

**TOWN OF CHESTERTOWN, MARYLAND  
FINANCIAL STATEMENTS  
JUNE 30, 2020**

**TOWN OF CHESTERTOWN**

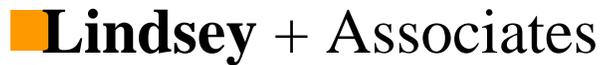
**TABLE OF CONTENTS**

**JUNE 30, 2020**

	<b>Page(s)</b>
<b>INDEPENDENT AUDITOR’S REPORT</b>	1 – 4
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
• Management’s Discussion and Analysis	5 – 16
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-wide Financial Statements</b>	
• Statement of Net Position	17
• Statement of Activities	18
<b>Fund Financial Statements</b>	
• Balance Sheet – Governmental Funds	19
• Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	20
• Statement of Net Position – Proprietary Funds	21
• Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	22
• Combining Statement of Cash Flows – Proprietary Funds	23
<b>NOTES TO BASIC FINANCIAL STATEMENTS</b>	24 – 58
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
• Schedule of the Town’s Proportionate Share of the Net Pension Liability	59
• Schedule of the Town’s Pension Plan Contribution	59
• Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – Governmental Funds	60 – 67
• Schedule of Changes in the Net OPEB Liability and Related Ratios	68
• Schedule of OPEB Contributions	
<b>SUPPLEMENTAL SCHEDULES</b>	
• Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual – Utility Fund	69 – 70
• Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual – Marina Fund	71

**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***

72 - 73



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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, 2020, 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, 2020, 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*

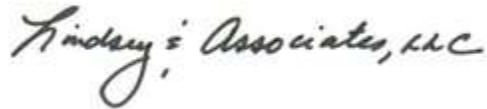
Accounting principles generally accepted in the United States of America require that the management discussion and analysis, budgetary comparison information and the schedule of funding progress – retiree medical program on pages 5 through 16 and 58 through 65 be presented to supplement the basic financial 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 67 through 69 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 29, 2020, 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.

A handwritten signature in cursive script that reads "Kimberly Associates, LLC". The signature is written in black ink and is positioned to the left of a vertical line that extends downwards from the signature area.

October 29, 2020

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**TOWN OF CHESTERTOWN, MARYLAND**

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

**June 30, 2020**

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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, 2020. 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 \$1,846,046, compared to \$1,217,883 in 2019.
- The Town's General Fund had an excess of revenues over expenditures of \$628,163 in 2020, compared to an excess of expenditures over revenue of \$380,985 in 2019.
- The Utilities Commission had an operating loss of \$71,598 in 2020 and an operating gain of \$140,978 in 2019.

**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.

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**TOWN OF CHESTERTOWN, MARYLAND**

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

**June 30, 2020**

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**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, 2020**

*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, 2020.

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total 2020</b>	<b>Total 2019</b>
Assets:				
Current assets	\$ 2,003,407	\$ 2,239,530	\$ 4,242,937	\$ 3,621,942
Noncurrent assets	12,570,188	9,487,410	22,057,598	22,839,911
Total Assets	<u>14,573,595</u>	<u>11,726,940</u>	<u>26,300,535</u>	<u>26,461,853</u>
Deferred outflows	<u>238,780</u>	<u>-</u>	<u>238,780</u>	<u>527,900</u>
Liabilities:				
Current liabilities	172,986	569,997	742,983	1,126,878
Noncurrent liabilities	3,875,447	2,604,276	6,479,723	7,100,535
Total Liabilities	<u>4,048,433</u>	<u>3,174,273</u>	<u>7,222,706</u>	<u>8,227,413</u>
Deferred inflows	<u>290,619</u>	<u>7,334</u>	<u>297,953</u>	<u>282,064</u>
Net Position:				
Net investment in capital assets	11,233,879	6,588,104	17,821,983	18,031,841
Unrestricted	(760,556)	1,973,336	1,212,780	453,887
Total Net Position	<u>\$ 10,473,323</u>	<u>\$ 8,561,440</u>	<u>\$ 19,034,763</u>	<u>\$ 18,485,728</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 \$19,034,763 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 \$1,212,780 in 2020 compared to \$453,887 in 2019.

**TOWN OF CHESTERTOWN, MARYLAND**

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

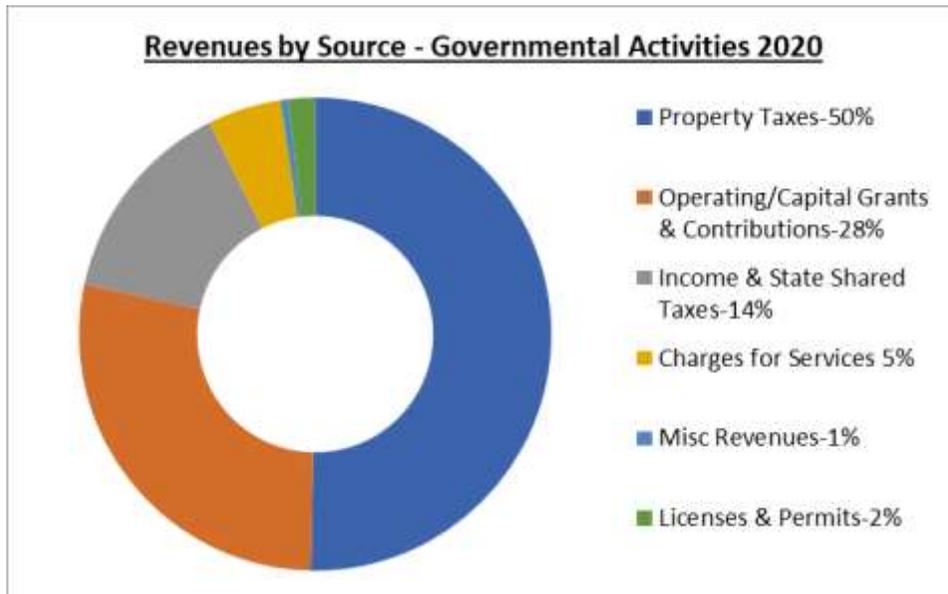
**June 30, 2020**

**Statement of Activities**

The following table summarizes the Town's change in net position for the year ended June 30, 2020.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total 2020</u>	<u>Total 2019</u>
Revenues:				
Program revenues:				
Charges for services	\$ 253,574	\$ 2,114,577	\$ 2,368,151	\$ 2,477,397
Operating and capital grants and contributions	1,412,224	-	1,412,224	3,524,745
General revenues:				
Property taxes	2,529,340	-	2,529,340	2493423
Income taxes	543,466	-	543,466	573,765
Other revenue (expense)	134,582	(77,375)	57,207	190,976
Total Revenue	<u>4,873,186</u>			
Operating expenses	<u>4,186,446</u>	<u>2,174,907</u>	<u>6,361,353</u>	<u>6,594,188</u>
Change in Net Position	<u>\$ 686,740</u>	<u>\$ (137,705)</u>	<u>\$ 549,035</u>	<u>\$ 2,666,118</u>

Revenues for the Town's governmental activities were \$4,873,186 compared to \$7,016,513 for 2019. Revenues for the fiscal year ended June 30, 2020 consisted of:



**TOWN OF CHESTERTOWN, MARYLAND**

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

**June 30, 2020**

**Statement of Activities – continued**

- Property taxes are 50% of the Town's revenue, totaling \$2,529,340 for fiscal year 2020 compared to \$2,493,423 in 2019. The Town's property tax rate is set at \$.4332 per \$100 of full-assessed property value.
- Income and state shared taxes are \$698,665 for 2020 compared to \$573,765 in 2019.
- A decrease in operating grants, capital grants, and contributions from \$3,524,745 in 2019 to \$1,412,224 in 2020.
- Change in Net Position is an increase of \$686,740 and \$2,666,118 for the governmental activities in 2020 and 2019, respectively.
- Expenses for governmental activities were \$4,186,446 for 2020 compared to \$4,419,614 for 2019. Expenses for the fiscal year ended June 30, 2020 were allocated as indicated below:

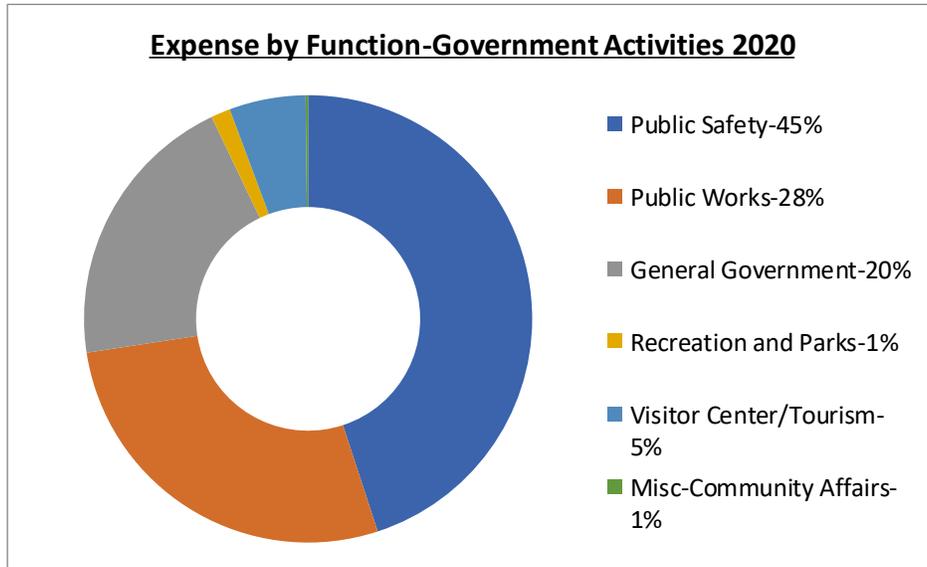
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total 2020</b>	<b>Total 2019</b>
Expenses:				
Governmental Activities				
General Government	\$ 851,585		\$ 851,585	\$ 745,492
Public Safety	1,882,705		1,882,705	1,651,424
Public Works	1,155,727		1,155,727	1,245,802
Recreation & Parks	58,373		58,373	568,483
Visitor's Center & Tourism	230,686		230,686	199,730
Miscellaneous - Community Affairs	7,370		7,370	8,683
Business-Type Activities				
Water and Sewer Services		1,936,760	1,936,760	2,014,881
Chestertown Marina		238,147	238,147	159,693
Total Expenses	\$ 4,186,446	\$ 2,174,907	\$ 6,361,353	\$ 6,594,188

**TOWN OF CHESTERTOWN, MARYLAND**

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

**June 30, 2020**

**Statement of Activities – continued**



- Public safety department is the largest expense at \$1,882,705 in 2020 compared to \$1,651,424 in 2019, 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 expenses total \$1,155,727 in 2020, compared to \$1,245,802 in 2019. This 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 \$851,585 for 2020, as compared \$745,492 in 2019. 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 \$4,186,446 of governmental expenses, \$1,665,798 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.

