

**TOWN OF CHESTERTOWN, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2017**

TOWN OF CHESTERTOWN

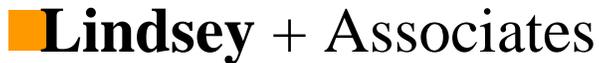
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

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Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis, budgetary comparison information and the schedule of funding progress – retiree medical program on pages 5 through 15 and 54 through 62 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 64 through 66 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 26, 2017, on our consideration of the Town of Chestertown, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Chestertown, Maryland's internal control over financial reporting and compliance.

October 26, 2017

Hindley & Associates, LLC

TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2017

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, 2017. 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 \$1,730,463 compared to \$1,767,311 in 2016.
- The Town's General Fund had an excess of expenses over revenues of \$36,848 in 2017 compared to an excess of expenses over revenue of \$159,764 in 2016.
- The Utilities Commission operating loss was \$292,075 and \$71,503 in 2017 and 2016, 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, 2017

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 two enterprise funds: Utilities Commission and the Chestertown Marina.

TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2017

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, 2017.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total 2017</u>	<u>Total 2016</u>
Assets:				
Current assets	\$ 1,695,029	\$ 1,687,710	\$ 3,382,739	\$ 3,625,378
Noncurrent assets	7,608,041	11,370,255	18,978,296	19,527,276
Total Assets	<u>9,303,070</u>	<u>13,057,965</u>	<u>22,361,035</u>	<u>23,152,654</u>
Deferred outflows	<u>802,917</u>	-	<u>802,917</u>	<u>522,681</u>
Liabilities:				
Current liabilities	193,816	513,204	707,020	914,437
Noncurrent liabilities	4,162,675	3,825,550	7,988,225	7,563,494
Total Liabilities	<u>4,356,491</u>	<u>4,338,754</u>	<u>8,695,245</u>	<u>8,477,931</u>
Deferred inflows	<u>188,506</u>	-	<u>188,506</u>	<u>152,212</u>
Net Position:				
Net investment in capital assets	6,760,826	7,394,042	14,154,868	14,600,809
Unrestricted	(1,199,836)	1,325,169	125,333	444,383
Total Net Position	<u>\$ 5,560,990</u>	<u>\$ 8,719,211</u>	<u>\$ 14,280,201</u>	<u>\$ 15,045,192</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 \$14,280,201 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 \$125,333 in 2017 compared to \$444,383 in 2016.

TOWN OF CHESTERTOWN, MARYLAND

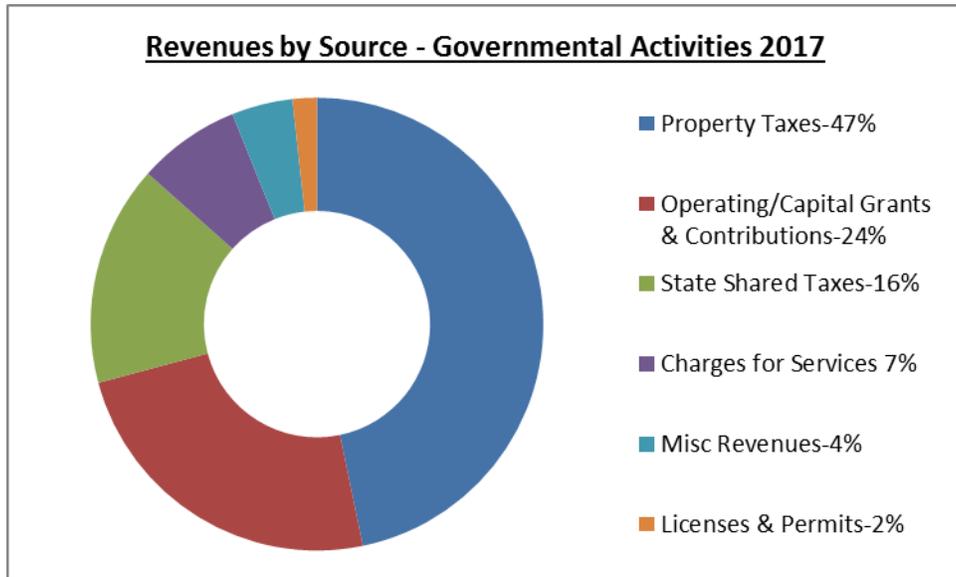
**Management's Discussion and Analysis (MD&A)
June 30, 2017**

Statement of Activities

The following table summarizes the Town's change in net position for the year ended June 30, 2017.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total 2017</u>	<u>Total 2016</u>
Revenues:				
Program revenues:				
Charges for services	\$ 331,655	\$ 1,945,481	\$ 2,277,136	\$ 2,480,811
Operating and capital grants and contributions	1,089,532	-	1,089,532	1,258,142
General revenues:				
Property taxes	2,115,383	-	2,115,383	2,138,196
Income taxes	698,327	-	698,327	665,058
Other	290,187	13,074	303,261	136,012
Total Revenue	<u>4,525,084</u>	<u>1,958,555</u>	<u>6,483,639</u>	<u>6,678,219</u>
Operating expenses	<u>4,943,067</u>	<u>2,304,082</u>	<u>7,247,149</u>	<u>6,735,142</u>
Contingency loss	(1,481)	-	(1,481)	(100,744)
Change in Net Position	<u>\$ (419,464)</u>	<u>\$ (345,527)</u>	<u>\$ (764,991)</u>	<u>\$ (157,667)</u>

Revenues for the Town's governmental activities were \$4,525,084 compared to \$4,517,826 for 2016. Revenues for the fiscal year ended June 30, 2017 consisted of:



TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2017

Statement of Activities – continued

- Property taxes are the Town's largest source of revenue at 47%, totaling \$2,115,383 for fiscal year 2017 compared to \$2,138,196 in 2016. The Town's property tax rate is set at \$.37 per \$100 of full-assessed property value.
- Income and state shared taxes are \$712,814 for 2017 compared to \$679,901 in 2016. The increase of state income tax was due to the continued improvement in the economy.
- A decrease in operating grants, capital grants, and contributions from \$1,258,142 in 2016 to \$1,089,532 in 2017 resulted from a decrease in state grant activity.
- Change in Net Position is a decrease of \$419,464 for the governmental activities in 2017. This compares to a decrease of \$42,159 for the governmental activities in 2016. The decrease in 2017 includes \$1,481 to the loss contingency as discussed in Note 16.

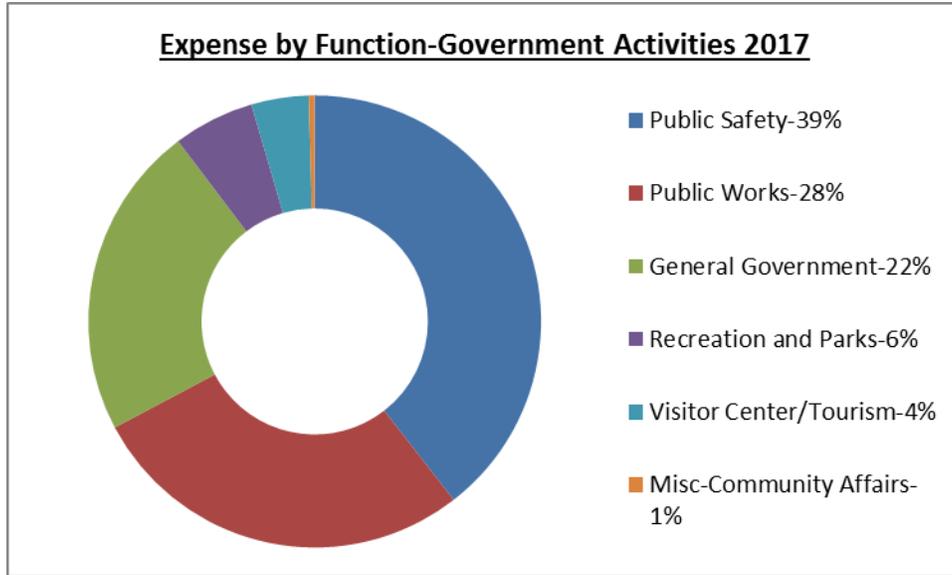
Expenses for governmental activities were \$4,943,067 for 2017 compared to \$4,459,241 for 2016. Expenses for the fiscal year ended June 30, 2017 were allocated as indicated below:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total 2017</u>	<u>Total 2016</u>
Expenses:				
Governmental Activities:				
General Government	\$ 1,110,656	\$ -	\$ 1,110,656	\$ 1,012,944
Public Safety	1,943,037	-	1,943,037	1,674,875
Public Works	1,379,740	-	1,379,740	1,414,075
Recreation & Parks	286,590	-	286,590	175,134
Visitor's Center & Tourism	202,374	-	202,374	163,275
Miscellaneous - Community Affairs	20,670	-	20,670	18,938
Business-Type Activities:				
Water & Sewer Services	-	2,088,739	2,088,739	2,040,296
Chestertown Marina	-	215,343	215,343	235,605
Total Expenses	<u>\$ 4,943,067</u>	<u>\$ 2,304,082</u>	<u>\$ 7,247,149</u>	<u>\$ 6,735,142</u>

TOWN OF CHESTERTOWN, MARYLAND

**Management’s Discussion and Analysis (MD&A)
June 30, 2017**

Statement of Activities – continued



- Public safety department is the largest expense at \$1,943,037 in 2017, compared to \$1,674,875 in 2016, 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 \$1,379,740 compared to \$1,414,075 in 2016, 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 \$1,110,656 for 2017, which is 22% of total expenses, as compared \$1,012,944 in 2016. 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 \$4,943,067 of governmental expenses, \$1,421,187 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 for governmental activities represent an overall increase of \$483,826 from 2016.

