION OF TOTAL GOVERNMENTAL  
FUND BALANCE TO NET POSITION OF  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2016**

	General Fund	Total Governmental Funds	
<b>ASSETS</b>			
Cash and cash equivalents - unrestricted	\$ 396,645	\$ 396,645	<i>Total Governmental Fund Balances</i> <span style="float: right;">\$ 1,767,311</span>
Certificate of deposit	549,409	549,409	
Investment	308,000	308,000	
Accounts receivable - taxes	31,452	31,452	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. <span style="float: right;">7,162,101</span>
Accounts receivable - other	7,511	7,511	
Amounts due from other governments	539,635	539,635	
Prepaid expenses	34,498	34,498	
Due from other funds	277,177	277,177	Property taxes are shown net of taxes not collected within the sixty-day availability period. <span style="float: right;">51,039</span>
<b>TOTAL ASSETS</b>	2,144,327	2,144,327	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	-	-	Deferred outflows of resources related to the net pension liability are not reported in the fund financial statements. <span style="float: right;">522,681</span>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 2,144,327	\$ 2,144,327	Deferred inflows of resources pertaining to long-term liabilities are not reported in the funds. <span style="float: right;">(152,212)</span>
<b>LIABILITIES</b>			
Accounts payable	\$ 167,532	\$ 167,532	Receivables pertaining to revenue that is not available in accordance with modified accrual accounting are reported as deferred inflows of resources in the funds. <span style="float: right;">128,198</span>
Accrued payroll	77,754	77,754	
Other liabilities	3,532	3,532	
<b>TOTAL LIABILITIES</b>	248,818	248,818	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. <span style="float: right; border-bottom: 1px solid black;">(3,498,664)</span>
<b>DEFERRED INFLOWS OF RESOURCES</b>	128,198	128,198	<i>Net Position of Governmental Activities</i> <span style="float: right; border-bottom: 3px double black;">\$ 5,980,454</span>
<b>FUND BALANCES</b>			
Non-spendable	34,498	34,498	
Assigned	204,682	204,682	
Unassigned	1,528,131	1,528,131	
<b>TOTAL FUND BALANCES</b>	1,767,311	1,767,311	
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	\$ 2,144,327	\$ 2,144,327	

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, 2016**

	General Fund	Total Governmental Funds
	<u>          </u>	<u>          </u>
<b>REVENUES</b>		
Property taxes	\$ 2,151,990	\$ 2,151,990
Income taxes	657,119	657,119
State shared taxes	175,498	175,498
Licenses and permits	144,448	144,448
Intergovernmental revenue		
State	963,910	963,910
County	164,179	164,179
Charges for services	167,354	167,354
Miscellaneous revenue	99,266	99,266
<b>Total Revenues</b>	<u>4,523,764</u>	<u>4,523,764</u>
<b>EXPENDITURES</b>		
General government	795,843	795,843
Public safety	1,550,372	1,550,372
Public works	1,255,350	1,255,350
Crossing guard/meter monitor	258	258
Recreation and parks	175,134	175,134
Visitors' center and tourism	141,504	141,504
Miscellaneous	18,938	18,938
Capital outlays	696,483	696,483
Debt service		
Principal	76,955	76,955
Interest	4,889	4,889
<b>Total Expenditures</b>	<u>4,715,726</u>	<u>4,715,726</u>
<b>Excess of revenues over (under) expenditures and other financing uses</b>	<u>(191,962)</u>	<u>(191,962)</u>
<b>Other financing sources (uses)</b>		
Transfers in (out)	-	-
Sale of assets	1,929	1,929
Proceeds from long term debt	30,269	30,269
<b>Total other financing sources (uses)</b>	<u>32,198</u>	<u>32,198</u>
<b>Excess of revenue and other financing sources over (under) expenditures and other financing uses</b>	<u>(159,764)</u>	<u>(159,764)</u>
<b>Fund balance, beginning of year</b>	<u>1,927,075</u>	<u>1,927,075</u>
<b>Fund balance, end of year</b>	<u>\$ 1,767,311</u>	<u>\$ 1,767,311</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, 2016**

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ (159,764)
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 capital outlays exceeded depreciation in the current period.	347,736
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.	(14,682)
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.	(168,206)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	76,955
Proceeds from long-term debt are recorded as an other financing course in the funds, but not in the Statement of Activities. This is the amount of proceeds from long-term debt.	(30,269)
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.	6,815
Contingency loss reported in the Statement of Activities pertains to a long-term liability and is not reported in the funds.	<u>(100,744)</u>
<i>Change in Net Position of Governmental Activities</i>	<u>\$ (42,159)</u>

See accompanying notes to financial statements.

**TOWN OF CHESTERTOWN, MARYLAND**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2016**

	Major		Total
	Utilities Commission	Marina	
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 928,727	\$ 82,139	\$ 1,010,866
Certificate of deposit	513,654	-	513,654
Water and sewer service receivable	476,394	-	476,394
Accounts receivable	-	4,446	4,446
Prepaid expenses	5,704	-	5,704
Meter inventory	4,125	-	4,125
Total Current Assets	<u>1,928,604</u>	<u>86,585</u>	<u>2,015,189</u>
Noncurrent Assets			
Capital assets, net	<u>10,278,515</u>	<u>1,778,660</u>	<u>12,057,175</u>
Total Noncurrent Assets	<u>10,278,515</u>	<u>1,778,660</u>	<u>12,057,175</u>
<b>TOTAL ASSETS</b>	<u>12,207,119</u>	<u>1,865,245</u>	<u>14,072,364</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	-	-	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 12,207,119</u>	<u>\$ 1,865,245</u>	<u>\$ 14,072,364</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$ 108,750	\$ 2,611	\$ 111,361
Bay fee payable	53,738	-	53,738
Accrued payroll expense	30,570	367	30,937
Accrued interest payable	5,225	9,542	14,767
Due to other funds	60,207	216,970	277,177
Unearned revenue	-	21,298	21,298
Current portion of long-term debt	<u>267,258</u>	<u>86,000</u>	<u>353,258</u>
Total Current Liabilities	<u>525,748</u>	<u>336,788</u>	<u>862,536</u>
Noncurrent Liabilities			
Employee benefits	168,877	-	168,877
Long-term debt, net of current liabilities	<u>2,345,213</u>	<u>1,631,000</u>	<u>3,976,213</u>
Total Noncurrent Liabilities	<u>2,514,090</u>	<u>1,631,000</u>	<u>4,145,090</u>
<b>TOTAL LIABILITIES</b>	<u>3,039,838</u>	<u>1,967,788</u>	<u>5,007,626</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
	-	-	-
<b>NET POSITION</b>			
Net investment in capital assets	7,666,044	61,660	7,727,704
Restricted - expendable for capital assets	-	-	-
Unrestricted	<u>1,501,237</u>	<u>(164,203)</u>	<u>1,337,034</u>
<b>TOTAL NET POSITION</b>	<u>9,167,281</u>	<u>(102,543)</u>	<u>9,064,738</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 12,207,119</u>	<u>\$ 1,865,245</u>	<u>\$ 14,072,364</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, 2016**

