

TOWN OF QUEENSTOWN, MARYLAND  
FINANCIAL STATEMENTS WITH  
SUPPLEMENTAL INFORMATION  
JUNE 30, 2015

TOWN OF QUEENSTOWN  
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## INDEPENDENT AUDITOR'S REPORT

To the Commissioners  
Town of Queenstown, Maryland

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Queenstown, as of and for the year ended June 30, 2015, 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, and each major fund of the Town of Queenstown, as of June 30, 2015, and the respective changes in financial position, and where applicable, cash flows

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thereof and the respective budgetary comparison for the General and Enterprise Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### **Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental 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.

Management has omitted the 10 year pension schedule required by GASB 68 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Queenstown's basic financial statements. The Analysis of Revenue and Expenditures/Expenses - Budget and Actual - All Fund Types (Schedules A and B), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules referred to in the previous paragraph are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, those schedules are fairly stated in all material respects in relation to the basic 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 November 13, 2015, on our consideration of the Town of Queenstown'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 Queenstown's internal control over financial reporting and compliance.



Seaford, Delaware  
November 13, 2015

TOWN OF QUEENSTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015

This Discussion and Analysis is intended to be an easily readable analysis of the Town of Queenstown's financial activities based on current known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

**Report Layout**

In addition to Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, and supplemental information. The first several statements are highly condensed and present a government-wide view of the Town's finances. Within this view, all Town operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as public works, parks and recreation, community development, historical preservation and general government administration. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the Town.

**Basic Financial Statements**

- The Statement of Net Position focuses on resources available for future operations. In simple terms, this statement presents a snap-shot view of the assets the community owns, the liabilities owed and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.
- The Statement of Activities focuses gross and net costs of Town programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund Financial Statements focus separately on major Governmental Funds and Proprietary Funds. Governmental Fund statements follow the more traditional presentation of financial statements. A budgetary comparison is presented for all funds. Statements for the Town's Proprietary Funds follow the Governmental Fund statements and include net position, revenue, expenses and changes in net position, and cash flow.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Town's financial condition.

TOWN OF QUEENSTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position increased by \$1.09 million, or 24%, from 2014 to 2015. (See table below.) Governmental fund net position increased by 3%, and the Business-type fund increased by 46%, which is the result of the new water and sewer rates being implemented for the entire year, significant connection fee revenue, and grants from MDE for the waste water treatment plant upgrade.

Town of Queenstown  
Net Position  
(in millions)

	Governmental		Business-Type		Total		Percentage Change
	2015	2014 Restated	2015	2014	2015	2014 Restated	
Current and Other Assets	.76	.74	.94	.41	1.70	1.15	48%
Non-Current Assets	.64	.61	(.64)	(.61)	-	-	-
Capital Assets	1.26	1.27	9.18	3.15	10.44	4.42	136%
Total Assets and Deferrals	2.66	2.62	9.48	2.95	12.14	5.57	118%
Current Liabilities	.03	.03	.59	.18	.62	.21	195%
Long-Term Debt	.19	.22	5.66	.56	5.85	.78	650%
Other Liabilities	.11	.11	-	-	.11	.11	-
Total Liabilities	.33	.36	6.25	.74	6.58	1.10	498%
Net Position							
Net Investment in Capital Assets	1.06	1.05	2.96	2.59	4.02	3.64	10%
Restricted	.04	.04	-	-	.04	.04	-
Unrestricted - Restated	1.23	1.17	.27	(.38)	1.50	.79	90%
Total Net Position	2.33	2.26	3.23	2.21	5.56	4.47	24%

TOWN OF QUEENSTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015

The Town's total revenues increased 102% to \$1.98 million (See table below). Revenue from business-type activities increased 265% to \$1.35 million, which is primarily due to the capital grant revenue for the waste water treatment plant, significant connection fee revenue, and an increase in water and sewer rates. Governmental revenues increased by 3% to \$.63 million, which is primarily due to an increase in real and personal property tax, along with various other increases in revenue line items.

The total cost of all programs and services increased by 2.3%, to \$.89 million. Costs of business-type activities remained essentially the same, at \$.33 million. Costs of governmental activities increased by 4% to \$.56 million.