TOWN OF CHESTERTOWN, MARYLAND

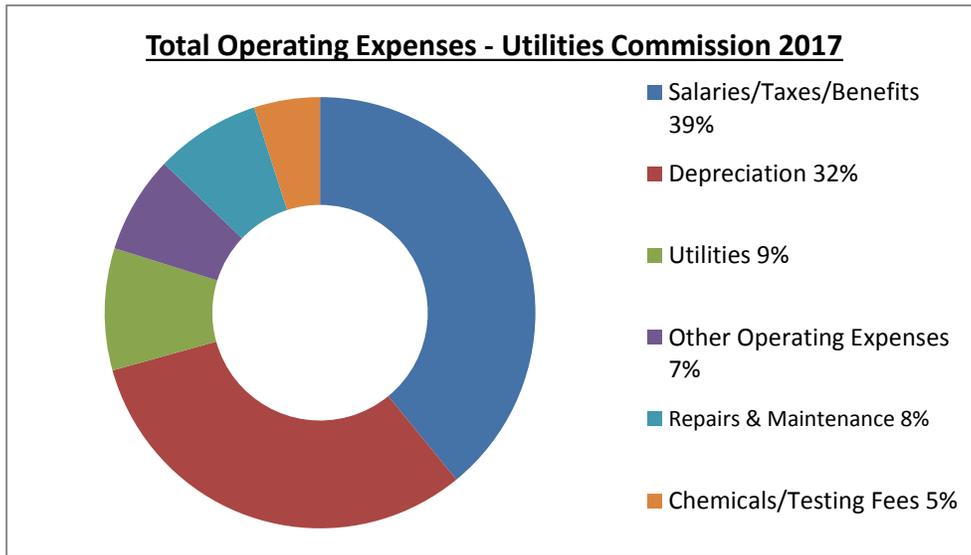
Management’s Discussion and Analysis (MD&A)

June 30, 2017

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 \$1,783,644 compared to \$1,952,586 for 2016, include water and sewer usage and new water and sewer connection fees for the Utilities Commission.
- Operating expenses for the Utilities Commission were \$2,088,739 for 2017, compared to \$2,040,296 in 2016, which is a slight increase.



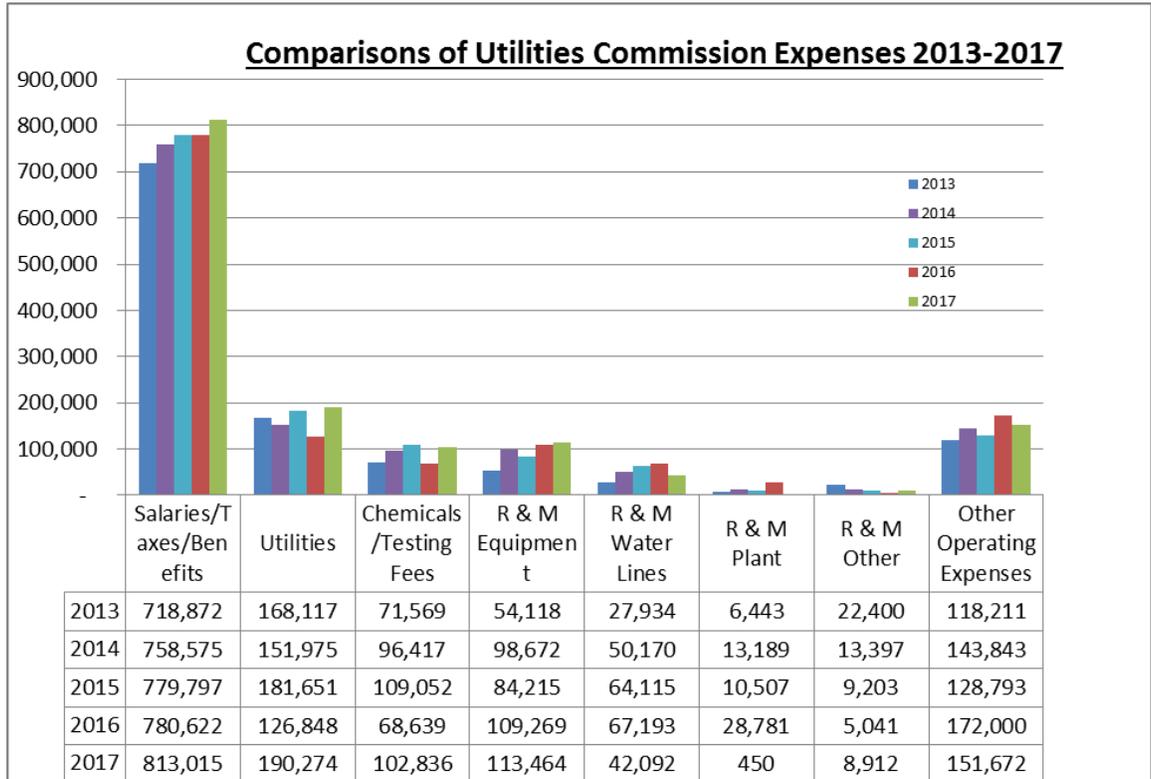
TOWN OF CHESTERTOWN, MARYLAND

Management’s Discussion and Analysis (MD&A)

June 30, 2017

Business-type Activities – continued

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



- Net Position for the Business-type Activities decreased \$345,527 in 2017, compared to a decrease of \$115,508 in 2016.

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 \$1,730,463 compared to \$1,767,311 in 2016. Of the total, \$1,513,286 is unassigned and available for spending at the government’s discretion.

TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2017

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 \$1,563,495 at year end. Unrestricted net position in 2016 was \$1,501,237.

Capital Assets and Debt Administration

Capital Assets

The changes in general fixed assets for the fiscal year ended June 30, 2017 are as follows:

- The addition of \$609,659 in fixed assets during 2017 in the governmental activities was for the purchase of a police car, a new police canine, building improvements, the purchase of a backhoe, and the marina construction in progress.

Long-Term Debt

The Town's total debt as of June 30, 2017 was \$4,515,428 not including compensated absences.

- Total general fund debt at June 30, 2017 is \$539,215, with \$88,736 retired during the year.
- Total utility fund debt at June 30, 2017 is \$2,345,213, with \$267,258 retired during the year.
- Total marina fund debt at June 30, 2017 is \$1,631,000 with \$86,000 retired during the year.

Outlook for the Future

- This year the state economy continued to improve and State Income Tax revenues amounts were substantial. 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 slightly from \$160,655 last year to \$160,709 this year.

TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2017

- Police Aid Grant decreased slightly from \$74,109 to \$73,239.
- State income tax was down \$60,294 from \$657,119 last year to \$717,413 this year.
- The Town general fund surplus decreased from \$1,767,311 last year to \$1,730,463 this year.
- Building and development in the Town has continued the forward pace that began two years ago, with permits for six new dwelling units being issued this fiscal year (as opposed to four last year). The increased value of the residential new construction alone was \$1,268,161 (\$892,000 in FY16). The value of all residential construction permits awarded last year was \$5,559,264 (including additions and upgrades of existing houses and apartments) and the value of commercial construction was shown as \$3,185,870.
- 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.
- In 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. They have named their site the Chestertown Business Campus. In 2017 site work began on the Campus with some of the roads and infrastructure being installed. At first this infrastructure will be extended from Haacke Drive to the new warehouse facility (the warehouse/office complex has a footprint of 168,000 square feet) but soon the plan is to construct 90 units of workforce housing apartments on the campus fronting on Scheeler Road.
- 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.