	Major		Total
	Utility Fund	Marina	
<b>Operating Revenues</b>			
Charges for services			
Sewer fees	\$ 754,243	\$ -	\$ 754,243
Water fees	787,953	-	787,953
Sewer connections	124,000	-	124,000
Water connections	150,400	-	150,400
Other water and sewer services	82,005	-	82,005
Rental income	2,600	119,079	121,679
Fuel sales	-	56,034	56,034
Tower leases	49,594	-	49,594
Other income	1,791	17,724	19,515
<b>Total Operating Revenues</b>	<u>1,952,586</u>	<u>192,837</u>	<u>2,145,423</u>
<b>Operating Expenses</b>			
Water and sewer expenses	1,358,391	-	1,358,391
Marina operating expenses	-	109,790	109,790
Depreciation and amortization	665,698	66,277	731,975
<b>Total Operating Expenses</b>	<u>2,024,089</u>	<u>176,067</u>	<u>2,200,156</u>
<b>Operating Income (Loss)</b>	<u>(71,503)</u>	<u>16,770</u>	<u>(54,733)</u>
<b>Non-operating Revenues (Expenses)</b>			
Sale of assets	25	-	25
Interest income	14,905	40	14,945
Interest expense	(16,207)	(59,538)	(75,745)
<b>Net Non-operating Revenues (Expenses)</b>	<u>(1,277)</u>	<u>(59,498)</u>	<u>(60,775)</u>
<b>Income Before Contributions and Transfers</b>	(72,780)	(42,728)	(115,508)
<b>Transfers (to) from other funds</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Changes in Net Position</b>	(72,780)	(42,728)	(115,508)
<b>Total net position at beginning of year</b>	<u>9,240,061</u>	<u>(59,815)</u>	<u>9,180,246</u>
<b>Total net position at end of year</b>	<u>\$ 9,167,281</u>	<u>\$ (102,543)</u>	<u>\$ 9,064,738</u>

See accompanying notes to financial statements.

**TOWN OF CHESTERTOWN, MARYLAND  
COMBINING STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Major		Total
	Utility Fund	Marina	
Cash flows from operating activities			
Cash received from customers	\$ 1,880,476	\$ 175,113	\$ 2,055,589
Cash paid to suppliers	(770,498)	(95,180)	(865,678)
Cash paid to employees	(530,898)	(19,267)	(550,165)
Other receipts	51,385	13,278	64,663
Net cash provided (used) by operating activities	<u>630,465</u>	<u>73,944</u>	<u>704,409</u>
Cash flows from capital and related financing activities			
Purchases of capital assets	(22,984)	(18,778)	(41,762)
Sale of capital assets	25	-	25
Principal paid on debt	(266,193)	(84,500)	(350,693)
Interest paid on capital debt	(16,207)	(60,127)	(76,334)
Net cash (used) for capital and related financing activities	<u>(305,359)</u>	<u>(163,405)</u>	<u>(468,764)</u>
Cash flows from non-capital financing activities			
Grant disbursements	-	-	-
Transfers (to) from other funds	65,143	95,970	161,113
Net cash (used) for non-capital financing activities	<u>65,143</u>	<u>95,970</u>	<u>161,113</u>
Cash flows from investing activities			
Interest and dividends	14,905	40	14,945
Net cash provided by investing activities	<u>14,905</u>	<u>40</u>	<u>14,945</u>
Net increase (decrease) in cash and cash equivalents	405,154	6,549	411,703
Cash and cash equivalents at beginning of year	<u>1,037,227</u>	<u>75,590</u>	<u>1,112,817</u>
Cash and cash equivalents at end of year	<u>\$ 1,442,381</u>	<u>\$ 82,139</u>	<u>\$ 1,524,520</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (71,503)	\$ 16,770	\$ (54,733)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	665,698	66,277	731,975
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	(20,725)	(4,446)	(25,171)
Decrease (increase) in prepaid expense	3,041	-	3,041
Increase (decrease) in accounts payable	20,003	(1,174)	18,829
Increase (decrease) in unearned revenue	-	(3,851)	(3,851)
Increase (decrease) in accrued expenses	13,737	368	14,105
Increase (decrease) in compensated absences	20,214	-	20,214
Cash provided (used) by operating activities	<u>\$ 630,465</u>	<u>\$ 73,944</u>	<u>\$ 704,409</u>

See accompanying notes to financial statements.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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, 2016**

**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 two Enterprise Funds: Utility Commission and the Marina.

**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, 2016**

**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, 2016**

**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. 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

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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, 2016 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, 2016 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, 2016 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, 2016**

**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, 2016, deferred inflows of resources in the general fund consisted of income taxes of \$128,198.

**Local Tax Reserve Fund**

At June 30, 2016, the Town was advised by the State of Maryland that \$128,198 of the Local Tax Reserve Fund was allocable to the Town. The Town recorded receivable and deferred inflows of resources in the amount of \$128,198 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, 2016**

**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, 2016**

**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, 2016**

**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 not amended during fiscal year 2016. 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 2016 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 \$1,407,511 and the bank balances totaled \$1,531,260. 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, 2016**

**NOTE 3 – DEPOSITS AND INVESTMENTS - continued**

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, 2016**

**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
Cash and cash equivalents - unrestricted	\$ 928,727	\$ 82,139
Certificates of Deposit	513,654	-
Total cash and cash equivalents	\$ 1,442,381	\$ 82,139

**NOTE 4 – ACCOUNTS RECEIVABLE**

At June 30, 2016, due from other governments consisted of the following:

Amusement taxes	\$	3,354
County grant		60,894
Engineering grant		4,287
Federal grant		39,585
Highway user		10,124
Income taxes		128,198
State grants		293,010
Traders licenses		183
		\$ 539,635

**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 2015 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, 2016**

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Not being depreciated:				
Land	\$ 2,019,175	\$ -	\$ -	\$ 2,019,175
Construction in progress	-	324,240	-	324,240
Subtotal	<u>2,019,175</u>	<u>324,240</u>	<u>-</u>	<u>2,343,415</u>
Depreciable capital assets:				
Buildings	2,821,019	21,622	-	2,842,641
Land improvements	5,270,988	206,702	-	5,477,690
Furniture, equipment and vehicles	1,128,703	143,919	-	1,272,622
Subtotal	<u>9,220,710</u>	<u>372,243</u>	<u>-</u>	<u>9,592,953</u>
Total capital assets	<u>11,239,885</u>	<u>696,483</u>	<u>-</u>	<u>11,936,368</u>
Accumulated depreciation:				
Buildings	1,349,966	135,587	-	1,485,553
Land improvements	2,284,295	147,284	-	2,431,579
Furniture, equipment and vehicles	791,259	65,876	-	857,135
Subtotal, accumulated depreciation	<u>4,425,520</u>	<u>348,747</u>	<u>-</u>	<u>4,774,267</u>
Net capital assets	<u>\$ 6,814,365</u>	<u>\$ 347,736</u>	<u>\$ -</u>	<u>\$ 7,162,101</u>