Town of Queenstown  
Change in Net Position  
(in millions)

	Governmental		Business-Type		Total		Total Percentage
	2015	2014	2015	2014	2015	2014	Change
Program Revenue:							
Fees, Fines, Services	.04	.04	.55	.37	.59	.41	44%
Capital Grants	-	-	.80	-	.80	-	100%
General Revenue							
Taxes	.59	.57	-	-	.59	.57	4%
Investment Income (Loss)	-	-	-	-	-	-	-
Total Revenue	.63	.61	1.35	.37	1.98	.98	102%
Program Expenses:							
General	.30	.28	-	-	.30	.28	7.1%
Public Works	.22	.22	-	-	.22	.22	-
Parks and Recreation	.03	.03	-	-	.03	.03	-
Debt Service	.01	.01	-	-	.01	.01	-
Water and Sewer	-	-	.33	.33	.33	.33	-
Total Expenses	.56	.54	.33	.33	.89	.87	2.3%
Change in Net Position	.07	.07	1.02	.04	1.09	.11	891%
Net Position Beginning - Restated	2.26	2.19	2.21	2.17	4.47	4.36	2.5%
Net Position Ending	2.33	2.26	3.23	2.21	5.56	4.47	24%

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was not amended during the current fiscal year.

General Fund revenues of \$636,515 were over the budget by \$47,809. This favorable variance was mainly attributed to higher than anticipated real estate tax, local income tax and highway use tax.

TOWN OF QUEENSTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015

General Fund expenditures of \$562,617 were under the budget by \$44,780. This favorable variance was mainly attributed to budgeted street repairs and curb and concrete work that was not completed, along with various other line item variances.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the Town had \$10.44 million invested in capital assets, including a historic courthouse, park and recreation facilities, buildings, land, vehicles, construction in progress and equipment.

Town of Queenstown  
Capital Assets Net of Depreciation  
(in millions)

	Governmental		Business-Type		Total	
	2015	2014	2015	2014	2015	2014
Land	.08	.08	.06	.06	.14	.14
Buildings	.98	1.01	-	-	.98	1.01
Equipment	.03	.04	2.43	2.53	2.46	2.57
Construction in Progress	-	-	6.69	.56	6.69	.56
Improvements	.17	.14	-	-	.17	.14
Total Capital Assets	1.26	1.27	9.18	3.15	10.44	4.42

Note 4 of the Notes to Basic Financial Statements gives further details of the Town's capital asset activity.

Debt

At year-end, the Town had \$5.85 million in debt outstanding versus \$.78 million last year, an increase of \$5.07 million.

Town of Queenstown  
Debt  
(in millions)

	Governmental		Business-Type		Total	
	2015	2014	2015	2014	2015	2014
Mortgage Municipal Building	.19	.22	-	-	.19	.22
Water Meter Loan	-	-	.27	.29	.27	.29
Del Rhodes Well	-	-	.18	.19	.18	.19
Line of Credit - WWTP	-	-	5.21	.08	5.21	.08
Total	.19	.22	5.66	.56	5.85	.78

Note 6 of the Notes to Basic Financial Statements gives further details of the Town's debt activity.

TOWN OF QUEENSTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET & RATES

Fiscal year (FY) 2015 saw many accomplishments, both major and minor that benefited our Town. The major accomplishments continue our focus on improving and maintaining the infrastructure, potable water and water/sewer capability.

The Town's Waste Water Treatment Plant (WWTP) has been at capacity for many years. County approval was received on Fiscal year 2012 to begin the planning and design phases of constructing a new WWTP. Phases 1 and 2 are fully funded by 2 USDA loan/grants. Additional funding for the WWTP comes from a grant to Queenstown that was awarded by MDE (Maryland Department of the Environment). Phase 1 construction has begun and will continue through 2015. Construction through Phase II is scheduled to begin in July 2015 and continue into 2016. The construction Phase of the WWTP project is expected to be completed on 2016.

Queenstown has applied for and received funding from MDE for a new potable drinking well on Del Rhodes Ave. The design and construction have been completed. The well testing has been completed and the well was put into service in July 2015.

Several street improvements were completed in fiscal year 2015 including Wall Street, Steamboat Avenue and new sidewalks along Steamboat and Maryland Avenues. Additional improvements were completed on Charity Lane and Second Avenue.