**TOWN OF CHESTERTOWN, MARYLAND**

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

**June 30, 2020**

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**Business-type Activities**

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

- Charges for water and sewer services of \$1,859,014 compared to \$2,134,676 for 2019, include water and sewer usage and new water and sewer connection fees for the Utilities Commission.
- Operating expenses for the Utilities Commission were \$1,936,760 for 2020, compared to \$2,014,881 for 2019, which is a slight decrease.

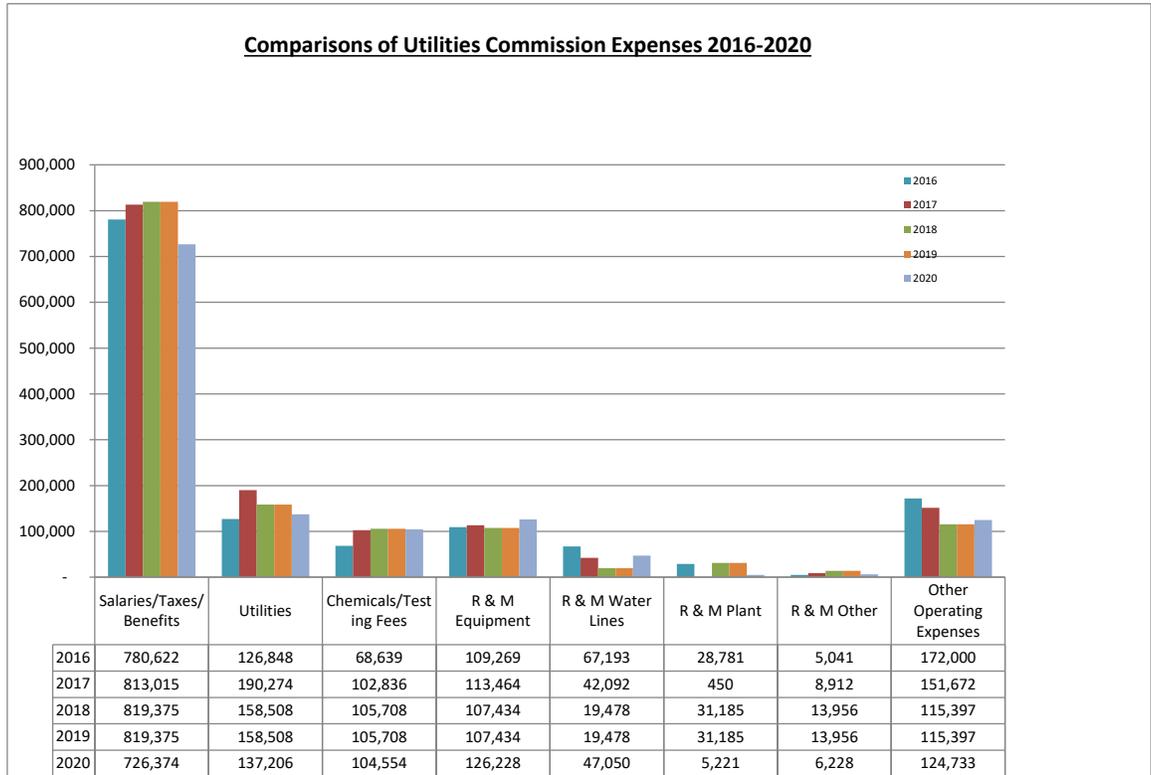
**TOWN OF CHESTERTOWN, MARYLAND**

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

**June 30, 2020**

**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 \$137,705 in 2020, compared to an increase of \$69,219 in 2019.

**TOWN OF CHESTERTOWN, MARYLAND**

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

**June 30, 2020**

**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 \$1,846,046 compared to \$1,217,883 in 2019. Of the total, \$1,805,286 is unassigned and available for spending at the government's discretion.

**Proprietary Funds**

The financial statements of the Town's proprietary funds provide the same type of information found in the government-wide financial statements but with separate columns for the two major funds. Unrestricted net position of the Utilities Commission was \$2,532,244 at year end. Unrestricted net position in 2019 was \$2,255,249.

**Capital Assets and Debt Administration**

**Capital Assets**

The changes in general fixed assets for the fiscal year ended June 30, 2020 are as follows:

- The addition of \$458,997 in fixed assets during 2020 in the governmental activities was for the purchase of a server, park renovations, and the marina construction.

**Long-Term Debt**

The Town's total debt as of June 30, 2020 was \$3,927,615 not including compensated absences.

- Total general fund debt at June 30, 2020 is \$1,028,309, with \$661,150 retired during the year.
- Total utility fund debt at June 30, 2020 is \$1,537,006, with \$270,478 retired during the year.
- Total marina fund debt at June 30, 2020 is \$1,362,300 with \$91,500 retired during the year.

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**TOWN OF CHESTERTOWN, MARYLAND**

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

**June 30, 2020**

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**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 up slightly and Police Aid funds decreased slightly. State income tax revenues dropped slightly this year paradoxically since the national economy continued its advance. However, the financial position of the Town is healthy with all departments functioning at full strength and all services expected of the Town are being carried out as required by the Charter. The exact changes in revenues are noted below:
- Highway User Funds were up slightly from \$173,875 last year to \$177,225 this year.
- Police Aid Grant increased slightly from \$72,352 to \$76,286.
- State income tax increased slightly from \$531,490 last year to \$623,851 this year.
- The Town general fund surplus increased from \$1,217,883 last year to \$2,001,245 this year. Credit here comes from fiscal austerity, the completion of the Chestertown Marina project and the associated costs, slightly higher assessments in general due to commercial construction (albeit in the Enterprise Zones but still taxed at the 20% initial rate) and a USDA grant reimbursement in the loan/grant program used for some of the Marina activities.
- The pace of new residential growth was sharply up this year with 8 residential permits being filed and issued as opposed to no permits for single family homes being filed last year. The value of the residential improvement permits increased from \$2,861,696 last year to \$8,703,753 this year. The value of commercial construction dropped a bit from a record high of \$25,885,428 in FY19 (up from \$11,013,461 in FY18) to \$23,356,543. This is still an incredible lift from several years ago with most of these permits coming in the Chestertown Business Campus created in 2016 as the mother ship of a new Enterprise Zone.
- 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 such as the Arts and Entertainment District, by having a full time Director of Arts and Entertainment, reviving the Maryland Main Street Program, and supporting frequent and varied weekend events.

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## TOWN OF CHESTERTOWN, MARYLAND

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

June 30, 2020

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- The Town is still reaping some rewards from its Enterprise Zone (covering 1,187 acres Chestertown's commercial, professional office, industrial, commercial marine and Traditional Neighborhood Development zones) especially with the construction of the new Chestertown Business Campus and industrial buildings at the northeast end of town.
- 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. In 2018 the extension of Haacke and some of Warner Drive were built to the functioning automated warehouse facility (the warehouse/office complex has a footprint of 168,000 square feet). The stately new Dixon National Headquarters office building was completed this year as was the 100,000 square foot Boss Manufacturing Building. Finally, plans were considered by the Town's Planning Commission for a huge YMCA complex before the end of the fiscal year.
- In May of 2012 the Town purchased the Chestertown Marina for \$2,045,443 using the State of Maryland Infrastructure Improvement Bond program. The bond was payable over payable over a 20-year period at 3.562% interest. Next 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. An initial Charrette was held in the large building at the Marina with over 100 participants. The comments received were incorporated with 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 followed in creating the permit documents for dredging, bulkhead, pier, ground raising and submitted to DNR and the Army Corp of Engineers. Since 2014, \$2,064,035 in Waterway Improvement Program (WIP) grants have been awarded to the town of which, \$1,180,500 were matching grants. The Town matched dollars for the first \$196,740 of WIP funds from the Armory payment received from Washington College and subsequent awards primarily with privately donated funds. The WIP grants included funds for dredging and removal of over 12,000 cubic yards of dredge spoils from the Marina. Help came from the State of Maryland in a Capital Project Grant of \$500,000 and a Bond Bill of \$500,000. The Town received Federal support with USDA loan/grant funding of \$1,150,195 which raised the Marina property up to two feet and provided new storm drainage systems. Also received were strategic State grants that assisted with the design and construction of the Interpretive Center. The Marina project was completed and the Marina was dedicated on November 1, 2019, to great fanfare. Further

**TOWN OF CHESTERTOWN, MARYLAND**

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

**June 30, 2020**

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grant assistance was received from USDA after the final accounting was completed which was a great help to the Town general fund that had advanced funds during the entire project.

- The economic uncertainty resulting from COVID-19 continues to develop and it is unclear what the longer-term fiscal impact will be on the Town. Both revenues and expenses may be affected.