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 147,283
Public safety	65,876
Public works	113,817
Tourism	21,771
Total government activities depreciation expense	<u>\$ 348,747</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION - continued**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Not being depreciated:				
Land	\$ 1,524,244	\$ -	\$ -	\$ 1,524,244
Construction in progress	-	18,777	-	18,777
Subtotal	<u>1,524,244</u>	<u>18,777</u>	<u>-</u>	<u>1,543,021</u>
Other depreciable capital assets:				
Buildings	623,211	-	-	623,211
Land improvements	19,788,738	-	-	19,788,738
Furniture, equipment and vehicles	937,744	22,984	-	960,728
Subtotal	<u>21,349,693</u>	<u>22,984</u>	<u>-</u>	<u>21,372,677</u>
Total capital assets	<u>22,873,937</u>	<u>41,761</u>	<u>-</u>	<u>22,915,698</u>
Accumulated depreciation:				
Buildings	196,613	56,612	-	253,225
Land improvements	9,295,540	635,005	-	9,930,545
Furniture, equipment and vehicles	634,395	40,358	-	674,753
Subtotal accumulated depreciation	<u>10,126,548</u>	<u>731,975</u>	<u>-</u>	<u>10,858,523</u>
Net capital assets	<u>\$ 12,747,389</u>	<u>\$ (690,214)</u>	<u>\$ -</u>	<u>\$ 12,057,175</u>

Depreciation was charged as follows:

Business-type activities:	
Utilities fund	\$ 665,698
Marina	<u>66,277</u>
Total business-type activities depreciation expense	<u>\$ 731,975</u>

The Town has no material construction commitments as of June 30, 2016.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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 2016. The credit line calls for interest at 68% of the prime rate, less 1%, adjusted periodically. During the year ended June 30, 2016, the Town did not borrow from this line of credit. The interest rate at June 30, 2016 was 2.1%. The balance as of June 30, 2016 is \$0.

Loan payable to the People’s Bank for new police station in the amount of \$500,000; interest at 2.99%; payments of principal and interest in the amount of \$3,450 payable through January 2030. The balance as of June 30, 2016 is \$461,761.

Capital lease payable to Ford Motor Credit for the purchase of a police vehicle; interest at 6.45%; payable in annual installments of \$7,189 through August 2017; collateralized by the vehicle. The balance as of June 30, 2016 is \$13,098.

Capital lease payable to Ford Motor Credit for the purchase of a police vehicle; interest at 6.45%; payable in annual installments of \$8,291 through September 2018; collateralized by the vehicle. The balance as of June 30, 2016 is \$21,978.

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, 2016 is \$100,159.

The changes in general long-term debt as of June 30, 2016 are summarized as follows:

Lender	Beginning Balance July 1, 2015	New Loans During Year	Retired During Year	Ending Balance June 30, 2016	Amount Due Within 1 Year
Wells Fargo Equipment Finance	\$ 137,936	\$ -	\$ 37,777	\$ 100,159	\$ 39,062
Ford Motor Credit	19,058	-	5,960	13,098	6,344
Peoples Bank SOS	486,688	-	24,927	461,761	27,981
Ford Motor Credit	-	30,269	8,291	21,978	6,873
	<u>\$ 643,682</u>	<u>\$ 30,269</u>	<u>\$ 76,955</u>	<u>\$ 596,996</u>	<u>\$ 80,260</u>

Interest costs charged to expense during the year ended June 30, 2016 was \$4,889. \$845 was charged to public safety and \$4,044 was charged to public works.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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, 2016 was \$834,598.

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, 2016 was \$1,777,873.

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, 2016 was \$1,717,000.

The changes in long-term debt during the year ended June 30, 2016 follows:

	Beginning Balance July 1, 2015	New Loans During Year	Retired During Year	Ending Balance June 30, 2016	Amount Due Within 1 Year
Water quality bond - 2005	\$ 929,259	\$ -	\$ 94,661	\$ 834,598	\$ 95,040
Water quality bond - 2006	1,949,405	-	171,532	1,777,873	172,218
Infrastructure Bond - 2012	1,801,500	-	84,500	1,717,000	86,000
	<u>\$ 4,680,164</u>	<u>\$ -</u>	<u>\$ 350,693</u>	<u>\$ 4,329,471</u>	<u>\$ 353,258</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
2017	\$ 80,260	\$ 353,258	\$ 433,518	\$ 18,447	\$ 67,357	\$ 85,804
2018	83,289	355,827	439,116	15,417	64,791	80,208
2019	58,198	359,101	417,299	12,409	62,018	74,427
2020	30,603	361,978	392,581	10,803	58,948	69,751
2021	31,531	365,060	396,591	9,875	52,384	62,259
2022-2026	172,584	1,754,888	1,927,472	34,446	213,677	248,123
2027-2031	140,531	640,059	780,590	7,841	101,824	109,665
2032-2036	-	139,300	139,300	-	5,488	5,488
	<u>\$ 596,996</u>	<u>\$ 4,329,471</u>	<u>\$ 4,926,467</u>	<u>\$ 109,238</u>	<u>\$ 626,487</u>	<u>\$ 735,725</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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, 2016 was \$51,162,000.

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, 2016 was \$27,250,000.

**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 \$27,546 was recorded on the vehicle for the year ended June 30, 2016. Future minimum lease payments are as follows:

<u>Year(s) Ended June 30</u>	
2017	\$ 98,706
2018	70,607
2019	41,406
Total minimum lease payments	<u>\$ 210,719</u>
Less interest	<u>(109,238)</u>
Present value of minimum lease payments	<u><u>\$ 101,481</u></u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 – CAPITAL LEASES - continued**

The Town has entered into two agreements to lease a 2015 and 2016 Ford Interceptor. These agreements are, in substance, a purchase (capital lease) and are reported with long-term debt as capital lease obligations. Included in government activities capital assets is the total cost of the leased vehicle \$56,516. Depreciation of \$10,298 was recorded on the vehicle for the year ended June 30, 2016. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 15,480
2018	15,480
2019	<u>8,291</u>
Total minimum lease payments	<u>\$ 39,251</u>
Less interest	<u>(4,175)</u>
Present value of minimum lease payments	<u><u>\$ 35,076</u></u>

**NOTE 9 – RETIREMENT PLAN**

The Town has adopted GASB No. 68 – Accounting and Financial Reporting for Pensions (“GASB 68”) for the year ended June 30, 2015. The Town participates in the Maryland State Pension System (the “System”) described below and qualifies as a Participating Governmental Unit (“PGU”). The State Retirement Agency (the “Agency”) is the Plan administrator and fiduciary. GASB No. 68 requires that a PGU recognize its proportionate share of the System’s net pension liability (i.e., unfunded pension liability) and pension expense. The Town’s proportionate share of the net pension liability is based on total System contributions and approximates \$2,146,529 as of the measurement date of June 30, 2015.