Several projects for housing infill were approved and begun in 2015. This is a preferred planning approach from Maryland Department of Planning for municipalities. The project at Steamboat Village will begin by installing water and sewer lines and laying out roads. The housing plans have been approved and construction is expected to begin next year. Water and sewer connections have been provided to the Birney property. The Town is expecting a concept plan.

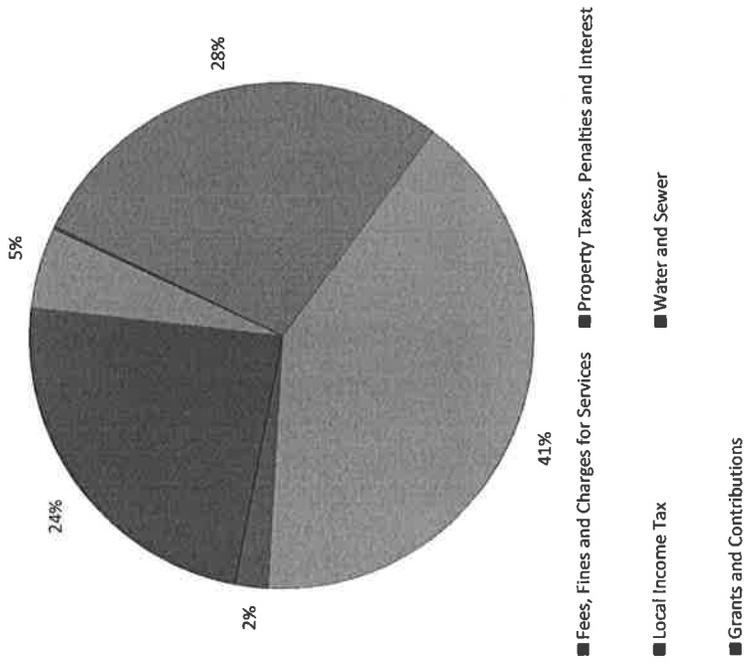
Queenstown will continue to meet the financial challenge by focusing on rigorous expense management. Every contract and every supplier will be reviewed with expense control as the goal. The results have been favorable so far as the Town has had a balanced budget for several years, has controlled expenses in this fiscal year and established a budget for next year without any tax increase for Queenstown citizens.

FINANCIAL CONTACT

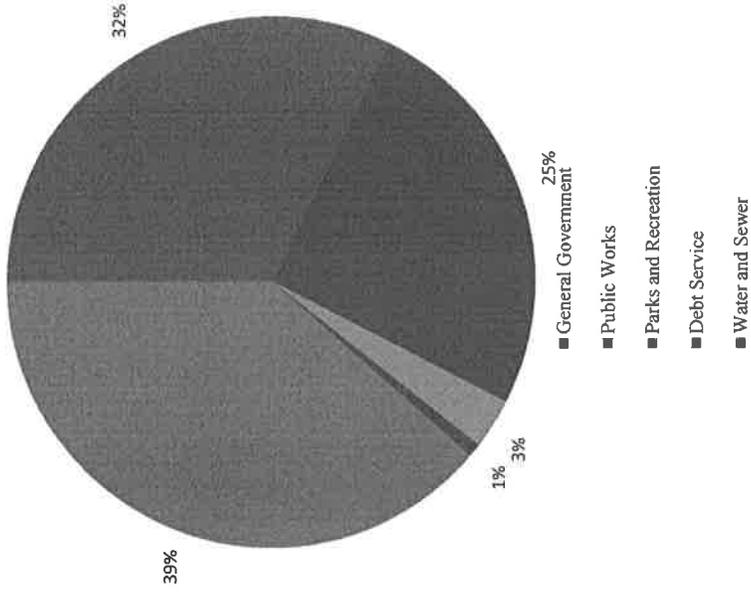
The Town's Financial Statements are designed to present the users (citizens, taxpayers, customers, and creditors) with a general overview of the Town's finances and to demonstrate the Town's accountability. If you have any questions about the report or need additional financial information, please put your request in writing to the attention of: Town Clerk - Town of Queenstown, P.O. Box 4, Queenstown, Maryland 21658.