**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, 2020**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 1,072,652	\$ 1,046,140	\$ 2,118,792
Investments	-	1,053,599	1,053,599
Accounts receivable - taxes	136,659	-	136,659
Accounts receivable - water and sewer service	-	706,973	706,973
Accounts receivable - other	42,952	3,969	46,921
Amounts due from other governments	124,957	-	124,957
Prepaid expenses	40,760	10,151	50,911
Meter inventory	-	4,125	4,125
Due from other funds	585,427	(585,427)	-
Total Current Assets	2,003,407	2,239,530	4,242,937
Noncurrent Assets			
Investment	308,000	-	308,000
Nondepreciable assets	2,005,561	1,646,037	3,651,598
Depreciable assets, net	10,256,627	7,841,373	18,098,000
Total Noncurrent Assets	12,570,188	9,487,410	22,057,598
<b>TOTAL ASSETS</b>	14,573,595	11,726,940	26,300,535
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	238,780	16,107	254,887
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 14,812,375	\$ 11,743,047	\$ 26,555,422
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$ 38,634	\$ 96,086	\$ 134,720
Bay fee payable	-	51,414	51,414
Accrued payroll expense	47,666	10,274	57,940
Accrued interest payable	-	12,401	12,401
Unearned revenue	1,000	34,762	35,762
Other liabilities	2,848	-	2,848
Current portion of Due to State	4,963	-	4,963
Current portion of long-term debt	77,875	365,060	442,935
Total Current Liabilities	172,986	569,997	742,983
Noncurrent Liabilities			
Employees benefits payable	101,264	37,411	138,675
Due to State - see Note 16	94,300	-	94,300
Net pension liability	2,544,609	-	2,544,609
Net OPEB liability	184,840	32,619	217,459
Bonds, leases and notes due in more than one year	950,434	2,534,246	3,484,680
Total Noncurrent Liabilities	3,875,447	2,604,276	6,479,723
<b>TOTAL LIABILITIES</b>	4,048,433	3,174,273	7,222,706
<b>DEFERRED INFLOWS OF RESOURCES</b>	290,619	7,334	297,953
<b>NET POSITION</b>			
Net investment in capital assets	11,233,879	6,588,104	17,821,983
Unrestricted	(760,556)	1,973,336	1,212,780
Total Net Position	10,473,323	8,561,440	19,034,763
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	\$ 14,812,375	\$ 11,743,047	\$ 26,555,422

See accompanying notes to financial statements.

**TOWN OF CHESTERTOWN, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Functions/Programs	Direct Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
General government	\$ 851,585	\$ 65,010	\$ 733,803	\$ 362,862	\$ 310,090	\$ -	\$ 310,090
Public safety	1,882,705	118,968	108,197	-	(1,655,540)	-	(1,655,540)
Public works	1,155,727	10,520	177,225	1,226	(966,756)	-	(966,756)
Recreation and parks	58,373	5,416	13,311	-	(39,646)	-	(39,646)
Visitors' center and tourism	230,686	53,250	15,600	-	(161,836)	-	(161,836)
Miscellaneous - community affairs	7,370	410	-	-	(6,960)	-	(6,960)
<b>Total Governmental Activities</b>	<b>4,186,446</b>	<b>253,574</b>	<b>1,048,136</b>	<b>364,088</b>	<b>(2,520,648)</b>	<b>-</b>	<b>(2,520,648)</b>
<b>Business-type Activities</b>							
Water and sewer services	1,936,760	1,859,014	-	-	-	(77,746)	(77,746)
Chestertown marina	238,147	255,563	-	-	-	17,416	17,416
<b>Total Business-Type Activities</b>	<b>2,174,907</b>	<b>2,114,577</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(60,330)</b>	<b>(60,330)</b>
<b>Total Primary Government</b>	<b>\$ 6,361,353</b>	<b>\$ 2,368,151</b>	<b>\$ 1,048,136</b>	<b>\$ 364,088</b>	<b>\$ (2,520,648)</b>	<b>\$ (60,330)</b>	<b>\$ (2,580,978)</b>
<b>General revenues:</b>							
<b>Taxes</b>							
Property taxes					2,529,340	-	2,529,340
Income taxes					543,466	-	543,466
Other taxes					15,850	-	15,850
Licenses and permits					91,678	-	91,678
Interest and investment earnings					4,120	40,125	44,245
Miscellaneous					22,934	-	22,934
Loss on sale					-	(117,500)	(117,500)
<b>Total General Revenues</b>					<b>3,207,388</b>	<b>(77,375)</b>	<b>3,130,013</b>
Transfers					-	-	-
Change in Net Position					686,740	(137,705)	549,035
Net Position, beginning of year					9,786,583	8,699,145	18,485,728
Net Position, end of year					<b>\$ 10,473,323</b>	<b>\$ 8,561,440</b>	<b>\$ 19,034,763</b>

See accompanying notes to financial statements.

**TOWN OF CHESTERTOWN, MARYLAND  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2020**

**RECONCILIATION OF TOTAL GOVERNMENTAL  
FUND BALANCE TO NET POSITION OF  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2020**

	General Fund	Total Governmental Funds		
<b>ASSETS</b>				
Cash and cash equivalents - unrestricted	\$ 1,072,652	\$ 1,072,652	<i>Total Governmental Fund Balances</i>	\$ 1,846,046
Investment	308,000	308,000		
Accounts receivable - taxes	-	-	Capital assets used in governmental activities	
Accounts receivable - other	42,952	42,952	are not financial resources and therefore	
Amounts due from other governments	124,957	124,957	are not reported in the funds.	12,262,188
Prepaid expenses	40,760	40,760		
Due from other funds	585,427	585,427	Property taxes are shown net of taxes not collected	
<b>TOTAL ASSETS</b>	2,174,748	2,174,748	within the sixty-day availability period.	136,659
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	-	-	Deferred outflows of resources related to the net pension	
			liability are not reported in the fund financial statements.	238,780
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 2,174,748	\$ 2,174,748	Deferred inflows of resources pertaining to long-term	
			liabilities are not reported in the funds.	(290,619)
<b>LIABILITIES</b>			Receivables pertaining to revenue that is not available	
Accounts payable	\$ 38,634	\$ 38,634	in accordance with modified accrual accounting are	
Accrued payroll	47,666	47,666	reported as deferred inflows of resources in the funds.	238,554
Other liabilities	3,848	3,848		
<b>TOTAL LIABILITIES</b>	90,148	90,148	Long-term liabilities, including loans payable,	
			OPEB and compensated absences are not due and	
<b>DEFERRED INFLOWS OF RESOURCES</b>	238,554	238,554	payable in the current period and therefore	
			are not reported in the funds.	(3,958,285)
<b>FUND BALANCES</b>			<i>Net Position of Governmental Activities</i>	\$ 10,473,323
Non-spendable	40,760	40,760		
Unassigned	1,805,286	1,805,286		
<b>TOTAL FUND BALANCES</b>	1,846,046	1,846,046		
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	\$ 2,174,748	\$ 2,174,748		

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, 2020**

	General Fund	Total Governmental Funds
<b>REVENUES</b>		
Property taxes	\$ 2,529,340	\$ 2,529,340
Income taxes	468,652	468,652
State shared taxes	193,075	193,075
Licenses and permits	157,138	157,138
Intergovernmental revenue		
State	1,066,784	1,066,784
County	141,125	141,125
Charges for services	141,665	141,665
Miscellaneous revenue	109,639	109,639
<b>Total Revenues</b>	<u>4,807,418</u>	<u>4,807,418</u>
<b>EXPENDITURES</b>		
General government	563,233	563,233
Public safety	1,532,193	1,532,193
Public works	1,172,071	1,172,071
Recreation and parks	38,024	38,024
Visitors' center and tourism	179,441	179,441
Miscellaneous	9,922	9,922
Capital outlays	458,997	458,997
Debt service		
Principal	661,150	661,150
Interest	31,167	31,167
<b>Total Expenditures</b>	<u>4,646,198</u>	<u>4,646,198</u>
<b>Excess of revenues over (under)</b>		
<b>    expenditures and other financing uses</b>	<u>161,220</u>	<u>161,220</u>
<b>Other financing sources (uses)</b>		
Transfers in (out)	-	-
Sale of assets	16,270	16,270
Proceeds from long term debt	450,673	450,673
<b>Total other financing sources (uses)</b>	<u>466,943</u>	<u>466,943</u>
<b>Excess of revenue and other financing</b>		
<b>    sources over (under) expenditures</b>		
<b>    and other financing uses</b>	628,163	628,163
<b>Fund balance, beginning of year</b>	<u>1,217,883</u>	<u>1,217,883</u>
<b>Fund balance, end of year</b>	<u>\$ 1,846,046</u>	<u>\$ 1,846,046</u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ 628,163
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.	(52,373)
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.	27,684
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.	482,383
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	661,150
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.	(450,673)
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.	74,814
Sale of fixed assets is a revenue in the funds but reduces the asset in the Statement of Net Position.	(16,270)
Differences in reporting pension expense in the governmental funds and in the government-wide statements.	<u>(668,138)</u>
<i>Change in Net Position of Governmental Activities</i>	<u>\$ 686,740</u>

See accompanying notes to financial statements.