The Town has also adopted GASB No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No. 68. GASB No. 71 requires that contributions to the pension plan subsequent to the measurement date be recognized as a deferred outflow of resources. The Town’s fiscal 2016 contribution of \$239,132 is therefore recognized as a pension-related deferred outflow of resources.

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.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

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.

**A. Description of Plans**

The State of Maryland identifies multiple-employer defined benefit pension plans as cost-sharing plans.

Benefits are established under the State Personnel and Pensions Article of the Annotated Code of Maryland. The plan is administered by the Maryland State Retirement Agency.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

The Maryland State Retirement Agency issues a comprehensive annual financial report that includes disclosures regarding: plan assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position. The pension plans' fiduciary net position has been determined on the same basis used by the pension plans. The pension plans' financial statements are prepared on the accrual basis of accounting and are prepared in accordance with principles generally accepted in the United States of America that apply to governmental accounting for fiduciary funds. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Actual employer contributions billed to participating governmental units for the year ending June 30, 2015 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported in the Schedule of Employer Allocations. The contributions were adjusted by increasing contributions by approximately \$251,000,000 to adjust for differences between actuarially determined contributions and actual contributions by the State of Maryland. This report can be obtained from the agency's office as follows:

State Retirement and Pension System of Maryland  
 120 E. Baltimore Street, Suite 1601  
 Baltimore, Maryland 21202-1600

*Funding Policy*

Obligations to contribute to the plans are under the Annotated Code of Maryland. Members of the pension plan contribute 7% of annual compensation during employment. The required contribution rate is determined on an actuarially determined basis. During the year ended June 30, 2016 the Town contributed \$239,132. The Town contributed 100% of its required contribution for the year ended June 30, 2016. For members of the pension plan, full service pension allowances equal 2% of average final compensation (AFC) up to a maximum benefit of 60% of AFC (30 years of credit).

Required contributions under the plans are not funded by both employee and Town contributions but are funded entirely by the Town. Contributions by the Town take place during the fiscal year and are based upon salaries for the preceding fiscal year. The Town contributions for the year ending June 30, 2016 are based on salaries for the year ending June 30, 2015. 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, and contributions by the Town are authorized by the Town Council. The required and actual contributions for the fiscal years ending June 30<sup>th</sup> were as follows:

	Fiscal Year Ending June 30		
	2016	2015	2014
Retirement plan contributions	<u>\$ 239,132</u>	<u>\$ 223,724</u>	<u>\$ 229,281</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

The Town contributed \$239,132 to the System for fiscal year 2016 which was actuarially determined based on statutory provisions. The Town has also recognized in Pension Expense its proportionate share of the System’s deferred inflows of resources (an increase in Pension Expense) attributable to the net difference between projected and actual investment earnings on pension plan assets and its proportionate share of the System’s deferred outflows of resources (a decrease in Pension Expense) attributable to changes in assumptions.

Required disclosures aggregate for the plan:

	<u>Maryland State Pension System</u>
Total pension liability	\$ 66,571,552,000
Total fiduciary net position	45,789,840,000
Town's proportionate share of total pension liabilities	2,146,529
Town's proportionate share of net pension liabilities	0.01%
Total pension assets	45,789,840,000
Measurement date of collective net pension liability	June 30, 2015
Date of actuarial valuation	June 30, 2015
Deferred outflows related to pensions	522,681
Deferred inflows related to pensions	152,212
Pension expense/expenditures for the period	87,847

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

*Actuarial assumptions*

The annual required contribution for the current year was determined as part of the actuarial valuation on July 1, 2015 rolled forward to June 30, 2016. The key assumptions used to perform the June 30, 2016 pension liability calculation for the System are as follows:

Actuarial Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Asset valuation method	5-year smoothed market; 20% collar
Inflation (b)	2.95% general, 3.45% wage
Salary Increases	3.45% to 11.9%, including inflation
Discount Rate (a)	7.55%
Investment Rate of Return (b)	7.55%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2006-2010.
Mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2025

- (a) Discount rate at prior measurement date was 7.65%.
- (b) There were no benefit changes during the year. Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2015 valuation:
  - a. Investment return assumption changed from 7.65% to 7.55%.
  - b. Inflation assumption changed from 2.90% to 2.70%.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

The components of the net pension liability for the System as of June 30, 2014, calculated in accordance with GASB Statement No. 67, are shown in the following table:

Total Pension Liability	\$66,571,552,000
Plan Fiduciary Net Position	<u>45,789,840,000</u>
Net Pension Liability	<u>\$20,781,712,000</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>68.78%</u>
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**Investments**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Pension System’s Board after considering input from the investment consultant(s) and actuary(s). For each major asset class that is included in the Pension System’s target asset allocation, these best estimates are summarized in the following table:

Asset Class	Target Allocations	Long-term Expected Real Rate of Return
Public Equity	35%	6.30%
Fixed income	10%	0.60%
Credit opportunity	10%	3.20%
Real return	14%	1.80%
Absolute return	10%	4.20%
Private equity	10%	7.20%
Real estate	10%	4.50%
Cash	1%	0.00%
<b>Total</b>	<b>100%</b>	

The above was the Pension System’s Board of Trustee’s adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2015.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

**Discount Rate**

A single discount rate of 7.55% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Net Pension Liability**

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the System’s net pension liability and the Town’s proportionate share of the System’s net pension liability, calculated using a single discount rate of 7.55%, a single discount rate that is 1-percentage point lower (i.e., 6.55%), and a single discount rate that is 1-percentage point higher (i.e., 8.55%).

	1% Lower – 6.55%	Current Rate – 7.55%	1% Higher – 8.55%
The System’s Net Pension Liability	\$29,371,763,000	\$20,781,712,000	\$13,658,848,000
The Town’s Proportionate Share Of Net Pension Liability	\$3,033,790	\$2,146,529	\$1,410,813

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the Town reported a liability of \$2,146,529 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. At June 30, 2015, the Town’s proportion was approximately 0.01 percent.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

For the year ended June 30, 2016, the Town recognized pension expense of \$87,847. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Changes of assumptions	\$94,485	\$ -
Net difference between projected and actual earnings on pension plan investments	189,064	152,212
Contributions subsequent to the measurement date	239,132	-
Total	\$522,681	\$152,212

The deferred outflow of resources of \$239,132 relating to contributions subsequent to the measurement date will be recognized as a reduction of the Town’s net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources are being amortized over a five year period beginning in fiscal year 2016. These unamortized amounts will be ratably recognized in pension expense over the next four years.