TOWN OF QUEENSTOWN  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 TOTAL REVENUE AND EXPENSES  
 GOVERNMENT-WIDE  
 JUNE 30, 2015

**TOTAL REVENUES**



**TOTAL EXPENSES**



TOWN OF QUEENSTOWN  
GOVERNMENT-WIDE STATEMENT OF NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT A

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash	\$ 104,918	\$ 568,354	\$ 673,272
Accounts Receivable	36,037	55,874	91,911
Investments	621,895	311,181	933,076
Internal Balances	644,883	(644,883)	-
Capital Assets:			
Land	82,600	57,962	140,562
Buildings	1,342,269	-	1,342,269
Equipment	227,182	4,507,662	4,734,844
Construction in Progress	-	6,691,265	6,691,265
Improvements	257,264	-	257,264
Vehicles	31,230	-	31,230
Accumulated Depreciation	<u>(681,876)</u>	<u>(2,071,366)</u>	<u>(2,753,242)</u>
Total Assets	2,666,402	9,476,049	12,142,451
Deferred Outflow of Resources	<u>3,557</u>	<u>-</u>	<u>3,557</u>
Total Assets and Deferred Outflows	<u>\$ 2,669,959</u>	<u>\$ 9,476,049</u>	<u>\$ 12,146,008</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 29,306	\$ 592,730	\$ 622,036
Non-Current Liabilities:			
Due within one year	24,678	338,745	363,423
Due in more than one year	167,488	5,323,222	5,490,710
Net Pension Liability	<u>108,528</u>	<u>-</u>	<u>108,528</u>
Total Liabilities	<u>330,000</u>	<u>6,254,697</u>	<u>6,584,697</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	1,066,503	2,961,154	4,027,657
Restricted	37,974	-	37,974
Unrestricted - Restated	<u>1,235,482</u>	<u>260,198</u>	<u>1,495,680</u>
Total Net Position	<u>\$ 2,339,959</u>	<u>\$ 3,221,352</u>	<u>\$ 5,561,311</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS



TOWN OF QUEENSTOWN  
BALANCE SHEET  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT C

<u>ASSETS</u>	<u>General Fund</u>
Current Assets:	
Cash	\$ 104,918
Accounts Receivable	36,037
Investments	<u>621,895</u>
Total Current Assets	<u>762,850</u>
Non-Current Assets:	
Internal Balances	<u>644,883</u>
Total Assets	<u>\$ 1,407,733</u>

LIABILITIES AND FUND BALANCES

Liabilities:	
Accounts Payable	\$ <u>29,306</u>
Fund Balance:	
Nonspendable	644,883
Assigned	37,974
Unassigned	<u>695,570</u>
Total Fund Balance	<u>1,378,427</u>
Total Liabilities and Fund Balance	<u>\$ 1,407,733</u>

Amounts Reported For Governmental Activities in The Statement of Net Position Are Different Because:

Total Fund Balance	\$ 1,378,427
The deferred outflow of resources is not a current financial resource and therefore is not reported in the governmental fund's balance sheet	3,557
Capital assets and related accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	1,258,669
Long-term liabilities do not require current financial resources and therefore are not reported in the funds.	(192,166)
The net pension liability is not a current financial resource and therefore is not reported in the governmental fund's balance sheet	<u>(108,528)</u>
Net Position of Governmental Activities	<u>\$ 2,339,959</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

TOWN OF QUEENSTOWN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT D

	<u>General Fund</u>
Revenues:	
Property Taxes	\$ 413,714
Intergovernmental	177,884
Licenses and Permits	35,108
Investment Income	3,076
Rents	5,908
Miscellaneous	<u>825</u>
Total Revenues	<u>636,515</u>
Expenditures:	
Current:	
General Government	270,204
Public Works	208,325
Parks and Recreation	11,759
Capital Outlay	41,178
Debt Service	<u>31,156</u>
Total Expenditures	<u>562,622</u>
Excess of Revenues over Expenditures	73,893
Other Financing Sources/(Uses)	
Transfer In/(Out)	<u>(10,037)</u>
Net Change in Fund Balance	63,856
Fund Balance - Beginning - Restated	<u>1,314,571</u>
Fund Balance - Ending	<u>\$ 1,378,427</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

TOWN OF QUEENSTOWN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT E

Net Change in Fund Balance - Total Governmental Funds	\$	63,856
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Pension plan adjustments related to GASB 68 affect the amount of pension expense reflected in the financial statements		431
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		41,178
Debt Service Principal		23,816
Depreciation expense on capital assets is reported in the government-wide statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.		<u>(49,830)</u>
Change in Net Position of Governmental Activities	\$	<u><u>79,451</u></u>