**TOWN OF CHESTERTOWN, MARYLAND**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2020**

	Major		Total
	Utilities Commission	Marina	
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 977,052	\$ 69,088	\$ 1,046,140
Certificate of deposit	1,053,599	-	1,053,599
Water and sewer service receivable	706,973	-	706,973
Accounts receivable	-	3,969	3,969
Prepaid expenses	10,151	-	10,151
Meter inventory	4,125	-	4,125
Total Current Assets	<u>2,751,900</u>	<u>73,057</u>	<u>2,824,957</u>
Noncurrent Assets			
Capital assets, net	7,952,846	1,534,564	9,487,410
Total Noncurrent Assets	<u>7,952,846</u>	<u>1,534,564</u>	<u>9,487,410</u>
<b>TOTAL ASSETS</b>	<u>10,704,746</u>	<u>1,607,621</u>	<u>12,312,367</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>16,107</u>	<u>-</u>	<u>16,107</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 10,720,853</u>	<u>\$ 1,607,621</u>	<u>\$ 12,328,474</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$ 93,637	\$ 2,449	\$ 96,086
Bay fee payable	51,414	-	51,414
Accrued payroll expense	10,274	-	10,274
Accrued interest payable	3,074	9,327	12,401
Due from other funds	-	585,427	585,427
Unearned revenue	-	34,762	34,762
Current portion of long-term debt	271,560	93,500	365,060
Total Current Liabilities	<u>429,959</u>	<u>725,465</u>	<u>1,155,424</u>
Noncurrent Liabilities			
Due to other funds	-	-	-
Employee benefits	37,411	-	37,411
Net OPEB liability	32,619	-	32,619
Long-term debt, net of current liabilities	1,265,446	1,268,800	2,534,246
Total Noncurrent Liabilities	<u>1,335,476</u>	<u>1,268,800</u>	<u>2,604,276</u>
<b>TOTAL LIABILITIES</b>	<u>1,765,435</u>	<u>1,994,265</u>	<u>3,759,700</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>7,334</u>	<u>-</u>	<u>7,334</u>
<b>NET POSITION</b>			
Net investment in capital assets	6,415,840	172,264	6,588,104
Unrestricted	2,532,244	(558,908)	1,973,336
<b>TOTAL NET POSITION</b>	<u>8,948,084</u>	<u>(386,644)</u>	<u>8,561,440</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 10,720,853</u>	<u>\$ 1,607,621</u>	<u>\$ 12,328,474</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, 2020**

	Major		Total
	Utility Fund	Marina	
<b>Operating Revenues</b>			
Charges for services			
Sewer fees	\$ 783,753	\$ -	\$ 783,753
Water fees	809,310	-	809,310
Sewer connections	48,000	-	48,000
Water connections	57,600	-	57,600
Other water and sewer services	76,586	-	76,586
Rental income	1,300	177,343	178,643
Fuel sales	-	70,547	70,547
Tower leases	52,258	-	52,258
Other income	30,207	7,673	37,880
<b>Total Operating Revenues</b>	<u>1,859,014</u>	<u>255,563</u>	<u>2,114,577</u>
<b>Operating Expenses</b>			
Water and sewer expenses	1,277,594	-	1,277,594
Marina operating expenses	-	174,104	174,104
Depreciation and amortization	653,018	11,169	664,187
<b>Total Operating Expenses</b>	<u>1,930,612</u>	<u>185,273</u>	<u>2,115,885</u>
<b>Operating Income (Loss)</b>	<u>(71,598)</u>	<u>70,290</u>	<u>(1,308)</u>
<b>Non-operating Revenues (Expenses)</b>			
Interest income	27,723	12,402	40,125
Sale of assets	-	(117,500)	(117,500)
Interest expense	(6,148)	(52,874)	(59,022)
<b>Net Non-operating Revenues (Expenses)</b>	<u>21,575</u>	<u>(157,972)</u>	<u>(136,397)</u>
<b>Income Before Contributions and Transfers</b>	(50,023)	(87,682)	(137,705)
<b>Transfers (to) from other funds</b>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Changes in Net Position</b>	(50,023)	(87,682)	(137,705)
<b>Total net position at beginning of year</b>	<u>8,998,107</u>	<u>(298,962)</u>	<u>8,699,145</u>
<b>Total net position at end of year</b>	<u>\$ 8,948,084</u>	<u>\$ (386,644)</u>	<u>\$ 8,561,440</u>

See accompanying notes to financial statements.

**TOWN OF CHESTERTOWN, MARYLAND**  
**COMBINING STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Major		Total
	Utility Fund	Marina	
Cash flows from operating activities			
Cash received from customers	\$ 1,763,624	\$ 247,890	\$ 2,011,514
Cash paid to suppliers	(623,518)	(120,783)	(744,301)
Cash paid to employees	(708,781)	(56,440)	(765,221)
Other receipts	82,465	3,704	86,169
Net cash provided (used) by operating activities	<u>513,790</u>	<u>74,371</u>	<u>588,161</u>
Cash flows from capital and related financing activities			
Principal paid on debt	(270,478)	(91,500)	(361,978)
Interest paid on capital debt	(31,167)	(52,655)	(83,822)
Net cash (used) for capital and related financing activities	<u>(301,645)</u>	<u>(144,155)</u>	<u>(445,800)</u>
Cash flows from non-capital financing activities			
Transfers (to) from other funds	(3,169)	91,418	88,249
Net cash (used) for non-capital financing activities	<u>(3,169)</u>	<u>91,418</u>	<u>88,249</u>
Cash flows from investing activities			
Interest and dividends	27,723	12,402	40,125
Net cash provided by investing activities	<u>27,723</u>	<u>12,402</u>	<u>40,125</u>
Net increase (decrease) in cash and cash equivalents	236,699	34,036	270,735
Cash and cash equivalents at beginning of year	<u>1,793,952</u>	<u>35,052</u>	<u>1,829,004</u>
Cash and cash equivalents at end of year	<u>\$ 2,030,651</u>	<u>\$ 69,088</u>	<u>\$ 2,099,739</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (71,598)	\$ 70,290	\$ (1,308)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	653,018	11,169	664,187
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	(12,925)	(3,969)	(16,894)
Decrease (increase) in prepaid expense	(3,795)	-	(3,795)
Increase (decrease) in accounts payable	47,558	(5,150)	42,408
Increase (decrease) in unearned revenue	-	2,029	2,029
Increase (decrease) in accrued expenses	4,723	2	4,725
Increase (decrease) in employee benefits	(103,191)	-	(103,191)
Cash provided (used) by operating activities	<u>\$ 513,790</u>	<u>\$ 74,371</u>	<u>\$ 588,161</u>

See accompanying notes to financial statements.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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, 2020**

**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: The 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, 2020**

**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, 2020**

**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, 2020**

**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, 2020, 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, 2020, 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, 2018 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, 2020**

**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, 2020, deferred inflows of resources in the general fund consisted of income taxes of \$238,554.

**Local Tax Reserve Fund**

At June 30, 2020, the Town was advised by the State of Maryland that \$238,554 of the Local Tax Reserve Fund was allocable to the Town. The Town recorded receivable and deferred inflows of resources in the amount of \$238,554 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, 2020**

**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, 2020**

**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, 2020**

**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 2020. 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 2020 budget included depreciation for all proprietary funds.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**Deposit Policies**

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

**Deposits**

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

At year-end, the carrying amounts of the Town’s deposits were \$2,046,941 and the bank balances totaled \$2,188,767. 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, 2020**

**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, 2020**

**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	\$ 977,052	\$ 69,088
Certificates of Deposit	1,053,599	-
Total cash and cash equivalents	<u>\$ 2,030,651</u>	<u>\$ 69,088</u>

**NOTE 4 – ACCOUNTS RECEIVABLE**

At June 30, 2020, due from other governments consisted of the following:

Amusement taxes	\$ 363
Cares funds Kent County	5,279
EAB TMNT MD DNR	1,227
Hotel tax	15,848
Income taxes	74,814
Police protection	20,892
Public health cares CRF funds	3,688
Traders licenses	2,847
	<u>\$ 124,958</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 2020 is \$.4332 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, 2020**

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Not being depreciated:				
Land	\$ 2,001,788	\$ -	\$ -	\$ 2,001,788
Construction in progress	3,773	-	-	3,773
Subtotal	<u>2,005,561</u>	-	-	<u>2,005,561</u>
Depreciable capital assets:				
Buildings	3,721,519	-	-	3,721,519
Land improvements	10,739,174	449,666	3,774	11,185,066
Furniture, equipment and vehicles	1,527,462	9,331	-	1,536,793
Subtotal	<u>15,988,155</u>	<u>458,997</u>	<u>3,774</u>	<u>16,443,378</u>
Total capital assets	<u>17,993,716</u>	<u>458,997</u>	<u>3,774</u>	<u>18,448,939</u>
Accumulated depreciation:				
Buildings	1,569,381	96,742	-	1,666,123
Land improvements	2,957,348	313,068	-	3,270,416
Furniture, equipment and vehicles	1,148,653	101,560	-	1,250,213
Subtotal, accumulated depreciation	<u>5,675,382</u>	<u>511,370</u>	<u>-</u>	<u>6,186,752</u>
Net capital assets	<u>\$ 12,318,334</u>	<u>\$ (52,373)</u>	<u>\$ 3,774</u>	<u>\$ 12,262,187</u>

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 356,560
Public safety	50,003
Public works	83,036
Tourism	21,771
Total government activities depreciation expense	<u>\$ 511,370</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Not being depreciated:				
Land	\$ 1,646,039	\$ -	\$ -	\$ 1,646,039
Construction in progress	18,777	-	-	18,777
Subtotal	<u>1,664,816</u>	-	-	<u>1,664,816</u>
Other depreciable capital assets:				
Buildings	302,711	-	225,000	77,711
Land improvements	19,788,738	-	-	19,788,738
Furniture, equipment and vehicles	1,176,102	55,524	-	1,231,626
Subtotal	<u>21,267,551</u>	<u>55,524</u>	<u>225,000</u>	<u>21,098,075</u>
Total capital assets	<u>22,932,367</u>	<u>55,524</u>	<u>225,000</u>	<u>22,762,891</u>
Accumulated depreciation:				
Buildings	146,006	2,803	107,500	41,309
Land improvements	11,765,675	591,413	-	12,357,088
Furniture, equipment and vehicles	807,112	69,971	-	877,083
Subtotal accumulated depreciation	<u>12,718,793</u>	<u>664,187</u>	<u>107,500</u>	<u>13,275,480</u>
Net capital assets	<u>\$ 10,213,574</u>	<u>\$ (608,663)</u>	<u>\$ 117,500</u>	<u>\$ 9,487,411</u>

Depreciation was charged as follows:

Business-type activities:	
Utilities fund	\$ 653,018
Marina	11,169
Total business-type activities depreciation expense	<u>\$ 664,187</u>

As of June 30, 2020, the Town had no material construction commitments.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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 2020. The credit line calls for interest at 60% of the prime rate, less 1%, adjusted periodically. During the year ended June 30, 2020, the Town did not borrow from this line of credit. The interest rate at June 30, 2020, was 2.85%. The balance as of June 30, 2020, is \$0.