**Net Pension Liability**

The components of the Town’s proportionate share of the Pension System’s net pension liability as of the measurement date of June 30, 2015 were as follows:

Total pension liability	\$ 6,876,131
Plan Fiduciary Net Position	<u>4,729,602</u>
Net Pension Liability	<u><u>\$ 2,146,529</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	  <u><u>68.78%</u></u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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 at or after the age of 65. The Program 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 \$996,938 at June 30, 2016. The covered payroll (annual payroll of active employees covered by the Program) was \$1,311,107. The ratio of the unfunded actuarial liability to the covered payroll was 76%. 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, 2016**

**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)	\$	115,976
Interest on net OPEB obligation		12,897
Adjustment to annual required contribution		(30,654)
Annual OPEB cost		98,219
Contributions made		-
Increase in net OPEB obligation		98,219
Net OPEB obligation - beginning of year		606,397
Net OPEB obligation - end of year	\$	704,616

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 through 2016 follows:

Fiscal year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 128,873	0%	\$ 704,616
2015	127,487	0%	606,397
2014	113,981	3%	478,910
2013	114,857	3%	367,811

At June 30, 2016, the accrued actuarial liability for benefits was \$704,616, 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, 2016**

**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 2.24%. 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 four 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, 2016**

**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, 2016 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.

**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, 2016.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 16 – COMPTROLLER OF THE TREASURY OF MARYLAND V. WYNNE**

In 2015, in *Comptroller of the Treasury of Maryland v. Wynne*, the Supreme Court invalidated a portion of Maryland’s personal income tax scheme after determining that it inherently burdened the earnings of individuals who resided in one state but earned income in another.

In response, Maryland has enacted corrective legislation allowing a credit for Maryland residents against personal income tax for income taxed by other states. The Court had ruled that the failure of Maryland law to allow such a credit rendered Maryland’s personal income tax scheme unconstitutional.

As of June 2016, the Comptroller’s Office estimates that the fiscal impact of the ruling on the Town will be approximately \$100,744 of refunds for prior years’ taxes, and an estimated reduction of \$15,000 each year going forward. As taxpayers have three years to amend their returns, this number could increase.

The estimated amount of refunds to be paid has been recorded as a contingency loss on the Statement of Activities, and as a noncurrent liability on the Statement of Net Position, as the Town will not be required to start reimbursing the State until the fourth quarter of fiscal year 2019, and will be repaid over a period of five years as a reduction in income tax distribution.

**NOTE 17 – FUND BALANCE REPORTING**

Fund balances for the Town’s governmental funds consisted of the following as of June 30, 2016:

**Non-spendable Fund Balance**

At June 30, 2016, there was \$34,498 in non-spendable fund balance pertaining to prepaid expenses.

**Assigned Fund Balance**

At June 30, 2016, 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 \$1,528,131.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 18 – DEFICIT OF UNRESTRICTED NET POSITION**

The Marina Fund had a deficit of unrestricted net position of (\$164,203) as of June 30, 2016. The Town anticipates increased revenues in future years will eliminate this deficit.

**NOTE 19 – NEW ACCOUNTING PRONOUNCEMENTS**

The GASB has issued the following statements:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, issued June 2015, effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, effective for financial statements for fiscal years beginning after June 15, 2017.

Statement No. 77, *Tax Abatement Disclosures*, issued August 2015, effective for financial statements for fiscal years beginning after December 15, 2015.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, issued December 2015, effective for financial statements for fiscal years beginning after December 15, 2015.

Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, issued March 2016, effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016, effective for financial statements for fiscal years beginning after December 15, 2016.

Statement No. 82, *Pension Issues – an amendment of GASB States No. 67, No. 68, and No. 73*, issued March 2016, effective for financial statements for fiscal years beginning after June 15, 2016.

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.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 20 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 28, 2016, 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, MD**  
**SCHEDULES OF REQUIRED PENSION-RELATED**  
**SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**

	FY 2016
Town's proportion (%) of collective net pension liability	0.01%
Town's proportionate share (\$) of collective net pension liability	\$ 2,146,529
Town's covered-employee payroll(\$)	\$ 1,897,053
Town's proportionate share of collective net pension liability as a percentage of its covered-employee payroll	113.15%
Pension plan's fiduciary net position as a percentage of the total pension liability	68.78%

**SCHEDULE OF THE TOWN'S PENSION PLAN CONTRIBUTIONS**  
**Last 10 Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 239,132	\$ 217,706	229,281							
Contributions in relation to the contractually required contribution	239,132	217,706	229,281							
Contribution deficiency (excess)	-	-	-							
Town's covered-employee payroll	1,897,053	1,699,232	1,699,232							
Contributions as a percentage of covered-employee payroll	12.6%	12.8%	13.5%							

The above schedules are presented to illustrate the requirement for specific information for 10 years; however, until a full 10-year trend is compiled, information is only presented for those years for which information is available.

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES -BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes - local				
Real and property				
Real property	\$ 2,134,817	\$ 2,134,817	\$ 2,133,363	\$ (1,454)
Real property - penalties	21,000	21,000	18,627	(2,373)
Total real and personal property	<u>2,155,817</u>	<u>2,155,817</u>	<u>2,151,990</u>	<u>(3,827)</u>
Income taxes	<u>755,000</u>	<u>755,000</u>	<u>657,119</u>	<u>(97,881)</u>
Total taxes - local	2,910,817	2,910,817	2,809,109	(101,708)
Taxes - state shared				
Highway users	158,416	158,416	160,655	2,239
Admissions and amusements	16,000	16,000	12,311	(3,689)
Bank shares	2,532	2,532	2,532	-
Total shared taxes	<u>176,948</u>	<u>176,948</u>	<u>175,498</u>	<u>(1,450)</u>
Licenses and permits				
Building permits	52,000	52,000	47,080	(4,920)
Traders	23,000	23,000	23,301	301
Cable TV franchise fees	56,000	56,000	58,086	2,086
Building code revenue	18,000	18,000	15,981	(2,019)
Total licenses and permits	<u>149,000</u>	<u>149,000</u>	<u>144,448</u>	<u>(4,552)</u>
Grants from state government				
Police protection	70,444	70,444	74,109	3,665
Other state grants	5,000	5,000	889,801	884,801
Total grants from state government	<u>75,444</u>	<u>75,444</u>	<u>963,910</u>	<u>888,466</u>
Grants from county government				
Crossing guard reimbursement	-	-	442	442
Tax differential grant and hotel tax	95,000	95,000	159,453	64,453
Police overtime reimbursements	6,500	6,500	150	(6,350)
Police forfeiture funds	-	-	2,504	2,504
Other County grants	6,000	6,000	1,630	(4,370)
Total grants from county government	<u>107,500</u>	<u>107,500</u>	<u>164,179</u>	<u>56,679</u>
Total intergovernmental revenue	<u>3,419,709</u>	<u>3,419,709</u>	<u>4,257,144</u>	<u>837,435</u>