TOWN OF CHESTERTOWN, MARYLAND

Management's Discussion and Analysis (MD&A)

June 30, 2017

- 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 four Waterway Improvement Program (WIP) matching grants of \$800,000 each have been awarded to the town. The Town matching dollars for the first \$200,000 of WIP funds 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). The Army Corps/MD Dept. of Natural Resources permit was finally received in June 2016 after two years, and it allowed the Town to redouble its effort to rebuild the Marina and add it as an economic engine to the Town's arsenal. For funding needs, a Capital Budget request of \$1.5 million was presented to the Maryland Legislature in the fall of 2016 to obtain the dollars needed to complete the total renovation and expansion of the Marina. Though the Town did not receive those funds, help did come from the State in a Capital Project Grant of \$500,000 this year. The Town also secured a large USDA loan/grant of \$1,000,000 for raising the Marina property and several other very strategic State grants to assist with the design and construction of the Interpretive Center (which will include a marina store a small tourist center, and a commercial shop space for things like bike and kayak rentals.

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, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 601,946	\$ 1,140,065	\$ 1,742,011
Certificates of deposit	276,294	518,724	795,018
Accounts receivable - taxes	87,596	-	87,596
Accounts receivable - water and sewer service	-	480,016	480,016
Accounts receivable - other	9,679	-	9,679
Amounts due from other governments	250,142	-	250,142
Prepaid expenses	12,495	1,657	14,152
Meter inventory	-	4,125	4,125
Due from other funds	456,877	(456,877)	-
Total Current Assets	<u>1,695,029</u>	<u>1,687,710</u>	<u>3,382,739</u>
Noncurrent Assets			
Investment	308,000	-	308,000
Nondepreciable assets	2,772,473	1,524,242	4,296,715
Depreciable assets, net	4,527,568	9,846,013	14,373,581
Total Noncurrent Assets	<u>7,608,041</u>	<u>11,370,255</u>	<u>18,978,296</u>
TOTAL ASSETS	<u>9,303,070</u>	<u>13,057,965</u>	<u>22,361,035</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>802,917</u>	<u>-</u>	<u>802,917</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 10,105,987</u>	<u>\$ 13,057,965</u>	<u>\$ 23,163,952</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 42,554	\$ 84,420	\$ 126,974
Bay fee payable	-	35,185	35,185
Accrued payroll expense	59,112	7,301	66,413
Accrued interest payable	-	13,382	13,382
Unearned revenue	-	17,089	17,089
Other liabilities	1,832	-	1,832
Current portion of long-term debt	90,318	355,827	446,145
Total Current Liabilities	<u>193,816</u>	<u>513,204</u>	<u>707,020</u>
Noncurrent Liabilities			
Employees benefits payable	777,977	205,164	983,141
Due to State	99,229	-	99,229
Net pension liability	2,836,572	-	2,836,572
Bonds, leases and notes due in more than one year	448,897	3,620,386	4,069,283
Total Noncurrent Liabilities	<u>4,162,675</u>	<u>3,825,550</u>	<u>7,988,225</u>
TOTAL LIABILITIES	<u>4,356,491</u>	<u>4,338,754</u>	<u>8,695,245</u>
DEFERRED INFLOWS OF RESOURCES	<u>188,506</u>	<u>-</u>	<u>188,506</u>
NET POSITION			
Net investment in capital assets	6,760,826	7,394,042	14,154,868
Restricted for capital projects	-	-	-
Unrestricted	(1,199,836)	1,325,169	125,333
TOTAL NET POSITION	<u>5,560,990</u>	<u>8,719,211</u>	<u>14,280,201</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 10,105,987</u>	<u>\$ 13,057,965</u>	<u>\$ 23,163,952</u>

See accompanying notes to financial statements.

TOWN OF CHESTERTOWN, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Direct Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General government	\$ 1,110,656	\$ 86,604	\$ 21,400	\$ 356,036	\$ (646,616)	\$ -	\$ (646,616)
Public safety	1,943,037	155,665	94,218	-	(1,693,154)	-	(1,693,154)
Public works	1,379,740	27,478	160,709	119,962	(1,071,591)	-	(1,071,591)
Recreation and parks	286,590	-	136,251	-	(150,339)	-	(150,339)
Visitors' center and tourism	202,374	52,462	200,956	-	51,044	-	51,044
Miscellaneous - community affairs	20,670	9,446	-	-	(11,224)	-	(11,224)
Total Governmental Activities	4,943,067	331,655	613,534	475,998	(3,521,880)	-	(3,521,880)
Business-type Activities							
Water and sewer services	2,088,739	1,783,644	-	-	-	(305,095)	(305,095)
Chestertown marina	215,343	161,837	-	-	-	(53,506)	(53,506)
Total Business-Type Activities	2,304,082	1,945,481	-	-	-	(358,601)	(358,601)
Total Primary Government	\$ 7,247,149	\$ 2,277,136	\$ 613,534	\$ 475,998	\$ (3,521,880)	\$ (358,601)	\$ (3,880,481)
General revenues:							
Taxes							
Property taxes					2,115,383	-	2,115,383
Income taxes					698,327	-	698,327
Other taxes					14,487	-	14,487
Licenses and permits					78,566	-	78,566
Interest and investment earnings					3,762	13,074	16,836
Miscellaneous					28,031	-	28,031
Sale of assets					165,341	-	165,341
Total General Revenues					3,103,897	13,074	3,116,971
Contingency loss (Note 16)					(1,481)	-	(1,481)
Change in Net Position					(419,464)	(345,527)	(764,991)
Net Position, beginning of year					5,980,454	9,064,738	15,045,192
Net Position, end of year					\$ 5,560,990	\$ 8,719,211	\$ 14,280,201

See accompanying notes to financial statements.

**TOWN OF CHESTERTOWN, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2017**

	General Fund	Total Governmental Funds		
ASSETS				
Cash and cash equivalents - unrestricted	\$ 601,946	\$ 601,946	<i>Total Governmental Fund Balances</i>	\$ 1,730,463
Certificate of deposit	276,294	276,294		
Investment	308,000	308,000		
Accounts receivable - taxes	31,452	31,452	Capital assets used in governmental activities	
Accounts receivable - other	9,679	9,679	are not financial resources and therefore	
Amounts due from other governments	250,142	250,142	are not reported in the funds.	7,300,041
Prepaid expenses	12,495	12,495		
Due from other funds	456,877	456,877	Property taxes are shown net of taxes not collected	
TOTAL ASSETS	1,946,885	1,946,885	within the sixty-day availability period.	56,144
DEFERRED OUTFLOWS OF RESOURCES	-	-	Deferred outflows of resources related to the net pension	
			liability are not reported in the fund financial statements.	802,917
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,946,885	\$ 1,946,885	Deferred inflows of resources pertaining to long-term	
			liabilities are not reported in the funds.	(188,506)
LIABILITIES			Receivables pertaining to revenue that is not available	
Accounts payable	\$ 42,554	\$ 42,554	in accordance with modified accrual accounting are	
Accrued payroll	59,112	59,112	reported as deferred inflows of resources in the funds.	112,924
Other liabilities	1,832	1,832		
TOTAL LIABILITIES	103,498	103,498	Long-term liabilities, including loans payable,	
			OPEB and compensated absences are not due and	
DEFERRED INFLOWS OF RESOURCES	112,924	112,924	payable in the current period and therefore	
			are not reported in the funds.	(4,252,993)
FUND BALANCES			<i>Net Position of Governmental Activities</i>	\$ 5,560,990
Non-spendable	12,495	12,495		
Assigned	204,682	204,682		
Unassigned	1,513,286	1,513,286		
TOTAL FUND BALANCES	1,730,463	1,730,463		
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,946,885	\$ 1,946,885		

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, 2017

	General Fund	Total Governmental Funds
REVENUES		
Property taxes	\$ 2,110,278	\$ 2,110,278
Income taxes	717,413	717,413
State shared taxes	173,396	173,396
Licenses and permits	161,770	161,770
Intergovernmental revenue		
State	597,005	597,005
County	201,956	201,956
Charges for services	197,439	197,439
Miscellaneous revenue	213,952	213,952
Total Revenues	4,373,209	4,373,209
EXPENDITURES		
General government	648,677	648,677
Public safety	1,622,089	1,622,089
Public works	1,228,056	1,228,056
Crossing guard/meter monitor	7,473	7,473
Recreation and parks	286,590	286,590
Visitors' center and tourism	183,805	183,805
Miscellaneous	20,670	20,670
Capital outlays	609,659	609,659
Debt service		
Principal	88,736	88,736
Interest	17,604	17,604
Total Expenditures	4,713,359	4,713,359
Excess of revenues over (under) expenditures and other financing uses	(340,150)	(340,150)
Other financing sources (uses)		
Transfers in (out)	-	-
Sale of assets	272,347	272,347
Proceeds from long term debt	30,955	30,955
Total other financing sources (uses)	303,302	303,302
Excess of revenue and other financing sources over (under) expenditures and other financing uses	(36,848)	(36,848)
Fund balance, beginning of year	1,767,311	1,767,311
Fund balance, end of year	\$ 1,730,463	\$ 1,730,463

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, 2017

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ (36,848)
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.	244,946
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.	4,217
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.	(561,987)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	88,736
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.	(30,955)
Changes 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.	(19,086)
Contingency loss reported in the Statement of Activities pertains to a long-term liability and is not reported in the funds.	(1,481)
Governmental funds do not report capital assets as financial resources; however, capital asset expenditures are reported on the statement of activities. This is the amount of loss resulting from the transfer sale of capital assets.	(107,006)
<i>Change in Net Position of Governmental Activities</i>	\$ (419,464)

See accompanying notes to financial statements.