An unsecured \$2,500,000 variable rate revolving line of credit was available from Chesapeake Bank & Trust to the Town for capital purposes during fiscal year 2020. The credit line calls for interest at 60% of the prime rate, less 1%, adjusted periodically. During the year ended June 30, 2020 the Town did borrow from this line of credit. The interest rate at June 30, 2020 was 3.0%. The balance as of June 30, 2020, is \$0.

An unsecured \$1,100,000 fixed rate revolving line of credit was available from the Peoples Bank to the Town for capital purposes during fiscal year 2020. During the year ended June 30, 2020, the Town did not borrow from this line of credit. The interest rate at June 30, 2020, was 3.1%. The balance as of June 30, 2020, 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 in monthly installments through January 2030. The balance as of June 30, 2020, is \$344,629.

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, 2020, is \$0.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 7 – LONG-TERM DEBT – continued**

Capital lease payable to TCF Equipment Financing for the purchase of a compactor truck in the amount of \$82,000; interest at 3.39%; payable in monthly installments of \$1,256 through November 2023; collateralized by the vehicle. The balance as of June 30, 2020, is \$48,587.

<u>Year Ending June 30,</u>	
2021	\$ 15,080
2022	15,080
2023	15,080
2024	6,283
Total minimum lease payments	<u>\$ 51,523</u>
Less interest	<u>(2,936)</u>
Present value of minimum lease payments	<u><u>\$ 48,587</u></u>

Capital lease payable to TCF Equipment Financing for the purchase of a Dodge truck in the amount of \$56,964; interest at 4.66%; payable in quarterly installments of \$3,209 through March 2024; collateralized by the vehicle. The balance as of June 30, 2020, is \$43,935.

<u>Year Ending June 30,</u>	
2021	\$ 12,836
2022	12,836
2023	12,836
2024	9,627
Total minimum lease payments	<u>\$ 48,135</u>
Less interest	<u>(4,200)</u>
Present value of minimum lease payments	<u><u>\$ 43,935</u></u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 7 – LONG-TERM DEBT – continued**

Capital lease payable to Chesapeake Supply for the purchase of a skid steer in the amount of \$35,000; interest at 1.0%; payable in monthly installments of \$1,200 through March 2021; collateralized by the equipment. The balance as of June 30, 2020, is \$10,177.

<u>Year Ending June 30,</u>	
2021	10,217
Total minimum lease payments	<u>\$ 10,217</u>
Less interest	<u>(40)</u>
Present value of minimum lease payments	<u><u>\$ 10,177</u></u>

Loan payable to USDA for the renovation of the marina in the amount of \$598,000; interest at 1.375%; payable in quarterly installments of \$4,868 through December 2058. The balance as of June 30, 2020, is \$580,981.

The changes in general long-term debt as of June 30, 2020, are summarized as follows:

Lender	Beginning Balance July 1, 2019	New Loans During Year	Retired During Year	Ending Balance June 30, 2020	Amount Due Within 1 Year
LOC - Chesapeake Bank	\$ 121,450	\$ 450,673	\$ 572,123	\$ -	\$ -
TCF Equipment Financing	61,777	-	13,190	48,587	13,644
TCF Equipment Financing	54,418	-	10,483	43,935	10,980
Chesapeake Supply	25,577	-	15,400	10,177	10,177
Peoples Bank	375,232	-	30,603	344,629	31,531
Ford Motor Credit	7,966	-	7,966	-	-
USDA Loan - Marina	592,366	-	11,385	580,981	11,543
	<u>\$ 1,238,786</u>	<u>\$ 450,673</u>	<u>\$ 661,150</u>	<u>\$ 1,028,309</u>	<u>\$ 77,875</u>

Interest costs charged to expense during the year ended June 30, 2020, was \$31,167.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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, 2020, was \$452,150.

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, 2020, was \$1,084,856.

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, 2020, was \$1,362,300.

The changes in long-term debt during the year ended June 30, 2020, follows:

	Beginning Balance July 1, 2019	New Loans During Year	Retired During Year	Ending Balance June 30, 2020	Amount Due Within 1 Year
Water quality bond - 2005	\$ 548,335	\$ -	\$ 96,185	\$ 452,150	\$ 96,570
Water quality bond - 2006	1,259,149	-	174,293	1,084,856	174,990
Infrastructure Bond - 2012	1,453,800	-	91,500	1,362,300	93,500
	<u>\$ 3,261,284</u>	<u>\$ -</u>	<u>\$ 361,978</u>	<u>\$ 2,899,306</u>	<u>\$ 365,060</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
2021	\$ 79,115	\$ 365,060	\$ 444,175	\$ 21,146	\$ 54,965	\$ 76,111
2022	69,803	369,147	438,950	18,991	51,296	70,287
2023	71,981	372,537	444,518	16,814	47,396	64,210
2024	62,152	378,331	440,483	14,637	42,931	57,568
2025	47,726	346,353	394,079	13,152	38,301	51,453
2026-2030	240,670	795,577	1,036,247	46,448	135,577	182,025
2030-2034	68,061	272,301	340,362	29,299	16,217	45,516
Thereafter	389,801	-	389,801	66,982	-	66,982
	<u>\$ 1,029,309</u>	<u>\$ 2,899,306</u>	<u>\$ 3,538,814</u>	<u>\$ 227,469</u>	<u>\$ 386,683</u>	<u>\$ 547,170</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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, 2020, was \$44,519,000.

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, 2020, is \$18,391,000.

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, 2020, was \$23,587,210.

**NOTE 8 – 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 \$2,544,609 as of the measurement date of June 30, 2019.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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 2020 contribution of \$252,591 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, 2020**

**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, 2019, are used as the basis for determining each employer's proportionate share of the collective pension amounts reported in the Schedule of Employer Allocations. Because the State of Maryland contributed 100% of the actuarial determined contributions, there were no adjustments for the year ended June 30, 2019. 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, 2020, the Town contributed \$252,591. The Town contributed 100% of its required contribution for the year ended June 30, 2020. 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, 2020, are based on salaries for the year ending June 30, 2019. The contribution requirements of plan members of the reporting entity are established and may be amended by the Maryland State Pension System Board of Trustees, and contributions by the Town are authorized by the Town Council. The required and actual contributions for the fiscal years ending June 30<sup>th</sup> were as follows:

	Fiscal Year Ending June 30		
	2020	2019	2018
Retirement plan contributions	\$ 252,589	\$ 260,359	\$ 218,087

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 – RETIREMENT PLAN - continued**

The Town contributed \$252,591 to the System for fiscal year 2020 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	\$ 74,569,030,000
Total fiduciary net position	54,943,420,000
Town's proportionate share of total pension liabilities	2,544,609
Town's proportionate share of net pension liabilities	0.01296%
Total pension assets	54,943,420,000
Measurement date of collective net pension liability	June 30, 2019
Date of actuarial valuation	June 30, 2019
Deferred outflows related to pensions	238,780
Deferred inflows related to pensions	290,619
Pension expense/expenditures for the period	668,138

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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, 2018, rolled forward to June 30, 2019. The key assumptions used to perform the June 30, 2019, 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)	2.65% general, 3.15% wage
Salary Increases	3.10% to 9.10%, including inflation
Discount Rate (a)	7.40%
Investment Rate of Return (b)	7.40%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period July 1, 2014 to July 30, 2018.
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale.

- (a) Discount rate at prior measurement date was 7.45%.
- (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 2019 valuation:
  - a. Investment return assumption decreased from 7.45% to 7.40%.
  - b. Inflation assumption increased from 2.60% to 2.65%.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 – RETIREMENT PLAN - continued**

The components of the net pension liability for the System as of June 30, 2019, calculated in accordance with GASB Statement No. 67, are shown in the following table:

Total pension liability	\$ 74,569,030,000
Plan Fiduciary Net Position	<u>54,943,420,000</u>
Net Pension Liability	<u><u>\$ 19,625,610,000</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u><u>73.68%</u></u>

**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	37%	6.3%
Private equity	13%	7.5%
Rate sensitive	19%	1.3%
Credit opportunity	9%	3.9%
Real assets	14%	4.5%
Absolute return	8%	3.0%
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, 2019.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 – RETIREMENT PLAN - continued**

**Discount Rate**

A single discount rate of 7.40% 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 7.40%. 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 7.40%, a single discount rate that is 1-percentage point lower (i.e., 6.40%), and a single discount rate that is 1-percentage point higher (i.e., 8.40%).

	1% Lower – 6.40%	Current Rate – 7.40%	1% Higher – 8.40%
The System’s Net Pension Liability	\$29,853,506,000	\$19,625,610,000	\$12,939,936,000
The Town’s Proportionate Share Of Net Pension Liability	\$3,870,733	\$2,544,609	\$1,677,761

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

At June 30, 2020, the Town reported a liability of \$2,544,609 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the Town’s proportion was approximately 0.01296 percent.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 – RETIREMENT PLAN - continued**

For the year ended June 30, 2020, the Town recognized pension expense of \$668,138. At June 30, 2020, 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	\$43,035	\$ -
Net difference in investment earnings	124,497	72,860
Difference in actual and expected experience		176,202
Contributions subsequent to the measurement date	252,589	-
Total	\$420,121	\$249,062

The deferred outflow of resources of \$252,589 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, 2020. 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 2020. 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, 2019, were as follows:

Total pension liability	\$ 74,569,030,000
Plan Fiduciary Net Position	54,943,420,000
Net Pension Liability	<u>\$ 19,625,610,000</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 <u>73.68%</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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 and Benefits Provided**

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 Town has not established an OPEB trust as of June 30, 2020.

**Employees Covered by Benefit Terms**

At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	7
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	37
	<hr/>
	44
	<hr/> <hr/>

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS – continued**

**Total OPEB Liability**

The Town’s total OPEB liability of \$217,459 was measured as of June 30, 2020, and was determined by an actuarial valuation as of June 30, 2019.

**Actuarial Assumptions and Other Inputs**

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all period included in the measurement, unless otherwise specified:

Actuarial cost method	Entry age normal
Discount rate	2.45%
Healthcare cost trend rates	0%

The discount rate was based on the 20-year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher, or 2.45%.