**TOWN OF CHESTERTOWN, MARYLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES -BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Charges for services				
General government	\$ -	\$ -	\$ 8,241	\$ 8,241
Zoning appeals board	1,500	1,500	778	(722)
Highways and streets	4,000	4,000	4,170	170
Waste collection fees	5,000	5,000	6,172	1,172
Parking fines and parking meter	-	-	3,723	3,723
Municipal infractions	140,000	140,000	144,270	4,270
Total charges for services	<u>150,500</u>	<u>150,500</u>	<u>167,354</u>	<u>16,854</u>
Miscellaneous revenue				
Interest income	11,000	11,000	11,769	769
Donations	12,000	12,000	11,267	(733)
Private grant	25,000	25,000	37,500	12,500
Rental income	29,330	29,330	26,605	(2,725)
Other revenues	650	650	12,125	11,475
Total miscellaneous revenue	<u>77,980</u>	<u>77,980</u>	<u>99,266</u>	<u>21,286</u>
Total Revenues	<u>\$ 3,648,189</u>	<u>\$ 3,648,189</u>	<u>\$ 4,523,764</u>	<u>\$ 875,575</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
General Government				
Legislative				
Council salaries	\$ 22,500	\$ 22,500	\$ 21,125	\$ 1,375
Payroll taxes	1,721	1,721	1,616	105
Workers' compensation	81	81	810	(729)
Other legislative expenditures	292	292	220	72
Meetings and travel	<u>15,000</u>	<u>15,000</u>	<u>4,624</u>	<u>10,376</u>
Total legislative	39,594	39,594	28,395	11,199
Executive				
Manager and secretarial salaries	213,409	213,409	200,158	13,251
Payroll taxes	16,249	16,249	14,639	1,610
Workers' compensation	3,847	3,847	1,680	2,167
Medical and life insurance	51,732	51,732	49,835	1,897
Pension expense	18,118	18,118	16,743	1,375
Professional fees and other expenditures	1,850	1,850	1,637	213
Meetings and travel	<u>2,750</u>	<u>2,750</u>	<u>91</u>	<u>2,659</u>
Total executive	307,955	307,955	284,783	23,172
Financial administration				
Finance salaries	72,018	72,018	44,587	27,431
Payroll taxes	5,439	5,439	3,305	2,134
Workers' compensation	526	526	1,248	(722)
Medical and life insurance	31,252	31,252	24,936	6,316
Pension expense	6,065	6,065	6,380	(315)
Office supplies	6,000	6,000	7,503	(1,503)
Dues nad subscriptions	-	-	257	(257)
Postage	2,000	2,000	1,374	626
Telephone	3,400	3,400	7,171	(3,771)
Accounting and auditing fees	10,000	10,000	19,531	(9,531)
Professional fees	-	-	19,240	(19,240)
Data processing fees	2,000	2,000	2,468	(468)
Office equipment	3,000	3,000	2,899	101
Training and other expenses	<u>1,400</u>	<u>1,400</u>	<u>574</u>	<u>826</u>
Total financial administration	143,100	143,100	141,473	1,627