TOWN OF QUEENSTOWN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT F

	<u>Budgeted</u> <u>Amounts</u>	<u>Actual</u> <u>Amounts</u>	<u>Favorable</u> <u>(Unfavorable)</u> <u>Variance</u>	<u>Prior Year</u> <u>06/30/14</u>
Revenues:				
Property Taxes	\$ 395,152	\$ 413,714	\$ 18,562	\$ 394,449
Intergovernmental	139,354	177,884	38,530	173,419
Licenses and Permits	36,900	35,108	(1,792)	32,074
Investment Income	8,600	3,076	(5,524)	3,241
Rents	6,630	5,908	(722)	6,205
Miscellaneous	2,070	825	(1,245)	4,260
	<u>588,706</u>	<u>636,515</u>	<u>47,809</u>	<u>613,648</u>
Total Revenues				
Expenditures:				
Current:				
General Government	251,180	270,204	(19,024)	262,088
Public Works	255,959	208,325	47,634	207,437
Parks and Recreation	20,950	11,759	9,191	16,218
Capital Outlay	48,580	41,178	7,402	8,074
Debt Service	30,728	31,156	(428)	31,027
	<u>607,397</u>	<u>562,622</u>	<u>44,775</u>	<u>524,844</u>
Total Expenditures				
Excess (Deficiency) of Revenues over/(under) Expenditures	(18,691)	73,893	92,584	88,804
Other Financing Sources/(Uses):				
Operating Transfers In/(Out)	(10,037)	(10,037)	-	(3,679)
	<u>(10,037)</u>	<u>(10,037)</u>	<u>-</u>	<u>(3,679)</u>
Excess (Deficiency) of Revenues and Other Sources over/(under) Expenditures	(28,728)	63,856	92,584	85,125
Fund Balance - Beginning - Restated	1,314,571	1,314,571	-	1,229,446
	<u>1,314,571</u>	<u>1,314,571</u>	<u>-</u>	<u>1,229,446</u>
Fund Balance - Ending	\$ 1,285,843	\$ 1,378,427	\$ 92,584	\$ 1,314,571
	<u>\$ 1,285,843</u>	<u>\$ 1,378,427</u>	<u>\$ 92,584</u>	<u>\$ 1,314,571</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

TOWN OF QUEENSTOWN  
STATEMENT OF NET POSITION - ENTERPRISE FUND  
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT G

ASSETS

Current Assets:		
Cash	\$	568,354
Accounts Receivable		55,874
Investments		<u>311,181</u>
Total Current Assets		<u>935,409</u>
Capital Assets:		
Land		57,962
Equipment		4,507,662
Construction in Progress		6,691,265
Accumulated Depreciation		<u>(2,071,366)</u>
Total Capital Assets		<u>9,185,523</u>
Total Assets	\$	<u><u>10,120,932</u></u>

LIABILITIES

Current Liabilities:		
Accounts Payable	\$	592,730
Notes Payable - Current Portion		<u>338,745</u>
Total Current Liabilities		<u>931,475</u>
Non-Current Liabilities:		
Long-Term Debt - Net of Current Portion		5,323,222
Internal Balances		<u>644,883</u>
Total Non-Current Liabilities		<u>5,968,105</u>
Total Liabilities		<u>6,899,580</u>

NET POSITION

Net Investment in Capital Assets		2,961,154
Unrestricted		<u>260,198</u>
Total Net Position		<u>3,221,352</u>
Total Liabilities and Net Position	\$	<u><u>10,120,932</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

TOWN OF QUEENSTOWN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION  
BUDGET AND ACTUAL - ENTERPRISE FUND  
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT H