**Changes in the Total OPEB Liability**

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance as of June 30, 2019 for FY2019	\$ 750,509	\$ -	\$ 750,509
Changes for the year:			
Service cost	40,569	-	40,569
Interest	23,054	-	23,054
Changes in benefit terms	(593,495)	-	(593,495)
Experience losses/(gains)	(41,531)	-	(41,531)
Trust contribution - employer	-	18,289	(18,289)
Net investment income	-	-	-
Changes in assumptions	56,642	-	56,642
Benefit paymentst (net of retiree contributions)	(18,289)	(18,289)	-
Administrative expense	-	-	-
Net changes	(533,050)	-	(533,050)
Balance as of June 30, 2020 for FY2020	<u>\$ 217,459</u>	<u>\$ -</u>	<u>\$ 217,459</u>

Changes of assumptions reflects a change in the discount rate from 3.13% to 2.45%.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS – continued**

*Sensitivity of the total OPEB liability to changes in the discount rate*

The following presents the Town’s Total and Net OPEB liability, as well as what the Town’s Total and Net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.62%) or 1-percentage-point higher (4.62%) than the current discount rate:

	1% Decrease	Current Discount Rate	1% Increase
<u>Discount Rate</u>	<u>1.45%</u>	<u>2.45%</u>	<u>3.45%</u>
Total OPEB Liability	\$ 249,025	\$ 217,459	\$ 191,383
Net OPEB Liability/(Asset)	\$ 249,025	\$ 217,459	\$ 191,383

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate*

The following presents the Town’s Total and Net OPEB liability, as well as what the Town’s Total and Net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (-1.00%) or 1-percentage-point higher (1.00%) than the current discount rate:

	1% Decrease	Current Medical Trend	1% Increase
<u>Ultimate Trend</u>	<u>-1.00%</u>	<u>0.00%</u>	<u>1.00%</u>
Total OPEB Liability	N/A*	\$ 217,459	N/A*
Net OPEB Liability/(Asset)	N/A*	\$ 217,459	N/A*

\*Medical trends do not affect this valuation. The benefit is not dependent on future medical costs.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS – continued**

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2020, the Town recognized OPEB expense of \$64,143. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 46,758
Changes of assumptions	83,821	2,133
Net difference between project and actual earnings on OPEB plan investments	-	-
Total	<u>\$ 83,821</u>	<u>\$ 48,891</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year ended June 30:	
2021	\$ 4,508
2022	4,508
2023	4,508
2024	4,508
2025	4,508
Thereafter	<u>12,390</u>
Total	<u>\$ 34,930</u>

**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, 2020**

**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, 2020, 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 \$881,203 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, 2020.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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 30, 2020, the Comptroller’s Office states that the fiscal impact of the ruling on the Town will be \$99,263 of refunds for prior years’ taxes, and a reduction of approximately \$19,852 each year going forward.

The Town will be required to start reimbursing the State during the fourth quarter of fiscal year 2020, and the debt will be repaid over a period of five years as a reduction in income tax distribution. The changes in this liability are as follows:

	Balance June 30, 2019	Retired During Year	Balance June 30, 2020	Amount Due Within 1 Year
State of Maryland	\$ 99,263	\$ -	\$ 99,263	\$ 4,963

The annual deductions will be as follows:

FY	Amount
2021	\$ 4,963
2022	19,852
2023	19,852
2024	19,852
2025	19,852
2026	14,892
Total	\$ 99,263

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 17 – FUND BALANCE REPORTING**

Fund balances for the Town's governmental funds consisted of the following as of June 30, 2020:

**Non-spendable Fund Balance**

At June 30, 2020, there was \$40,760 in non-spendable fund balance pertaining to prepaid expenses.

**Unassigned Fund Balance**

Unassigned fund balance totals \$1,805,286.

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

The Marina Fund had a deficit of unrestricted net position of (\$558,908) as of June 30, 2020. The Town anticipates increased revenues in future years will eliminate this deficit.

**TOWN OF CHESTERTOWN, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 19 – NEW ACCOUNTING PRONOUNCEMENTS**

The GASB has issued the following statements:

Statement No. 87, *Leases*, issued June 2018, effective for financial statements for fiscal years beginning after June 15, 2021.

Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, issued August 2018, effective for reporting periods beginning after December 15, 2019.

Statement No. 91, *Conduit Debt Obligations*, issued May 2019, effective for reporting periods beginning after December 15, 2021.

Statement No. 92, *Omnibus 2020*, issued January 2020, effective for reporting periods beginning after June 15, 2021.

Statement No. 93, *Replacement of Interbank Offered Rates*, issued March 2020, effective for reporting periods beginning after June 15, 2020.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, issued March 2020, effective for reporting periods beginning after June 15, 2022.

Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, issued May 2020, effective immediately.

Statement No. 96, *Subscription-Based Information Technology Arrangements*, issued May 2020, effective for reporting periods beginning after June 15, 2022.

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, issued June 2020, effective for reporting periods beginning after June 15, 2021.

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, 2020**

**NOTE 20 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 29, 2020, 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.

**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	FY 2018	FY 2019	FY 2020
Town's proportion (%) of collective net pension liability	0.005%	0.01%	0.012%	0.01155%	0.01052%	0.01296%
Town's proportionate share (\$) of collective net pension liability	\$ 1,746,076	\$ 2,146,529	\$ 2,836,572	\$ 2,497,010	\$ 2,205,756	\$ 2,544,609
Town's covered payroll(\$)	\$ 1,890,091	\$ 1,897,053	\$ 1,899,997	\$ 1,972,183	\$ 1,971,281	\$ 1,892,136
Town's proportionate share of collective net pension liability as a percentage of its covered payroll	92.38%	113.15%	113.15%	126.61%	111.89%	134.48%
Pension plan's fiduciary net position as a percentage of the total pension liability	71.87%	68.78%	65.79%	65.79%	71.18%	73.68%

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 252,589	\$ 260,359	\$ 218,087	\$ 241,684	\$ 239,132	\$ 217,706	229,281
Contributions in relation to the contractually required contribution	252,589	260,359	218,087	241,684	239,132	217,706	229,281
Contribution deficiency (excess)	-	-	-	-	-	-	-
Town's covered payroll	1,892,136	1,971,281	1,972,183	1,899,997	1,897,053	1,890,091	1,699,232
Contributions as a percentage of covered-employee payroll	13.3%	13.2%	11.1%	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, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes - local				
Real and property				
Real property	\$ 2,499,478	\$ 2,499,478	\$ 2,513,701	\$ 14,223
Real property - penalties	10,500	10,500	15,639	5,139
Total real and personal property	<u>2,509,978</u>	<u>2,509,978</u>	<u>2,529,340</u>	<u>19,362</u>
Income taxes	<u>500,000</u>	<u>500,000</u>	<u>468,652</u>	<u>(31,348)</u>
Total taxes - local	3,009,978	3,009,978	2,997,992	(11,986)
Taxes - state shared				
Highway users	231,071	231,071	177,225	(53,846)
Admissions and amusements	13,000	13,000	13,318	318
Bank shares	2,532	2,532	2,532	-
Total shared taxes	<u>246,603</u>	<u>246,603</u>	<u>193,075</u>	<u>(53,528)</u>
Licenses and permits				
Building permits	58,300	58,300	63,195	4,895
Traders	24,000	24,000	17,622	(6,378)
Cable TV franchise fees	60,000	60,000	57,610	(2,390)
Building code revenue	35,300	35,300	18,711	(16,589)
Total licenses and permits	<u>177,600</u>	<u>177,600</u>	<u>157,138</u>	<u>(20,462)</u>
Grants from state government				
Police protection	73,859	73,859	76,286	2,427
Other state grants	149,100	149,100	990,498	841,398
Total grants from state government	<u>222,959</u>	<u>222,959</u>	<u>1,066,784</u>	<u>843,825</u>
Grants from county government				
Tax differential grant and hotel tax	165,000	165,000	140,998	(24,002)
Police overtime reimbursements	-	-	127	127
Total grants from county government	<u>165,000</u>	<u>165,000</u>	<u>141,125</u>	<u>(23,875)</u>
Total intergovernmental revenue	<u>3,822,140</u>	<u>3,822,140</u>	<u>4,556,114</u>	<u>733,974</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES -BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Charges for services				
General government	\$ 14,500	\$ 14,500	\$ 12,050	\$ (2,450)
Sidewalk	2,500	2,500	-	(2,500)
Zoning appeals board	1,000	1,000	1,000	-
Highways and streets	2,874	2,874	1,507	(1,367)
Waste collection fees	10,500	10,500	8,937	(1,563)
Parking fines and parking meter	3,500	3,500	2,371	(1,129)
Municipal infractions	120,000	120,000	115,800	(4,200)
Total charges for services	<u>154,874</u>	<u>154,874</u>	<u>141,665</u>	<u>(13,209)</u>
Miscellaneous revenue				
Interest income	3,500	3,500	4,120	620
Donations	500	500	8,661	8,161
Private grant	37,500	37,500	37,500	-
Rental income	18,400	18,400	15,950	(2,450)
Other revenues	1,450	1,450	43,408	41,958
Total miscellaneous revenue	<u>61,350</u>	<u>61,350</u>	<u>109,639</u>	<u>48,289</u>
Total Revenues	<u>\$ 4,038,364</u>	<u>\$ 4,038,364</u>	<u>\$ 4,807,418</u>	<u>\$ 769,054</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
General Government				
Legislative				
Council salaries	\$ 10,500	\$ 10,500	\$ 9,751	\$ 749
Payroll taxes	803	803	747	56
Pension expense	1,719	1,719	1,766	(47)
Workers' compensation	54	54	57	(3)
Other legislative expenditures	503	503	237	266
Meetings and travel	6,000	6,000	545	5,455
Total legislative	<u>19,579</u>	<u>19,579</u>	<u>13,103</u>	<u>6,476</u>
Executive				
Manager and secretarial salaries	196,865	196,865	204,901	(8,036)
Payroll taxes	15,060	15,060	15,207	(147)
Workers' compensation	1,253	1,253	1,330	(77)
Medical and life insurance	44,577	44,577	63,583	(19,006)
Pension expense	18,466	18,466	21,758	(3,292)
Professional fees and other expenditures	1,160	1,160	320	840
Meetings and travel	200	200	139	61
Total executive	<u>277,581</u>	<u>277,581</u>	<u>307,238</u>	<u>(29,657)</u>
Financial administration				
Finance salaries	56,101	56,101	59,111	(3,010)
Payroll taxes	4,292	4,292	4,415	(123)
Workers' compensation	108	108	115	(7)
Medical and life insurance	31,780	31,780	34,513	(2,733)
Pension expense	5,262	5,262	5,595	(333)
Office supplies	7,500	7,500	6,273	1,227
Dues nad subscriptions	186	186	295	(109)
Postage	2,700	2,700	2,306	394
Telephone	5,000	5,000	4,891	109
Accounting and auditing fees	17,550	17,550	11,071	6,479
Professional fees	6,000	6,000	5,749	251
Data processing fees	3,575	3,575	2,995	580
Office equipment	2,960	2,960	7,511	(4,551)
Training and other expenses	350	350	370	(20)
Total financial administration	<u>143,364</u>	<u>143,364</u>	<u>145,210</u>	<u>(1,846)</u>