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
Law				
Legal council	\$ 16,500	\$ 16,500	\$ 6,598	\$ 9,902
Legal notices	500	500	958	(458)
Total law	<u>17,000</u>	<u>17,000</u>	<u>7,556</u>	<u>9,444</u>
Planning and zoning				
Planning commission	3,000	3,000	-	3,000
Building and housing inspection fees	10,000	10,000	13,580	(3,580)
Building permit software	950	950	950	-
Dues and subscriptions	300	300	315	(15)
Office supplies expense	150	150	1,418	(1,268)
Meetings and travel	-	-	1,070	(1,070)
Telephone	-	-	622	(622)
Recodification service	3,000	3,000	495	2,505
Board of appeals	1,500	1,500	250	1,250
Total planning and zoning	<u>18,900</u>	<u>18,900</u>	<u>18,700</u>	<u>200</u>
Municipal building				
Utilities	16,000	16,000	20,749	(4,749)
Insurance property and liability	9,399	9,399	8,361	1,038
Repairs and maintenance	8,000	8,000	13,807	(5,807)
Operating supplies and cleaning	5,000	5,000	6,427	(1,427)
Other operating expense	5,000	5,000	5,000	-
Total municipal building	<u>38,399</u>	<u>38,399</u>	<u>54,344</u>	<u>(10,945)</u>
Other general government expenditures				
Dues and subscriptions	8,251	8,251	8,058	193
Legal notices	-	-	413	(413)
Election costs	-	-	3,192	(3,192)
Professional fees compensation study	2,000	2,000	30	1,970
Other operating expenditures	3,475	3,475	2,532	943
Community development	-	-	246,367	(246,367)
Total other general government expenditures	<u>13,726</u>	<u>13,726</u>	<u>260,592</u>	<u>(246,866)</u>
Total General Government	<u>578,674</u>	<u>578,674</u>	<u>795,843</u>	<u>(217,169)</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
Public Safety				
Police				
Police salaries	\$ 894,512	\$ 894,512	\$ 795,379	\$ 99,133
Payroll taxes	68,132	68,132	60,012	8,120
Workers' compensation	110,807	110,807	103,236	7,571
Medical and life insurance	145,008	145,008	129,399	15,609
Pension expenses	163,307	163,307	129,807	33,500
Uniforms and clothing	15,000	15,000	12,675	2,325
Training and education	15,000	15,000	3,371	11,629
Meetings and travel	7,200	7,200	2,789	4,411
Utilities	18,700	18,700	19,035	(335)
General insurance	15,884	15,884	18,836	(2,952)
Gas and oil - vehicles	35,000	35,000	24,740	10,260
Heating	12,000	12,000	4,617	7,383
Repairs and maintenance	19,500	19,500	42,563	(23,063)
Supplies - operating	10,000	10,000	6,105	3,895
Legal fees and services	2,500	2,500	528	1,972
Office supplies and equipment	17,800	17,800	15,123	2,677
Telephone	18,000	18,000	18,065	(65)
Accounting and auditing	1,025	1,025	-	1,025
Equipment	21,000	21,000	7,641	13,359
Canine maintenance	10,000	10,000	4,488	5,512
Public relations	2,000	2,000	539	1,461
Speed camera processing fees	41,895	41,895	50,596	(8,701)
Camera upgrades and maintenance	10,000	10,000	7,812	2,188
Interest	-	-	13,029	(13,029)
Other operating expenditures	6,100	6,100	9,818	(3,718)
Total Police	<u>1,660,370</u>	<u>1,660,370</u>	<u>1,480,203</u>	<u>180,167</u>
Other public safety expenditures				
Volunteer fire company	41,500	41,500	49,110	(7,610)
Rescue squad	15,000	15,000	21,059	(6,059)
Total other public safety expenditures	<u>56,500</u>	<u>56,500</u>	<u>70,169</u>	<u>(13,669)</u>
TOTAL PUBLIC SAFETY	<u>1,716,870</u>	<u>1,716,870</u>	<u>1,550,372</u>	<u>166,498</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Works				
Highways and streets				
Salaries	\$ 461,062	\$ 461,062	\$ 475,662	\$ (14,600)
Payroll taxes	35,014	35,014	35,175	(161)
Workers' compensation	21,544	21,544	19,265	2,279
Medical and life insurance	110,802	110,802	122,120	(11,318)
Pension expense	35,630	35,630	38,052	(2,422)
Parking lot rent	5,000	5,000	5,000	-
Dues and subscriptions	-	-	45	(45)
Uniforms and clothing	8,000	8,000	11,089	(3,089)
Property and liability insurance	4,567	4,567	6,062	(1,495)
Gas and oil - vehicles	25,000	25,000	18,714	6,286
Building repairs and maintenance	4,500	4,500	4,163	337
Vehicle repairs and maintenance	12,000	12,000	16,681	(4,681)
Equipment repairs and maintenance	20,000	20,000	25,991	(5,991)
Street repairs and rehabilitation	25,000	25,000	20,697	4,303
Brick sidewalk & curb & concrete work	55,000	55,000	44,676	10,324
Tree maintenance and planting	10,000	10,000	10,861	(861)
Operating supplies	10,000	10,000	17,630	(7,630)
Street lighting	90,000	90,000	95,481	(5,481)
Snow removal	28,000	28,000	20,300	7,700
Utilities	21,850	21,850	14,290	7,560
Other operating expenditures	-	-	2,000	(2,000)
Total streets and roadways	<u>982,969</u>	<u>982,969</u>	<u>1,003,954</u>	<u>(20,985)</u>
Sanitation				
Waste collection	117,000	117,000	115,000	2,000
Recycling and landfill costs	81,000	81,000	79,485	1,515
Curbside recycling pick up	55,000	55,000	55,193	(193)
Mosquito and weed control	2,000	2,000	1,718	282
Total sanitation	<u>255,000</u>	<u>255,000</u>	<u>251,396</u>	<u>3,604</u>
TOTAL PUBLIC WORKS	<u>1,237,969</u>	<u>1,237,969</u>	<u>1,255,350</u>	<u>(17,381)</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Crossing guard/meter monitor				
Salaries	\$ -	\$ -	\$ 240	\$ (240)
Payroll taxes	-	-	18	(18)
Total crossing guard/meter monitor	-	-	258	(258)
Recreation				
Music in the park	4,800	4,800	5,897	(1,097)
Community parks (KCMS)	-	-	111,061	(111,061)
Park maintenance	26,000	26,000	23,741	2,259
Community relations - recreation	26,530	26,530	34,435	(7,905)
Total recreation and parks	57,330	57,330	175,134	(117,804)
Visitors' Center/Tourism				
Salaries/wages	33,533	33,533	65,532	(31,999)
Payroll taxes and pension expense	5,360	5,360	8,059	(2,699)
Legal	-	-	350	(350)
Insurance	1,496	1,496	12,131	(10,635)
Fireworks/holiday programs	-	16,300	16,548	(248)
Tourism events	15,700	15,700	2,281	13,419
Housekeeping supplies	10,000	10,000	10,237	(237)
Office and other expenditures	400	400	458	(58)
Telephone	2,100	2,100	2,410	(310)
Web management	20,460	20,460	8,435	12,025
Repairs and maintenance	5,000	5,000	6,750	(1,750)
Workers compensation	119	119	-	119
Utilities	8,400	8,400	8,313	87
Total visitors' center/tourism	102,568	118,868	141,504	(22,636)
Miscellaneous				
MVA bus expense	-	-	3,944	(3,944)
Community affairs	-	-	12,951	(12,951)
Other miscellaneous expenses	6,500	6,500	2,043	4,457
Total miscellaneous	6,500	6,500	18,938	(12,438)
Debt Service				
Principal				
Public safety	-	-	39,178	(39,178)
Public works	-	-	37,777	(37,777)
Total principal payments	-	-	76,955	(76,955)

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Interest expense				
Public safety police	\$ -	\$ -	\$ 845	\$ (845)
Public works - highway and streets	-	-	4,044	(4,044)
Total interest expense	-	-	4,889	(4,889)
Capital outlay				
General government	-	-	1,130	(1,130)
Police car	29,000	29,000	37,060	(8,060)
Streets - vehicles	41,820	41,820	-	41,820
Police computer system	6,000	6,000	98,653	(92,653)
Police - building	-	-	21,622	(21,622)
Street repaving	300,000	300,000	-	300,000
Other equipment	-	-	8,206	(8,206)
Work in progress	-	-	324,240	(324,240)
Rails to Trails	-	-	205,572	(205,572)
Total capital outlay	<u>376,820</u>	<u>376,820</u>	696,483	(319,663)
Total Expenditures	4,076,731	4,093,031	4,715,726	(622,695)
Excess of revenues over expenditures	(428,542)	(444,842)	(191,962)	252,880
Other financing sources (uses)				
Sale of assets	-	-	1,929	(1,929)
Proceed from long-term debt	-	-	30,269	(30,269)
Budget contingencies	<u>292,990</u>	<u>292,990</u>	-	<u>292,990</u>
Total other financing sources (uses)	292,990	292,990	32,198	260,792
Excess of revenues and other financing sources over expenditures	<u>\$ (135,552)</u>	<u>\$ (151,852)</u>	\$ (159,764)	<u>\$ (7,912)</u>
Fund balance, beginning of year			<u>1,927,075</u>	
Fund balance, end of year			<u>\$ 1,767,311</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, 2016**

<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>
6/30/2016	\$ -	\$ 704,616	\$ 996,938	0.00%	\$ 1,311,107	76.04%
6/30/2015	-	606,396	963,092	0.00%	1,340,671	71.84%
6/30/2014	-	366,937	832,776	0.00%	1,196,896	69.58%
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%