TOWN OF CHESTERTOWN, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017

	Major		Total
	Utilities Commission	Marina	
ASSETS			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 1,013,195	\$ 126,870	\$ 1,140,065
Certificate of deposit	518,724	-	518,724
Water and sewer service receivable	480,016	-	480,016
Prepaid expenses	1,657	-	1,657
Meter inventory	4,125	-	4,125
Total Current Assets	<u>2,017,717</u>	<u>126,870</u>	<u>2,144,587</u>
Noncurrent Assets			
Capital assets, net	9,656,924	1,713,331	11,370,255
Total Noncurrent Assets	<u>9,656,924</u>	<u>1,713,331</u>	<u>11,370,255</u>
TOTAL ASSETS	<u>11,674,641</u>	<u>1,840,201</u>	<u>13,514,842</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 11,674,641</u>	<u>\$ 1,840,201</u>	<u>\$ 13,514,842</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 79,980	\$ 4,440	\$ 84,420
Bay fee payable	35,185	-	35,185
Accrued payroll expense	7,264	37	7,301
Accrued interest payable	4,090	9,292	13,382
Due to other funds	122,539	334,338	456,877
Unearned revenue	-	17,089	17,089
Current portion of long-term debt	268,327	87,500	355,827
Total Current Liabilities	<u>517,385</u>	<u>452,696</u>	<u>970,081</u>
Noncurrent Liabilities			
Employee benefits	205,164	-	205,164
Long-term debt, net of current liabilities	2,076,886	1,543,500	3,620,386
Total Noncurrent Liabilities	<u>2,282,050</u>	<u>1,543,500</u>	<u>3,825,550</u>
TOTAL LIABILITIES	<u>2,799,435</u>	<u>1,996,196</u>	<u>4,795,631</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	7,311,711	82,331	7,394,042
Restricted - expendable for capital assets	-	-	-
Unrestricted	1,563,495	(238,326)	1,325,169
TOTAL NET POSITION	<u>8,875,206</u>	<u>(155,995)</u>	<u>8,719,211</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 11,674,641</u>	<u>\$ 1,840,201</u>	<u>\$ 13,514,842</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, 2017

	Major		Total
	Utility Fund	Marina	
Operating Revenues			
Charges for services			
Sewer fees	\$ 756,786	\$ -	\$ 756,786
Water fees	774,517	-	774,517
Sewer connections	44,000	-	44,000
Water connections	56,800	-	56,800
Other water and sewer services	69,691	-	69,691
Rental income	2,600	108,063	110,663
Fuel sales	-	46,706	46,706
Tower leases	47,503	-	47,503
Other income	31,747	7,068	38,815
Total Operating Revenues	<u>1,783,644</u>	<u>161,837</u>	<u>1,945,481</u>
Operating Expenses			
Water and sewer expenses	1,422,715	-	1,422,715
Marina operating expenses	-	91,812	91,812
Depreciation and amortization	657,243	65,327	722,570
Total Operating Expenses	<u>2,079,958</u>	<u>157,139</u>	<u>2,237,097</u>
Operating Income (Loss)	<u>(296,314)</u>	<u>4,698</u>	<u>(291,616)</u>
Non-operating Revenues (Expenses)			
Interest income	13,020	54	13,074
Interest expense	(8,781)	(58,204)	(66,985)
Net Non-operating Revenues (Expenses)	<u>4,239</u>	<u>(58,150)</u>	<u>(53,911)</u>
Income Before Contributions and Transfers	(292,075)	(53,452)	(345,527)
Transfers (to) from other funds	<u>-</u>	<u>-</u>	<u>-</u>
Changes in Net Position	(292,075)	(53,452)	(345,527)
Total net position at beginning of year	<u>9,167,281</u>	<u>(102,543)</u>	<u>9,064,738</u>
Total net position at end of year	<u>\$ 8,875,206</u>	<u>\$ (155,995)</u>	<u>\$ 8,719,211</u>

See accompanying notes to financial statements.

TOWN OF CHESTERTOWN, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Major		Total
	Utility Fund	Marina	
Cash flows from operating activities			
Cash received from customers	\$ 1,700,772	\$ 154,769	\$ 1,855,541
Cash paid to suppliers	(910,885)	(74,886)	(985,771)
Cash paid to employees	(543,258)	(19,267)	(562,525)
Other receipts	79,250	11,514	90,764
Net cash provided (used) by operating activities	<u>325,879</u>	<u>72,130</u>	<u>398,009</u>
Cash flows from capital and related financing activities			
Purchases of capital assets	(35,654)	-	(35,654)
Sale of capital assets	-	-	-
Principal paid on debt	(267,258)	(86,000)	(353,258)
Interest paid on capital debt	(8,781)	(58,821)	(67,602)
Net cash (used) for capital and related financing activities	<u>(311,693)</u>	<u>(144,821)</u>	<u>(456,514)</u>
Cash flows from non-capital financing activities			
Grant disbursements	-	-	-
Transfers (to) from other funds	62,332	117,368	179,700
Net cash (used) for non-capital financing activities	<u>62,332</u>	<u>117,368</u>	<u>179,700</u>
Cash flows from investing activities			
Interest and dividends	13,020	54	13,074
Net cash provided by investing activities	<u>13,020</u>	<u>54</u>	<u>13,074</u>
Net increase (decrease) in cash and cash equivalents	89,538	44,731	134,269
Cash and cash equivalents at beginning of year	1,442,381	82,139	1,524,520
Cash and cash equivalents at end of year	<u>\$ 1,531,919</u>	<u>\$ 126,870</u>	<u>\$ 1,658,789</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (296,314)	\$ 4,698	\$ (291,616)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	657,243	65,327	722,570
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	(3,622)	4,446	824
Decrease (increase) in prepaid expense	4,047	-	4,047
Increase (decrease) in accounts payable	(47,323)	1,828	(45,495)
Increase (decrease) in unearned revenue	-	(4,209)	(4,209)
Increase (decrease) in accrued expenses	(24,439)	40	(24,399)
Increase (decrease) in compensated absences	36,287	-	36,287
Cash provided (used) by operating activities	<u>\$ 325,879</u>	<u>\$ 72,130</u>	<u>\$ 398,009</u>

See accompanying notes to financial statements.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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, 2017 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, 2017 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, 2017 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, 2017

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, 2017, deferred inflows of resources in the general fund consisted of income taxes of \$112,924.

Local Tax Reserve Fund

At June 30, 2016, the Town was advised by the State of Maryland that \$112,924 of the Local Tax Reserve Fund was allocable to the Town. The Town recorded receivable and deferred inflows of resources in the amount of \$112,924 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, 2017

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, 2017

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, 2017

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 2017. 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 2017 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 \$1,742,011 and the bank balances totaled \$1,831,810. 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, 2017

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, 2017

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:

	<u>Utilities</u>	<u>Marina</u>
Cash and cash equivalents - unrestricted	\$ 1,013,195	\$ 126,870
Certificates of Deposit	518,724	-
Total cash and cash equivalents	<u>\$ 1,531,919</u>	<u>\$ 126,870</u>

NOTE 4 – ACCOUNTS RECEIVABLE

At June 30, 2017, due from other governments consisted of the following:

Amusement taxes	\$ 2,312
Cable fees	15,199
County grant	29,357
Engineering grant	8,215
Highway user	9,872
Income taxes	112,924
State grants	71,112
Traders licenses	1,060
Unemployment reimbursement	91
	<u>\$ 250,142</u>

NOTE 5 – PROPERTY TAX

Real estate and personal property taxes are levied based on the State of Maryland assessments. Property taxes include amounts levied against all real and public utility property used in businesses located in the Town. Real property taxes are levied on the first day of July on the assessed value. When taxes are overdue, a lien is placed against the property. Taxes are due and payable on the first day of July in the year for which they are levied and become overdue and in arrears on the first day of the following October. Penalties and interest are charged on any unpaid taxes. The property tax rate for fiscal year 2017 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, 2017