**TOWN OF CHESTERTOWN, MARYLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund  
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
Law				
Legal council	\$ 6,500	\$ 6,500	\$ 10,513	\$ (4,013)
Legal notices	1,200	1,200	1,052	148
Total law	<u>7,700</u>	<u>7,700</u>	<u>11,565</u>	<u>(3,865)</u>
Planning and zoning				
Building and housing inspection fees	30,000	30,000	14,783	15,217
Building permit software	400	400	1,250	(850)
Dues and subscriptions	900	900	300	600
Office supplies expense	500	500	583	(83)
Meetings and travel	700	700	687	13
Telephone	600	600	593	7
Recodification service	500	500	1,459	(959)
Repairs and maintenance	-	-	2,144	(2,144)
Board of appeals	650	650	-	650
Total planning and zoning	<u>34,250</u>	<u>34,250</u>	<u>21,799</u>	<u>12,451</u>
Municipal building				
Utilities	20,500	20,500	11,370	9,130
Insurance property and liability	4,277	4,277	4,277	-
Repairs and maintenance	8,000	8,000	10,782	(2,782)
Operating supplies and cleaning	6,800	6,800	7,360	(560)
Total municipal building	<u>39,577</u>	<u>39,577</u>	<u>33,789</u>	<u>5,788</u>
Other general government expenditures				
Dues and subscriptions	9,216	9,216	9,110	106
Legal notices	500	500	606	(106)
Election costs	3,500	3,500	5,354	(1,854)
Other operating expenditures	14,825	14,825	15,459	(634)
Total other general government expenditures	<u>28,041</u>	<u>28,041</u>	<u>30,529</u>	<u>(2,488)</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Safety				
Police				
Police salaries	\$ 903,444	\$ 903,444	\$ 863,941	\$ 39,503
Payroll taxes	69,113	69,113	60,357	8,756
Workers' compensation	74,369	74,369	78,972	(4,603)
Medical and life insurance	163,767	163,767	125,690	38,077
Pension expenses	127,616	127,616	121,409	6,207
Uniforms and clothing	11,250	11,250	9,307	1,943
Training and education	5,000	5,000	1,412	3,588
Meetings and travel	1,500	1,500	488	1,012
Utilities	15,000	15,000	7,260	7,740
General insurance	22,208	22,208	22,208	-
Gas and oil - vehicles	33,000	33,000	27,813	5,187
Heating	11,000	11,000	8,447	2,553
Repairs and maintenance	32,500	32,500	39,607	(7,107)
Supplies - operating	5,000	5,000	2,802	2,198
Legal fees and services	2,050	2,050	2,904	(854)
Office supplies and equipment	9,800	9,800	13,745	(3,945)
Telephone	12,000	12,000	14,598	(2,598)
Equipment	5,000	5,000	3,147	1,853
Canine maintenance	3,000	3,000	2,012	988
Public relations	650	650	606	44
Speed camera processing fees	51,000	51,000	46,044	4,956
Camera upgrades and maintenance	3,500	3,500	1,493	2,007
Other operating expenditures	10,950	10,950	8,008	2,942
Total Police	<u>1,572,717</u>	<u>1,572,717</u>	<u>1,462,270</u>	<u>110,447</u>
Crossing guard/meter monitor				
Medical and life insurance	2,506	2,506	-	2,506
Total crossing guard/meter monitor	<u>2,506</u>	<u>2,506</u>	<u>-</u>	<u>2,506</u>
Other public safety expenditures				
Volunteer fire company	48,622	48,622	49,257	(635)
Rescue squad	20,250	20,250	20,666	(416)
Total other public safety expenditures	<u>68,872</u>	<u>68,872</u>	<u>69,923</u>	<u>(1,051)</u>
Total Public Safety	<u>1,644,095</u>	<u>1,644,095</u>	<u>1,532,193</u>	<u>111,902</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Works				
Highways and streets				
Salaries	\$ 425,807	\$ 425,807	\$ 419,112	\$ 6,695
Payroll taxes	32,574	32,574	30,783	1,791
Workers' compensation	15,379	15,379	16,331	(952)
Medical and life insurance	127,270	127,270	127,228	42
Pension expense	39,258	39,258	42,014	(2,756)
Parking lot rent	5,000	5,000	-	5,000
Dues and subscriptions	30	30	45	(15)
Uniforms and clothing	12,500	12,500	10,357	2,143
Training and education	250	250	-	250
Office equipment	150	150	-	150
Property and liability insurance	11,807	11,807	11,767	40
Gas and oil - vehicles	22,000	22,000	16,611	5,389
Building repairs and maintenance	3,500	3,500	1,684	1,816
Vehicle repairs and maintenance	15,000	15,000	3,030	11,970
Equipment repairs and maintenance	31,000	31,000	18,663	12,337
Street repairs and rehabilitation	25,000	25,000	18,028	6,972
Brick sidewalk & curb & concrete work	22,500	22,500	15,266	7,234
Tree maintenance and planting	10,000	10,000	13,613	(3,613)
Operating supplies	11,793	11,793	9,758	2,035
Street lighting	105,000	105,000	117,687	(12,687)
Snow removal	20,000	20,000	11,031	8,969
Utilities	15,200	15,200	7,243	7,957
Total streets and roadways	<u>951,018</u>	<u>951,018</u>	<u>890,251</u>	<u>60,767</u>
Sanitation				
Waste collection	126,000	126,000	126,000	-
Recycling and landfill costs	86,275	86,275	85,593	682
Curbside recycling pick up	62,400	62,400	67,680	(5,280)
Mosquito and weed control	1,950	1,950	2,547	(597)
Total sanitation	<u>276,625</u>	<u>276,625</u>	<u>281,820</u>	<u>(5,195)</u>
Total Public Works	<u>1,227,643</u>	<u>1,227,643</u>	<u>1,172,071</u>	<u>55,572</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Recreation				
Park maintenance	\$ 20,000	\$ 20,000	\$ 31,933	\$ (11,933)
Community relations - recreation	12,100	12,100	6,091	6,009
Total recreation and parks	<u>32,100</u>	<u>32,100</u>	<u>38,024</u>	<u>(5,924)</u>
Visitors' Center/Tourism				
Salaries/wages	81,265	81,265	83,909	(2,644)
Payroll taxes and pension expense	14,344	14,344	13,140	1,204
Insurance	17,242	17,242	29,969	(12,727)
Tourism events	6,200	6,200	5,450	750
Housekeeping supplies	10,000	10,000	8,139	1,861
Meetings and travel	500	500	-	500
Office and other expenditures	400	400	12,683	(12,283)
Telephone	2,450	2,450	2,769	(319)
Repairs and maintenance	9,000	9,000	10,293	(1,293)
Web management	9,000	9,000	9,000	-
Utilities	7,000	7,000	4,089	2,911
Total visitors' center/tourism	<u>157,401</u>	<u>157,401</u>	<u>179,441</u>	<u>(22,040)</u>
Miscellaneous				
Community affairs	13,460	13,460	6,004	7,456
Other miscellaneous expenses	3,500	3,500	3,918	(418)
Total miscellaneous	<u>16,960</u>	<u>16,960</u>	<u>9,922</u>	<u>7,038</u>
Debt Service				
Principal				
General	11,386	11,386	583,508	(572,122)
Public safety	37,668	37,668	38,569	(901)
Public works	38,074	38,074	39,073	(999)
Total principal payments	<u>87,128</u>	<u>87,128</u>	<u>661,150</u>	<u>(574,022)</u>

**TOWN OF CHESTERTOWN, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Interest expense				
Public safety police	\$ 11,317	\$ 11,317	\$ 11,317	\$ -
General government	8,086	8,086	15,407	(7,321)
Public works - highway and streets	4,531	4,531	4,443	88
Total interest expense	<u>23,934</u>	<u>23,934</u>	<u>31,167</u>	<u>(7,233)</u>
Capital outlay				
Office equipment	12,500	12,500	-	12,500
Community projects	158,400	158,400	458,997	(300,597)
Total capital outlay	<u>170,900</u>	<u>170,900</u>	<u>458,997</u>	<u>(288,097)</u>
Total Expenditures	3,910,253	3,910,253	4,646,198	(735,945)
Excess of revenue over expenditures	128,111	128,111	161,220	33,109
Other financing sources (uses)				
Sale of assets	-	-	16,270	(16,270)
Proceed from long-term debt	-	-	450,673	(450,673)
Budget contingencies	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>466,943</u>	<u>(466,943)</u>
Excess of revenues and other financing sources over expenditures	<u>\$ 128,111</u>	<u>\$ 128,111</u>	<u>\$ 628,163</u>	<u>\$ 500,052</u>
Fund balance, beginning of year			<u>1,598,868</u>	
Fund balance, end of year			<u>\$ 2,227,031</u>	