## **SUPPLEMENTAL SCHEDULES**

**TOWN OF CHESTERTOWN, MARYLAND**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**BUDGET AND ACTUAL - UTILITY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Operating Revenues</b>				
Charges for services				
Sewer fees	\$ 756,000	\$ 756,000	\$ 754,243	\$ (1,757)
Water fees	790,000	790,000	787,953	(2,047)
Sewer connections	135,000	135,000	124,000	(11,000)
Water connections	155,000	155,000	150,400	(4,600)
Other water and sewer charges	57,000	57,000	82,005	25,005
Rental income	2,520	2,520	2,600	80
Tower leases	55,000	55,000	49,594	(5,406)
Grant revenue	30,000	30,000	-	(30,000)
Other income	<u>2,000</u>	<u>2,000</u>	<u>1,791</u>	<u>(209)</u>
Total Operating Revenues	<u>1,982,520</u>	<u>1,982,520</u>	<u>1,952,586</u>	<u>(29,934)</u>
<b>Operating Expenses</b>				
Salaries	538,690	538,690	545,612	(6,922)
Council expenses	6,000	6,000	5,500	500
Chemicals	71,500	71,500	45,656	25,844
Data processing	6,700	6,700	7,462	(762)
General insurance	24,729	24,729	15,584	9,145
Workers' compensation	17,983	17,983	19,154	(1,171)
Medical and life insurance	120,591	120,591	120,295	296
Payroll taxes	41,669	41,669	40,604	1,065
Pension	47,705	47,705	45,174	2,531
Uniforms and clothing	4,000	4,000	3,302	698
Meter parts	17,000	17,000	20,377	(3,377)
Safety equipment	3,500	3,500	1,131	2,369
Supplies	17,000	17,000	18,074	(1,074)
Small tools	-	-	3,537	(3,537)
Office supplies	6,000	6,000	2,743	3,257
Legal services	5,500	5,500	4,931	569
Accounting and audit services	8,200	8,200	-	8,200
Other professional fees	500	500	19,240	(18,740)
Repairs and maintenance				
Vehicles	4,000	4,000	4,323	(323)
Water lines	75,000	75,000	67,193	7,807
Water tower	15,000	15,000	118	14,882
Buildings and plants	36,000	36,000	28,782	7,218
Equipment	100,000	100,000	109,737	(9,737)
Grounds	4,000	4,000	600	3,400
Office equipment	5,000	5,000	-	5,000
Postage - freight	3,600	3,600	2,845	755
Telephone	7,000	7,000	5,741	1,259
Travel and training	3,500	3,500	1,731	1,769
Gas and oil - vehicles	20,000	20,000	8,418	11,582
Utilities	126,000	126,000	126,848	(848)
Lab fees and testing	25,000	25,000	22,983	2,017
Loan administration fees	13,165	13,165	26,330	(13,165)
Depreciation expense	685,000	685,000	665,698	19,302
Hospital oil spill	5,000	5,000	32,630	(27,630)
Miscellaneous	<u>2,314</u>	<u>2,314</u>	<u>1,736</u>	<u>578</u>
Total Operating Expenses	<u>2,066,846</u>	<u>2,066,846</u>	<u>2,024,089</u>	<u>42,757</u>
<b>OPERATING INCOME (LOSS)</b>	<u>\$ (84,326)</u>	<u>\$ (84,326)</u>	<u>\$ (71,503)</u>	<u>\$ 12,823</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, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
NONOPERATING REVENUE (EXPENSES)				
Interest income	\$ 14,500	\$ 14,500	\$ 14,905	\$ 405
Sale of assets	-	-	25	25
Interest expense	(12,273)	(12,273)	(16,207)	(3,934)
TOTAL NONOPERATING REVENUE (EXPENSES)	2,227	2,227	(1,277)	(3,504)
CHANGE IN NET POSITION	<u>\$ (82,099)</u>	<u>\$ (82,099)</u>	(72,780)	<u>\$ 9,319</u>
NET POSITION, BEGINNING OF YEAR			<u>9,240,061</u>	
NET POSITION, END OF YEAR			<u>\$ 9,167,281</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, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Operating Revenues</b>				
Rental income				
Slip rental	\$ 55,000	\$ 55,000	\$ 53,751	\$ (1,249)
Seasonal storage	9,500	9,500	7,634	(1,866)
Winter storage	45,000	45,000	19,117	(25,883)
Other storage	1,000	1,000	710	(290)
Utilities	4,500	4,500	5,099	599
Transient slip rental	31,000	31,000	30,218	(782)
Marina rent	-	-	300	300
Marina rent	-	-	2,250	2,250
Fuel sales	56,000	56,000	56,034	34
Other income	10,250	10,250	17,724	7,474
<b>Total Operating Revenues</b>	<u>212,250</u>	<u>212,250</u>	<u>192,837</u>	<u>(19,413)</u>
<b>Operating Expenses</b>				
Accounting and audit services	956	956	-	956
Advertising	300	300	-	300
Credit card fees	3,000	3,000	3,046	(46)
Depreciation expense	-	-	66,277	(66,277)
Housekeeping/supplies	2,300	2,300	2,069	231
Fuel - diesel	15,000	15,000	11,011	3,989
Fuel - gasoline	-	-	29,784	(29,784)
Insurance - liability/property	1,838	1,838	1,642	196
Legal services	300	300	816	(516)
Licenses and permits	100	100	1,109	(1,009)
Management fees	-	-	-	-
Office supplies	500	500	182	318
Operating supplies	1,500	1,500	743	757
Payroll taxes	-	-	1,449	(1,449)
Pension expense	2,500	2,500	810	1,690
Property taxes	22,800	22,800	-	22,800
Repairs and maintenance				
Buildings	12,200	12,200	11,890	310
Docks	5,000	5,000	9,943	(4,943)
Grounds	250	250	121	129
Equipment	3,300	3,300	645	2,655
Salaries	-	-	19,633	(19,633)
Boating Supplies	-	-	450	(450)
Telephone	2,000	2,000	2,057	(57)
Trash removal	1,410	1,410	2,443	(1,033)
Heating fuel	2,700	2,700	945	1,755
Utilities	7,660	7,660	8,811	(1,151)
Miscellaneous	100	100	191	(91)
<b>Total Operating Expenses</b>	<u>85,714</u>	<u>85,714</u>	<u>176,067</u>	<u>(90,353)</u>
<b>OPERATING INCOME (LOSS)</b>	<u>\$ 126,536</u>	<u>\$ 126,536</u>	<u>\$ 16,770</u>	<u>\$ (109,766)</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>				
Interest income	50	50	40	(10)
Interest expense	(59,154)	(59,154)	(59,538)	(384)
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<u>(59,104)</u>	<u>(59,104)</u>	<u>(59,498)</u>	<u>(394)</u>
Transfers from other funds	-	-	-	-
<b>CHANGE IN NET POSITION</b>	<u>\$ 67,432</u>	<u>\$ 67,432</u>	<u>(42,728)</u>	<u>\$ (110,160)</u>
NET POSITION, BEGINNING OF YEAR			<u>(59,815)</u>	
NET POSITION, END OF YEAR			<u>\$ (102,543)</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, 2016, 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 28, 2016.

**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.

*Lindsay + Associates, LLC*

October 28, 2016