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 2,019,175	\$ -	\$ 33,261	\$ 1,985,914
Construction in progress	324,240	462,319	-	786,559
Subtotal	<u>2,343,415</u>	<u>462,319</u>	<u>33,261</u>	<u>2,772,473</u>
Depreciable capital assets:				
Buildings	2,842,641	22,611	207,314	2,657,938
Land improvements	5,477,690	23,528	-	5,501,218
Furniture, equipment and vehicles	1,272,622	101,201	-	1,373,823
Subtotal	<u>9,592,953</u>	<u>147,340</u>	<u>207,314</u>	<u>9,532,979</u>
Total capital assets	<u>11,936,368</u>	<u>609,659</u>	<u>240,575</u>	<u>12,305,452</u>
Accumulated depreciation:				
Buildings	1,485,553	74,875	133,569	1,426,859
Land improvements	2,431,579	176,569	-	2,608,148
Furniture, equipment and vehicles	857,135	113,269	-	970,404
Subtotal, accumulated depreciation	<u>4,774,267</u>	<u>364,713</u>	<u>133,569</u>	<u>5,005,411</u>
Net capital assets	<u>\$ 7,162,101</u>	<u>\$ 244,946</u>	<u>\$ 107,006</u>	<u>\$ 7,300,041</u>

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 151,068
Public safety	74,578
Public works	117,296
Tourism	21,771
Total government activities depreciation expense	<u>\$ 364,713</u>

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION - continued

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Not being depreciated:				
Land	\$ 1,524,244	\$ -	\$ -	\$ 1,524,244
Construction in progress	18,777	-	-	18,777
Subtotal	<u>1,543,021</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	960,724	35,654	-	996,378
Subtotal	<u>21,372,673</u>	<u>35,654</u>	-	<u>21,408,327</u>
Total capital assets	<u>22,915,694</u>	<u>35,654</u>	-	<u>22,951,348</u>
Accumulated depreciation:				
Buildings	253,225	55,880	-	309,105
Land improvements	9,930,545	623,801	-	10,554,346
Furniture, equipment and vehicles	674,753	42,889	-	717,642
Subtotal accumulated depreciation	<u>10,858,523</u>	<u>722,570</u>	-	<u>11,581,093</u>
Net capital assets	<u>\$ 12,057,171</u>	<u>\$ (686,916)</u>	<u>\$ -</u>	<u>\$ 11,370,255</u>

Depreciation was charged as follows:

Business-type activities:	
Utilities fund	\$ 657,243
Marina	65,327
Total business-type activities depreciation expense	<u>\$ 722,570</u>

The Town has no material construction commitments as of June 30, 2017.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 2017. The credit line calls for interest at 68% of the prime rate, less 1%, adjusted periodically. During the year ended June 30, 2017, the Town did not borrow from this line of credit. The interest rate at June 30, 2017 was 2.1%. The balance as of June 30, 2017 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, 2017 is \$433,783.

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, 2017 is \$6,754.

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, 2017 is \$15,105.

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, 2017 is \$61,097.

Capital lease payable to Ford Motor Credit for the purchase of a police vehicle; interest at 6.45%; payable in annual installments of \$8,479 through September 2019; collateralized by the vehicle. The balance as of June 30, 2017 is \$22,476.

The changes in general long-term debt as of June 30, 2017 are summarized as follows:

Lender	Beginning Balance July 1, 2016	New Loans During Year	Retired During Year	Ending Balance June 30, 2017	Amount Due Within 1 Year
Wells Fargo Equipment Finance	\$ 100,159	\$ -	\$ 39,062	\$ 61,097	\$ 40,390
Ford Motor Credit	13,098	-	6,344	6,754	6,754
Peoples Bank	461,761	-	27,978	433,783	28,829
Ford Motor Credit	21,978	-	6,873	15,105	7,317
Ford Motor Credit	-	30,955	8,479	22,476	7,028
	<u>\$ 596,996</u>	<u>\$ 30,955</u>	<u>\$ 88,736</u>	<u>\$ 539,215</u>	<u>\$ 90,318</u>

Interest costs charged to expense during the year ended June 30, 2017 was \$17,604.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 was \$739,558.

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, 2017 was \$1,605,655.

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, 2017 was \$1,631,000.

The changes in long-term debt during the year ended June 30, 2017 follows:

	Beginning Balance July 1, 2016	New Loans During Year	Retired During Year	Ending Balance June 30, 2017	Amount Due Within 1 Year
Water quality bond - 2005	\$ 834,598	\$ -	\$ 95,040	\$ 739,558	\$ 95,420
Water quality bond - 2006	1,777,873	-	172,218	1,605,655	172,907
Infrastructure Bond - 2012	1,717,000	-	86,000	1,631,000	87,500
	<u>\$ 4,329,471</u>	<u>\$ -</u>	<u>\$ 353,258</u>	<u>\$ 3,976,213</u>	<u>\$ 355,827</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
2018	\$ 90,318	\$ 355,827	\$ 446,145	\$ 16,867	\$ 64,791	\$ 81,658
2019	65,681	359,101	424,782	13,405	62,018	75,423
2020	38,568	361,978	400,546	11,316	58,948	70,264
2021	31,531	365,060	396,591	9,875	54,965	64,840
2022	32,487	369,147	401,634	8,919	51,296	60,215
2023-2027	177,815	1,524,100	1,701,915	29,215	191,835	221,050
2028-2032	102,815	641,000	743,815	4,149	77,858	82,007
	<u>\$ 539,215</u>	<u>\$ 3,976,213</u>	<u>\$ 4,515,428</u>	<u>\$ 93,746</u>	<u>\$ 561,711</u>	<u>\$ 655,457</u>

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 was \$49,596,000.

In November 2015, the Town issued a \$20,206,000 economic development revenue bond (Washington College 2015 Project) pursuant to the provisions of Maryland existing law in order to lend the proceeds to Washington College for the purpose of constructing a residence hall, a new academic building and other miscellaneous capital projects on the main campus. The bond and interest are limited obligations of the Town payable by Washington College. The bond does not constitute an indebtedness or pledge of faith and credit of the Town. The principal amount payable for the 2015 Series at June 30, 2017 is \$19,799,000.

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, 2017 was \$25,892,801.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017. Future minimum lease payments are as follows:

<u>Year(s) Ended June 30</u>	
2018	\$ 41,821
2019	20,910
Total minimum lease payments	<u>\$ 62,731</u>
Less interest	<u>(1,633)</u>
Present value of minimum lease payments	<u><u>\$ 61,098</u></u>

The Town has entered into three agreements to lease a 2015, 2016 and 2017 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 \$19,335 was recorded on the vehicle for the year ended June 30, 2017. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 23,959
2019	16,770
2020	8,479
Total minimum lease payments	<u>\$ 49,208</u>
Less interest	<u>(4,872)</u>
Present value of minimum lease payments	<u><u>\$ 44,336</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 \$2,836,572 as of the measurement date of June 30, 2016.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 – RETIREMENT PLAN - continued

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 2017 contribution of \$241,684 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.

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, 2017

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, 2016 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 \$77,000,000 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, 2017 the Town contributed \$241,684. The Town contributed 100% of its required contribution for the year ended June 30, 2017. 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, 2017 are based on salaries for the year ending June 30, 2016. 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 30th were as follows:

	Fiscal Year Ending		
	2017	2016	2015
Retirement plan contributions	<u>\$ 241,684</u>	<u>\$ 239,132</u>	<u>\$ 223,724</u>

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 – RETIREMENT PLAN - continued

The Town contributed \$241,684 to the System for fiscal year 2017 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	\$ 68,959,954,000
Total fiduciary net position	45,365,927,000
Town's proportionate share of total pension liabilities	2,836,572
Town's proportionate share of net pension liabilities	0.012%
Total pension assets	45,365,927,000
Measurement date of collective net pension liability	June 30, 2016
Date of actuarial valuation	June 30, 2016
Deferred outflows related to pensions	802,917
Deferred inflows related to pensions	188,506
Pension expense/expenditures for the period	449,303

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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)	2.70% general, 3.20% wage
Salary Increases	3.30% to 9.2%, 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-2014 Mortality Table

- (a) Discount rate at prior measurement date was 7.55%.
- (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 2016 valuation:
 - a. Investment return assumption remained the same at 7.55%.
 - b. Inflation assumption remained the same at 2.70%.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 – RETIREMENT PLAN - continued

The components of the net pension liability for the System as of June 30, 2016, calculated in accordance with GASB Statement No. 67, are shown in the following table:

Total Pension Liability	\$68,959,954,000
Plan Fiduciary Net Position	<u>45,365,927,000</u>
Net Pension Liability	<u>\$23,594,027,000</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>65.79%</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%
Total	100%	

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, 2016.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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	\$32,408,443,000	\$23,594,027,000	\$16,259,113,000
The Town’s Proportionate Share Of Net Pension Liability	\$3,896,278	\$2,836,572	\$1,954,738