**Required Supplemental Information**  
**Schedule of Changes in the Net OPEB Liability and Related Ratios**

Disclosure for fiscal year ending:	2020	2019	2018
Measurement date:	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Total OPEB Liability			
Service cost	\$ 40,569	\$ 37,207	\$ 36,176
Interest cost	23,054	23,939	22,424
Changes in benefit terms	(593,495)	-	-
Differences between expected and actual experience	(41,531)	(12,060)	-
Changes of assumptions	56,642	42,227	(3,198)
Benefit payments	<u>(18,289)</u>	<u>(16,260)</u>	<u>(12,645)</u>
Net change in Total OPEB Liability	<u>(533,050)</u>	<u>75,053</u>	<u>42,757</u>
Total OPEB Liability - beginning of year	<u>750,509</u>	<u>675,456</u>	<u>632,699</u>
Total OPEB Liability - end of year	<u><u>217,459</u></u>	<u><u>750,509</u></u>	<u><u>675,456</u></u>

**Required Supplemental Information**  
**Schedule of OPEB Contributions**

Disclosure for fiscal year ending:	2020	2019	2018
Measurement date:	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Contributions - employer	\$ 18,289	\$ 16,260	\$ 12,645
Net investment income	-	-	-
Benefit payments (net of retiree contributions)	(18,289)	(16,260)	(12,645)
Administrative expense	-	-	-
Net change in Fiduciary Net Position	<u>-</u>	<u>-</u>	<u>-</u>
Fiduciary Net Position - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fiduciary Net Position - end of year	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Net OPEB Liability	<u>217,459</u>	<u>750,509</u>	<u>675,456</u>
Fiduciary Net Position as a % of Total OPEB Liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Covered-employee payroll	1,892,136	1,971,281	1,972,183
Net OPEB Liability as a % of payroll	<u>11.49%</u>	<u>38.07%</u>	<u>34.25%</u>
Expected Average remaining service years of all participants	10	9	9

**Benefit Changes:**

The maximum benefit was reduced from \$5,000 to \$1,000.

Also, the benefit eligibility was changed from age 50 or 25 years of service to age 62 and 20 years of service.

**Changes of assumptions:**

The discount rate was changed as follows:

2.45%                      3.13%                      3.62%

The mortality tables were updated from RP-2014 with scale MP-2014 to Pub-2010 with scale MP-2019

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.

## **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, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues				
Charges for services				
Sewer fees	\$ 820,500	\$ 820,500	\$ 783,753	\$ (36,747)
Water fees	847,850	847,850	809,310	(38,540)
Sewer connections	100,000	100,000	48,000	(52,000)
Water connections	120,000	120,000	57,600	(62,400)
Other water and sewer charges	57,050	57,050	76,586	19,536
Rental income	2,600	2,600	1,300	(1,300)
Tower leases	50,000	50,000	52,258	2,258
Other income	30,750	30,750	30,207	(543)
Total Operating Revenues	<u>2,028,750</u>	<u>2,028,750</u>	<u>1,859,014</u>	<u>(169,736)</u>
Operating Expenses				
Salaries	589,155	589,155	590,639	(1,484)
Council expenses	16,500	16,500	14,951	1,549
Chemicals	66,000	66,000	79,491	(13,491)
Data processing	7,700	7,700	9,103	(1,403)
General insurance	13,555	13,555	13,643	(88)
Workers' compensation	15,390	15,390	16,343	(953)
Medical and life insurance	96,921	96,921	87,022	9,899
Payroll taxes	46,333	46,333	44,685	1,648
Pension	56,810	56,810	(33,022)	89,832
Uniforms and clothing	5,000	5,000	3,358	1,642
Meter parts	20,000	20,000	20,813	(813)
Safety equipment	1,500	1,500	2,189	(689)
Supplies	10,000	10,000	11,448	(1,448)
Small tools	3,500	3,500	5,331	(1,831)
Office supplies	3,500	3,500	3,078	422
Legal services	10,200	10,200	-	10,200
Accounting and audit services	11,150	11,150	11,071	79
Other professional fees	15,000	15,000	8,284	6,716
Repairs and maintenance				
Vehicles	6,000	6,000	3,445	2,555
Water lines	75,000	75,000	47,050	27,950
Water tower	10,000	10,000	-	10,000
Buildings and plants	21,000	21,000	5,221	15,779
Equipment	120,000	120,000	126,228	(6,228)
Grounds	10,000	10,000	2,783	7,217
Office equipment	2,500	2,500	-	2,500
Postage - freight	2,800	2,800	2,720	80
Telephone	7,600	7,600	7,429	171
Travel and training	2,500	2,500	2,398	102
Gas and oil - vehicles	15,000	15,000	9,445	5,555
Utilities	200,000	200,000	137,206	62,794
Lab fees and testing	35,000	35,000	25,063	9,937
Loan administration fees	13,165	13,165	13,165	-
Depreciation expense	-	-	653,018	(653,018)
Hospital oil spill	8,000	8,000	2,675	5,325
Miscellaneous	5,585	5,585	4,339	1,246
Total Operating Expenses	<u>1,522,364</u>	<u>1,522,364</u>	<u>1,930,612</u>	<u>(408,248)</u>
OPERATING INCOME (LOSS)	<u>\$ 506,386</u>	<u>\$ 506,386</u>	<u>\$ (71,598)</u>	<u>\$ (577,984)</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, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
NONOPERATING REVENUE (EXPENSES)				
Interest income	\$ 12,050	\$ 12,050	\$ 27,723	\$ 15,673
Principal reduction	(270,478)	(270,478)	-	270,478
Interest expense	(6,881)	(6,881)	(6,148)	733
TOTAL NONOPERATING REVENUE (EXPENSES)	(265,309)	(265,309)	21,575	286,884
 CHANGE IN NET POSITION	 <u>\$ 241,077</u>	 <u>\$ 241,077</u>	 (50,023)	 <u>\$ (291,100)</u>
 NET POSITION, BEGINNING OF YEAR-restated			 <u>8,998,107</u>	
 NET POSITION, END OF YEAR			 <u>\$ 8,948,084</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, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Operating Revenues</b>				
Rental income				
Slip rental	\$ 32,000	\$ 32,000	\$ 73,791	\$ 41,791
Winter storage	20,000	20,000	6,352	(13,648)
Utilities	3,500	3,500	8,462	4,962
Transient slip rental	31,000	31,000	67,178	36,178
Marina rent	13,648	13,648	17,060	3,412
Cannon Street pier rent	1,500	1,500	4,500	3,000
Fuel sales	82,000	82,000	70,547	(11,453)
Other income	3,300	3,300	7,673	4,373
Total Operating Revenues	<u>186,948</u>	<u>186,948</u>	<u>255,563</u>	<u>68,615</u>
<b>Operating Expenses</b>				
Advertising	100	100	-	100
Credit card fees	3,000	3,000	28	2,972
Conventions, meetings and travel	500	500	58	442
Depreciation expense	-	-	11,169	(11,169)
Dues and subscriptions	100	100	80	20
Housekeeping/supplies	2,000	2,000	4,952	(2,952)
Fuel - diesel	25,000	25,000	15,728	9,272
Fuel - gasoline	35,000	35,000	30,444	4,556
Insurance - liability/property	3,829	3,829	3,829	-
Legal services	150	150	365	(215)
Licenses and permits	1,000	1,000	26	974
Medical life	7,884	7,884	8,718	(834)
Office supplies	500	500	1,080	(580)
Operating supplies	1,000	1,000	1,500	(500)
Payroll taxes	4,667	4,667	4,306	361
Pension expense	4,221	4,221	4,387	(166)
Uniforms and clothing	-	-	111	(111)
Workman's compensation	-	-	1,573	(1,573)
Property taxes	1,000	1,000	-	1,000
Repairs and maintenance				
Buildings	1,000	1,000	12,921	(11,921)
Docks	1,000	1,000	505	495
Grounds	1,000	1,000	383	617
Equipment	2,000	2,000	7,965	(5,965)
Salaries	61,000	61,000	56,440	4,560
Boating Supplies	1,000	1,000	988	12
Telephone	3,000	3,000	5,682	(2,682)
Trash removal	1,400	1,400	1,320	80
Water and sewer	4,000	4,000	-	4,000
Utilities	8,000	8,000	10,715	(2,715)
Total Operating Expenses	<u>173,351</u>	<u>173,351</u>	<u>185,273</u>	<u>(11,922)</u>
<b>OPERATING INCOME (LOSS)</b>	<u>\$ 13,597</u>	<u>\$ 13,597</u>	<u>\$ 70,290</u>	<u>\$ 56,693</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>				
Interest income	25	25	69	44
Interest expense	(53,357)	(53,357)	(52,874)	483
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<u>(53,332)</u>	<u>(53,332)</u>	<u>(52,805)</u>	<u>527</u>
Transfers from other funds	-	-	-	-
<b>CHANGE IN NET POSITION</b>	<u>\$ (39,735)</u>	<u>\$ (39,735)</u>	<u>17,485</u>	<u>\$ 57,220</u>
<b>NET POSITION, BEGINNING OF YEAR</b>			<u>(298,961)</u>	
<b>NET POSITION, END OF YEAR</b>			<u>\$ (281,476)</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, 2020, 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 29, 2020.

**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.

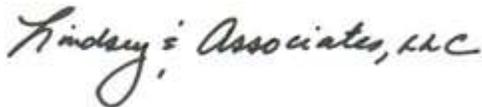
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in cursive script that reads "Lindsay Associates, LLC". The signature is written in black ink on a white background.

October 29, 2020

October 29, 2020

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, 2020, and have issued our report thereon dated October 29, 2020. 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, 2020, 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*

The audit was delayed due to delays in obtaining an OPEB actuarial report.

### *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 29, 2020.

*Management Consultations with Other Independent Accountants*

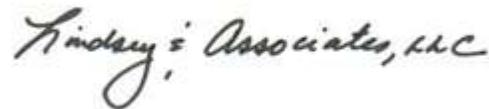
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination 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,

A handwritten signature in cursive script that reads "Hindley & Associates, LLC". The signature is written in black ink and is enclosed within a thin, light-colored rectangular border.