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

At June 30, 2017, the Town reported a liability of \$2,836,572 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the Town’s proportion was approximately 0.012 percent.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 – RETIREMENT PLAN - continued

For the year ended June 30, 2017, the Town recognized pension expense of \$449,303. At June 30, 2017, 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	\$114,819	\$ -
Net difference between projected and actual earnings on pension plan investments	446,414	188,506
Contributions subsequent to the measurement date	241,684	-
Total	\$802,917	\$188,506

The deferred outflow of resources of \$241,684 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, 2018. 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 2017. 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, 2016 were as follows:

Total pension liability	\$ 8,290,652
Plan Fiduciary Net Position	<u>5,454,080</u>
Net Pension Liability	<u><u>\$ 2,836,572</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 <u><u>65.79%</u></u>

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 \$956,456 at June 30, 2017. 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, 2017

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)	\$	126,366
Interest on net OPEB obligation		16,911
Adjustment to annual required contribution		-
Annual OPEB cost		143,277
Contributions made		-
Increase in net OPEB obligation		143,277
Net OPEB obligation - beginning of year		704,616
Net OPEB obligation - end of year	\$	847,893

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for fiscal year 2014 through 2017 follows:

Fiscal year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 126,366	0%	\$ 847,893
2016	128,873	0%	704,616
2015	127,487	0%	606,397
2014	113,981	3%	478,910

At June 30, 2017, the accrued actuarial liability for benefits was \$847,893, 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, 2017

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, 2017

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, 2017 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 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, 2017.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 2017, the Comptroller’s Office estimates that the fiscal impact of the ruling on the Town will be approximately \$99,229 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 change in the estimated amount of refunds to be paid has been recorded as a contingency loss on the Statement of Activities, and the total 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, 2017:

Non-spendable Fund Balance

At June 30, 2017, there was \$12,495 in non-spendable fund balance pertaining to prepaid expenses.

Assigned Fund Balance

At June 30, 2017, 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 \$1,513,286.

TOWN OF CHESTERTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 18 – DEFICIT OF UNRESTRICTED NET POSITION

The Marina Fund had a deficit of unrestricted net position of (\$238,326) as of June 30, 2017. 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. 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. 81, *Irrevocable Split-Interest Agreements*, issued March 2016, effective for financial statements for fiscal years beginning after December 15, 2016.

Statement No. 83, *Certain Asset Retirement Obligations*, issued November 2016, effective for financial statements for fiscal years beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, issued January 2017, effective for financial statements for fiscal years beginning after December 15, 2018.

Statement No. 85, *Omnibus 2017*, issued March 2017, effective for financial statements for fiscal years beginning after June 15, 2017.

Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017, effective for financial statements for fiscal years beginning after June 15, 2017.

Statement No. 87, *Leases*, issued June 2017, effective for financial statements for fiscal years beginning after December 15, 2019.

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, 2017

NOTE 20 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 26, 2017, 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 2015	FY 2016	FY 2017
Town's proportion (%) of collective net pension liability	0.005%	0.01%	0.012%
Town's proportionate share (\$) of collective net pension liability	\$ 1,746,076	\$ 2,146,529	\$ 2,836,572
Town's covered payroll(\$)	\$ 1,890,091	\$ 1,897,053	\$ 1,899,997
Town's proportionate share of collective net pension liability as a percentage of its covered payroll	92.38%	113.15%	149.29%
Pension plan's fiduciary net position as a percentage of the total pension liability	71.87%	68.78%	65.79%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 241,684	\$ 239,132	\$ 217,706	229,281
Contributions in relation to the contractually required contribution	241,684	239,132	217,706	229,281
Contribution deficiency (excess)	-	-	-	-
Town's covered payroll	1,899,997	1,897,053	1,890,091	1,699,232
Contributions as a percentage of covered-employee payroll	12.7%	12.6%	11.5%	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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes - local				
Real and property				
Real property	\$ 2,150,000	\$ 2,150,000	\$ 2,095,547	\$ (54,453)
Real property - penalties	15,000	15,000	14,731	(269)
Total real and personal property	<u>2,165,000</u>	<u>2,165,000</u>	<u>2,110,278</u>	<u>(54,722)</u>
Income taxes	<u>725,000</u>	<u>725,000</u>	<u>717,413</u>	<u>(7,587)</u>
Total taxes - local	2,890,000	2,890,000	2,827,691	(62,309)
Taxes - state shared				
Highway users	161,897	161,897	160,709	(1,188)
Admissions and amusements	11,000	11,000	10,155	(845)
Bank shares	2,532	2,532	2,532	-
Total shared taxes	<u>175,429</u>	<u>175,429</u>	<u>173,396</u>	<u>(2,033)</u>
Licenses and permits				
Building permits	50,000	50,000	48,744	(1,256)
Traders	23,000	23,000	24,035	1,035
Cable TV franchise fees	58,000	58,000	75,604	17,604
Building code revenue	15,000	15,000	13,387	(1,613)
Total licenses and permits	<u>146,000</u>	<u>146,000</u>	<u>161,770</u>	<u>15,770</u>
Grants from federal government				
Federal grant	60,000	60,000	-	(60,000)
Total grants from federal government	<u>60,000</u>	<u>60,000</u>	<u>-</u>	<u>(60,000)</u>
Intergovernmental				
Grants from federal government	60,000	60,000	-	(60,000)
Grants from state government				
Police protection	72,370	72,370	73,239	869
Other state grants	772,530	772,530	523,766	(248,764)
Total grants from state government	<u>844,900</u>	<u>844,900</u>	<u>597,005</u>	<u>(247,895)</u>
Grants from county government				
Tax differential grant and hotel tax	131,000	131,000	200,956	69,956
Other County grants	1,000	1,000	1,000	-
Total grants from county government	<u>132,000</u>	<u>132,000</u>	<u>201,956</u>	<u>69,956</u>
Total intergovernmental revenue	<u>4,308,329</u>	<u>4,308,329</u>	<u>3,961,818</u>	<u>(286,511)</u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES -BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Charges for services				
General government	\$ 7,000	\$ 7,000	\$ 9,446	\$ 2,446
Sidewalk	5,000	5,000	5,635	635
Zoning appeals board	1,000	1,000	2,500	1,500
Highways and streets	350	350	11,948	11,598
Waste collection fees	5,000	5,000	13,559	8,559
Parking fines and parking meter	3,400	3,400	1,971	(1,429)
Municipal infractions	135,000	135,000	152,380	17,380
Total charges for services	<u>156,750</u>	<u>156,750</u>	<u>197,439</u>	<u>40,689</u>
Miscellaneous revenue				
Interest income	13,000	13,000	3,762	(9,238)
Donations	6,000	6,000	130,191	124,191
Private grant	37,500	37,500	38,062	562
Rental income	24,850	24,850	18,600	(6,250)
Other revenues	5,600	5,600	23,337	17,737
Total miscellaneous revenue	<u>86,950</u>	<u>86,950</u>	<u>213,952</u>	<u>127,002</u>
Total Revenues	<u>\$ 4,552,029</u>	<u>\$ 4,552,029</u>	<u>\$ 4,373,209</u>	<u>\$ (118,820)</u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
General Government				
Legislative				
Council salaries	\$ 21,000	\$ 21,000	\$ 21,853	\$ (853)
Payroll taxes	1,607	1,607	1,671	(64)
Pension expense	2,568	2,568	1,818	750
Workers' compensation	1,110	1,110	74	1,036
Other legislative expenditures	150	150	226	(76)
Meetings and travel	6,000	6,000	1,994	4,006
Total legislative	<u>32,435</u>	<u>32,435</u>	<u>27,636</u>	<u>4,799</u>
Executive				
Manager and secretarial salaries	199,241	199,241	206,281	(7,040)
Payroll taxes	15,165	15,165	15,208	(43)
Workers' compensation	2,034	2,034	1,712	322
Medical and life insurance	59,081	59,081	47,764	11,317
Pension expense	26,108	26,108	17,627	8,481
Professional fees and other expenditures	2,300	2,300	1,409	891
Meetings and travel	250	250	458	(208)
Total executive	<u>304,179</u>	<u>304,179</u>	<u>290,459</u>	<u>13,720</u>
Financial administration				
Finance salaries	45,248	45,248	46,142	(894)
Payroll taxes	3,420	3,420	3,367	53
Workers' compensation	1,705	1,705	147	1,558
Medical and life insurance	38,363	38,363	30,163	8,200
Pension expense	5,888	5,888	3,822	2,066
Office supplies	7,000	7,000	5,814	1,186
Dues nad subscriptions	250	250	45	205
Postage	2,000	2,000	2,640	(640)
Telephone	7,200	7,200	6,771	429
Accounting and auditing fees	11,500	11,500	16,074	(4,574)
Professional fees	20,000	20,000	9,425	10,575
Data processing fees	2,550	2,550	2,930	(380)
Office equipment	3,000	3,000	3,534	(534)
Training and other expenses	900	900	2,095	(1,195)
Total financial administration	<u>149,024</u>	<u>149,024</u>	<u>132,969</u>	<u>16,055</u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
Law				
Legal council	\$ 9,000	\$ 9,000	\$ 4,745	\$ 4,255
Legal notices	700	700	718	(18)
Total law	<u>9,700</u>	<u>9,700</u>	<u>5,463</u>	<u>4,237</u>
Planning and zoning				
Building and housing inspection fees	16,500	16,500	10,428	6,072
Building permit software	950	950	400	550
Dues and subscriptions	300	300	465	(165)
Office supplies expense	1,200	1,200	1,153	47
Meetings and travel	1,400	1,400	745	655
Telephone	575	575	650	(75)
Recodification service	3,000	3,000	1,413	1,587
Board of appeals	750	750	1,500	(750)
Total planning and zoning	<u>24,675</u>	<u>24,675</u>	<u>16,754</u>	<u>7,921</u>
Municipal building				
Utilities	24,000	24,000	16,044	7,956
Insurance property and liability	8,419	8,419	8,781	(362)
Repairs and maintenance	10,000	10,000	23,131	(13,131)
Operating supplies and cleaning	6,852	6,852	8,675	(1,823)
Total municipal building	<u>49,271</u>	<u>49,271</u>	<u>56,631</u>	<u>(7,360)</u>
Other general government expenditures				
Dues and subscriptions	8,363	8,363	8,554	(191)
Other operating expenditures	1,791	1,791	3,105	(1,314)
Community development	33,400	33,400	107,106	(73,706)
Total other general government expenditures	<u>43,554</u>	<u>43,554</u>	<u>118,765</u>	<u>(75,211)</u>
Total General Government	<u>612,838</u>	<u>612,838</u>	<u>648,677</u>	<u>(35,839)</u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
Public Safety				
Police				
Police salaries	\$ 857,957	\$ 857,957	\$ 865,730	\$ (7,773)
Payroll taxes	61,158	61,158	64,858	(3,700)
Workers' compensation	125,292	125,292	103,315	21,977
Medical and life insurance	143,897	143,897	131,585	12,312
Pension expenses	155,133	155,133	132,705	22,428
Uniforms and clothing	12,500	12,500	13,318	(818)
Training and education	5,000	5,000	1,295	3,705
Meetings and travel	5,000	5,000	1,326	3,674
Utilities	25,000	25,000	12,042	12,958
General insurance	19,299	19,299	20,470	(1,171)
Gas and oil - vehicles	25,000	25,000	28,566	(3,566)
Heating	5,000	5,000	5,516	(516)
Repairs and maintenance	23,500	23,500	37,992	(14,492)
Supplies - operating	8,000	8,000	8,834	(834)
Legal fees and services	1,500	1,500	2,044	(544)
Office supplies and equipment	15,500	15,500	13,595	1,905
Telephone	13,000	13,000	14,162	(1,162)
Accounting and auditing	1,050	1,050	1,050	-
Equipment	10,000	10,000	13,594	(3,594)
Canine maintenance	5,000	5,000	4,359	641
Public relations	650	650	766	(116)
Speed camera processing fees	42,000	42,000	57,070	(15,070)
Camera upgrades and maintenance	10,000	10,000	2,085	7,915
Other operating expenditures	10,450	10,450	10,778	(328)
Total Police	<u>1,580,886</u>	<u>1,580,886</u>	<u>1,547,055</u>	<u>33,831</u>
Crossing guard/meter monitor				
Medical and life insurance	2,552	2,552	7,473	(4,921)
Total crossing guard/meter monitor	<u>2,552</u>	<u>2,552</u>	<u>7,473</u>	<u>(4,921)</u>
Other public safety expenditures				
Volunteer fire company	46,057	46,057	47,821	(1,764)
Rescue squad	18,000	18,000	19,740	(1,740)
Total other public safety expenditures	<u>64,057</u>	<u>64,057</u>	<u>67,561</u>	<u>(3,504)</u>
TOTAL PUBLIC SAFETY	<u><u>1,647,495</u></u>	<u><u>1,647,495</u></u>	<u><u>1,622,089</u></u>	<u><u>25,406</u></u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Works				
Highways and streets				
Salaries	\$ 469,479	\$ 469,479	\$ 454,279	\$ 15,200
Payroll taxes	35,658	35,658	33,995	1,663
Workers' compensation	23,081	23,081	21,011	2,070
Medical and life insurance	139,294	139,294	119,457	19,837
Pension expense	56,120	56,120	37,044	19,076
Parking lot rent	5,000	5,000	-	5,000
Dues and subscriptions	45	45	30	15
Uniforms and clothing	8,000	8,000	12,096	(4,096)
Training and education	-	-	180	(180)
Office equipment	-	-	755	(755)
Property and liability insurance	6,104	6,104	6,039	65
Gas and oil - vehicles	25,000	25,000	12,580	12,420
Building repairs and maintenance	4,500	4,500	2,987	1,513
Vehicle repairs and maintenance	13,500	13,500	23,179	(9,679)
Equipment repairs and maintenance	20,000	20,000	29,974	(9,974)
Street repairs and rehabilitation	25,000	25,000	31,398	(6,398)
Brick sidewalk & curb & concrete work	45,000	45,000	25,310	19,690
Tree maintenance and planting	9,000	9,000	15,540	(6,540)
Operating supplies	15,000	15,000	13,894	1,106
Street lighting	90,000	90,000	103,701	(13,701)
Snow removal	28,000	28,000	9,254	18,746
Utilities	15,200	15,200	9,091	6,109
Training	-	-	180	(180)
Other operating expenditures	700	700	26	674
Total streets and roadways	<u>1,033,681</u>	<u>1,033,681</u>	<u>962,000</u>	<u>71,681</u>
Sanitation				
Waste collection	115,000	115,000	120,000	(5,000)
Recycling and landfill costs	75,000	75,000	83,117	(8,117)
Curbside recycling pick up	55,000	55,000	60,993	(5,993)
Mosquito and weed control	1,950	1,950	1,946	4
Total sanitation	<u>246,950</u>	<u>246,950</u>	<u>266,056</u>	<u>(19,106)</u>
TOTAL PUBLIC WORKS	<u><u>1,280,631</u></u>	<u><u>1,280,631</u></u>	<u><u>1,228,056</u></u>	<u><u>52,575</u></u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Recreation				
Music in the park	4,600	4,600	4,194	406
Community parks (KCMS)	200,000	200,000	129,159	70,841
Park maintenance	21,550	21,550	38,857	(17,307)
Community relations - recreation	41,400	41,400	114,380	(72,980)
Total recreation and parks	<u>267,550</u>	<u>267,550</u>	<u>286,590</u>	<u>(19,040)</u>
Visitors' Center/Tourism				
Salaries/wages	33,903	33,903	85,673	(51,770)
Payroll taxes and pension expense	7,005	7,005	13,198	(6,193)
Insurance	1,678	1,678	18,593	(16,915)
Fireworks/holiday programs	2,500	2,500	14,607	(12,107)
Tourism events	11,200	11,200	12,013	(813)
Housekeeping supplies	10,000	10,000	10,500	(500)
Meetings and travel	-	-	544	(544)
Office and other expenditures	150	150	1,040	(890)
Telephone	2,400	2,400	2,742	(342)
Repairs and maintenance	7,000	7,000	11,111	(4,111)
Web management	7,800	7,800	8,170	(370)
Utilities	7,500	7,500	5,614	1,886
Total visitors' center/tourism	<u>91,136</u>	<u>91,136</u>	<u>183,805</u>	<u>(92,669)</u>
Miscellaneous				
MVA bus expense	4,000	4,000	4,468	(468)
Community affairs	20,960	20,960	14,202	6,758
Other miscellaneous expenses	3,500	3,500	2,000	1,500
Total miscellaneous	<u>28,460</u>	<u>28,460</u>	<u>20,670</u>	<u>7,790</u>
Debt Service				
Principal				
Public safety	38,217	38,217	49,674	(11,457)
Public works	39,062	39,062	39,062	-
Total principal payments	<u>77,279</u>	<u>77,279</u>	<u>88,736</u>	<u>(11,457)</u>

TOWN OF CHESTERTOWN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Interest expense				
Public safety police	\$ 15,263	\$ 15,263	\$ 14,845	\$ 418
Public works - highway and streets	2,758	2,758	2,759	(1)
Total interest expense	<u>18,021</u>	<u>18,021</u>	<u>17,604</u>	<u>417</u>
Capital outlay				
Police car	26,000	26,000	-	26,000
Police - building	-	-	22,611	(22,611)
Street repaving	300,000	300,000	-	300,000
Other equipment	33,730	33,730	-	33,730
Work in progress	146,400	146,400	462,319	(315,919)
Community projects	33,400	33,400	124,729	(91,329)
Total capital outlay	<u>539,530</u>	<u>539,530</u>	<u>609,659</u>	<u>(70,129)</u>
Total Expenditures	4,565,492	4,565,492	4,713,359	(147,867)
Excess of revenues over expenditures	(13,463)	(13,463)	(340,150)	(326,687)
Other financing sources (uses)				
Sale of assets	350,000	350,000	272,347	77,653
Proceed from long-term debt	-	-	30,955	(30,955)
Budget contingencies	-	-	-	-
Total other financing sources (uses)	<u>350,000</u>	<u>350,000</u>	<u>303,302</u>	<u>46,698</u>
Excess of revenues and other financing sources over expenditures	<u>\$ 336,537</u>	<u>\$ 336,537</u>	\$ (36,848)	<u>\$ (373,385)</u>
Fund balance, beginning of year			<u>1,767,311</u>	
Fund balance, end of year			<u>\$ 1,730,463</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, 2017**

Valuation Date	Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2017	\$ -	\$ 847,893	\$ 956,456	0.00%	\$ 1,436,186	66.60%
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%

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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues				
Charges for services				
Sewer fees	\$ 772,000	\$ 772,000	\$ 756,786	\$ (15,214)
Water fees	798,000	798,000	774,517	(23,483)
Sewer connections	100,000	100,000	44,000	(56,000)
Water connections	100,000	100,000	56,800	(43,200)
Other water and sewer charges	63,500	63,500	69,691	6,191
Rental income	2,600	2,600	2,600	-
Tower leases	50,000	50,000	47,503	(2,497)
Other income	1,000	1,000	31,747	30,747
Total Operating Revenues	<u>1,887,100</u>	<u>1,887,100</u>	<u>1,783,644</u>	<u>(103,456)</u>
Operating Expenses				
Salaries	565,697	565,697	575,345	(9,648)
Council expenses	6,000	6,000	4,200	1,800
Chemicals	60,000	60,000	77,041	(17,041)
Data processing	7,490	7,490	7,705	(215)
General insurance	20,722	20,722	16,354	4,368
Workers' compensation	22,926	22,926	21,026	1,900
Medical and life insurance	99,220	99,220	124,404	(25,184)
Payroll taxes	43,735	43,735	42,799	936
Pension	68,935	68,935	41,011	27,924
Uniforms and clothing	4,000	4,000	2,926	1,074
Meter parts	17,000	17,000	24,366	(7,366)
Safety equipment	2,000	2,000	1,042	958
Supplies	15,000	15,000	8,798	6,202
Small tools	3,000	3,000	3,602	(602)
Office supplies	3,000	3,000	4,610	(1,610)
Legal services	6,200	6,200	10,458	(4,258)
Accounting and audit services	8,500	8,500	13,463	(4,963)
Other professional fees	20,000	20,000	9,385	10,615
Repairs and maintenance				
Vehicles	4,000	4,000	4,657	(657)
Water lines	75,000	75,000	42,092	32,908
Water tower	10,000	10,000	-	10,000
Buildings and plants	21,000	21,000	450	20,550
Equipment	100,000	100,000	113,464	(13,464)
Grounds	4,000	4,000	2,655	1,345
Office equipment	2,500	2,500	1,600	900
Postage - freight	3,600	3,600	2,843	757
Telephone	6,000	6,000	7,792	(1,792)
Travel and training	2,500	2,500	1,304	1,196
Gas and oil - vehicles	15,000	15,000	11,251	3,749
Utilities	168,000	168,000	190,274	(22,274)
Lab fees and testing	25,000	25,000	25,795	(795)
Loan administration fees	13,698	13,698	13,165	533
Depreciation expense	665,000	665,000	657,243	7,757
Hospital oil spill	20,000	20,000	8,305	11,695
Miscellaneous	1,476	1,476	8,533	(7,057)
Total Operating Expenses	<u>2,110,199</u>	<u>2,110,199</u>	<u>2,079,958</u>	<u>30,241</u>
OPERATING INCOME (LOSS)	<u>\$ (223,099)</u>	<u>\$ (223,099)</u>	<u>\$ (296,314)</u>	<u>\$ (73,215)</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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
NONOPERATING REVENUE (EXPENSES)				
Interest income	\$ 7,500	\$ 7,500	\$ 13,020	\$ 5,520
Principal reduction	(267,258)	(267,258)	-	267,258
Interest expense	(11,232)	(11,232)	(8,781)	2,451
TOTAL NONOPERATING REVENUE (EXPENSES)	(270,990)	(270,990)	4,239	275,229
 CHANGE IN NET POSITION	<u>\$ (494,089)</u>	<u>\$ (494,089)</u>	(292,075)	<u>\$ 202,014</u>
 NET POSITION, BEGINNING OF YEAR			<u>9,167,281</u>	
 NET POSITION, END OF YEAR			<u>\$ 8,875,206</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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues				
Rental income				
Slip rental	\$ 40,000	\$ 40,000	\$ 41,751	\$ 1,751
Seasonal storage	7,000	7,000	8,326	1,326
Winter storage	15,500	15,500	21,029	5,529
Utilities	4,500	4,500	4,181	(319)
Transient slip rental	30,000	30,000	27,976	(2,024)
Marina rent	200	200	2,800	2,600
Marina rent	-	-	2,000	2,000
Fuel sales	51,500	51,500	46,706	(4,794)
Other income	10,250	10,250	7,068	(3,182)
Total Operating Revenues	<u>158,950</u>	<u>158,950</u>	<u>161,837</u>	<u>2,887</u>
Operating Expenses				
Advertising	400	400	-	400
Credit card fees	3,000	3,000	3,070	(70)
Data processing fees	-	-	2,700	(2,700)
Depreciation expense	-	-	65,327	(65,327)
Housekeeping/supplies	2,300	2,300	1,806	494
Fuel - diesel	15,000	15,000	9,315	5,685
Fuel - gasoline	-	-	22,972	(22,972)
Insurance - liability/property	2,089	2,089	1,312	777
Legal services	600	600	108	492
Licenses and permits	1,050	1,050	97	953
Office supplies	350	350	298	52
Operating supplies	1,000	1,000	864	136
Payroll taxes	-	-	1,353	(1,353)
Pension expense	3,973	3,973	638	3,335
Property taxes	-	-	1,867	(1,867)
Repairs and maintenance				
Buildings	12,200	12,200	4,571	7,629
Docks	5,000	5,000	5,326	(326)
Grounds	250	250	1,272	(1,022)
Equipment	2,500	2,500	1,050	1,450
Salaries	-	-	18,200	(18,200)
Boating Supplies	-	-	1,378	(1,378)
Telephone	2,100	2,100	2,443	(343)
Trash removal	2,400	2,400	3,031	(631)
Heating fuel	1,500	1,500	1,538	(38)
Utilities	9,500	9,500	6,468	3,032
Miscellaneous	250	250	135	115
Total Operating Expenses	<u>65,462</u>	<u>65,462</u>	<u>157,139</u>	<u>(91,677)</u>
OPERATING INCOME (LOSS)	<u>\$ 93,488</u>	<u>\$ 93,488</u>	<u>\$ 4,698</u>	<u>\$ (88,790)</u>
NONOPERATING REVENUE (EXPENSES)				
Interest income	40	40	54	14
Interest expense	(58,453)	(58,453)	(58,204)	249
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>(58,413)</u>	<u>(58,413)</u>	<u>(58,150)</u>	<u>263</u>
Transfers from other funds	-	-	-	-
CHANGE IN NET POSITION	<u>\$ 35,075</u>	<u>\$ 35,075</u>	<u>(53,452)</u>	<u>\$ (88,527)</u>
NET POSITION, BEGINNING OF YEAR			<u>(102,543)</u>	
NET POSITION, END OF YEAR			<u>\$ (155,995)</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, 2017, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated October 26, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

October 26, 2017

Kindley & Associates, LLC

October 26, 2017

To the Mayor and Town Council
Town of Chestertown, Maryland

We audited the financial statements of the governmental activities and each major fund of the Town of Chestertown, Maryland (the “Town”) for the year ended June 30, 2016, and have issued our report thereon dated October 26, 2017. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U. S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U. S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Town’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Town’s financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Town’s compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Town are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017 except as may be explained in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in performing the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We proposed one adjustment pertaining to income tax. Management has made all such adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representation from management that is included in the management representation letter dated October 26, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationships and our responses were not a condition to our retention.

This information is intended solely for the use of the Mayor and Town Council and Town management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Kindley & Associates, LLC