	<u>Budget</u>	<u>Water and Sewer Actual Amounts</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Prior Year 6/30/14</u>
<b>Operating Revenues:</b>				
Charges for Services	\$ 385,085	\$ 410,719	\$ 25,634	\$ 269,274
Rents	64,000	58,235	(5,765)	66,843
Connection Fees	-	80,600	80,600	26,322
Miscellaneous	250	-	(250)	-
	<u>449,335</u>	<u>549,554</u>	<u>100,219</u>	<u>362,439</u>
<b>Total Operating Revenues</b>				
<b>Operating Expenses:</b>				
Lab Fees	750	-	750	-
Operating Supplies	1,250	612	638	2,200
Telephone	2,100	4,103	(2,003)	2,501
Auditing	5,000	5,000	-	2,840
Dues and Subscriptions	250	325	(75)	250
Utilities	34,600	32,709	1,891	31,374
Plant Repairs and Maintenance	40,000	40,016	(16)	31,378
Tower Repairs and Maintenance	18,675	21,854	(3,179)	15,003
Water and Sewer Lines Repairs and Maintenance	12,000	4,944	7,056	9,704
Water/Sewer Operating Fees	60,315	64,314	(3,999)	59,864
Engineering Fees	7,500	6,834	666	487
Advertising	500	400	100	546
Insurance	28,000	9,955	18,045	14,120
Debt Service	99,105	4,490	94,615	3,499
Chemicals	12,500	7,947	4,553	12,227
Sludge Disposal	35,000	29,609	5,391	40,887
Real Property Tax	4,100	3,365	735	4,028
Depreciation	72,035	107,409	(35,374)	100,900
Miscellaneous	500	60	440	331
	<u>434,180</u>	<u>343,946</u>	<u>90,234</u>	<u>332,139</u>
<b>Total Operating Expenses</b>				
Net Operating Income (Loss)	15,155	205,608	190,453	30,300
<b>Non-Operating Revenue:</b>				
WWTP Grant Revenue	-	798,907	798,907	-
Investment Income	2,000	657	(1,343)	618
	<u>2,000</u>	<u>799,564</u>	<u>797,564</u>	<u>618</u>
<b>Total Non-Operating Revenue</b>				
Net Income/(Loss) Before Transfers	17,155	1,005,172	988,017	30,918
Transfers	10,037	10,037	-	3,679
Change in Net Position	27,192	1,015,209	988,017	34,597
Net Position - Beginning - Restated	2,206,143	2,206,143	-	2,171,546
Net Position - Ending	<u>\$ 2,233,335</u>	<u>\$ 3,221,352</u>	<u>\$ 988,017</u>	<u>\$ 2,206,143</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

TOWN OF QUEENSTOWN  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUND  
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT I

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 658,544
Rents	58,235
Cash Payments for Interest	(4,490)
Cash Payments to Suppliers for Goods and Services	<u>(382,549)</u>
Net Cash Flows from Operating Activities	<u>329,740</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers - General Fund	<u>10,037</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Debt	5,128,085
WWTP Grant Revenue	798,907
Purchase of Capital Assets	(5,742,482)
Retirement of Debt	<u>(23,808)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>160,702</u>
Cash Flows from Investing Activities:	
Investment Income	<u>657</u>
Net Decrease in Cash	501,136
Cash - Beginning	<u>67,218</u>
Cash - Ending	<u>\$ 568,354</u>
Reconciliation of Net Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ 205,608
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	107,409
Change in Accounts Receivable	167,225
Change in Accounts Payable	<u>(150,502)</u>
Net Cash Flows from Operating Activities	<u>\$ 329,740</u>
Non-Cash Capital and Related Financing Activities:	
Construction Costs Included in Accounts Payable	<u>\$ 562,402</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

TOWN OF QUEENSTOWN  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

EXHIBIT J  
PAGE 1

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. General Statement

The Town of Queenstown is located in Queen Anne's County, Maryland and has a population of approximately 659 people. Some of the major services provided by the Town include water and sewer, trash removal, parks and recreation, planning and zoning, improvements, and historical preservation.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

The more significant accounting policies of the Town are described below.

B. Financial Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity is set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 61.

Based on this criteria, the Town of Queenstown has no component units.

C. Basis of Presentation

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

Government-wide Financial Statements:

The statement of net position and the statement of activities report information on all of the activities of the Town. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements would normally be presented for governmental and proprietary activities. These statements present each major fund as a separate column on

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Basis of Presentation (Continued)

the fund financial statements; all non-major funds are aggregated and presented in a single column. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

The Town has presented the following major funds:

*General Fund*

The General Fund is the primary operating fund of the Town. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

*Water and Sewer Fund*

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the Town. Activities of the fund include administration, operations and maintenance of the water and sewer system, billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Measurement Focus/Basis of Accounting (Continued)

and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers all Governmental Revenue as available if it is collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred.

The revenues susceptible to accrual are property taxes, licenses, charges for services, and intergovernmental revenues. All other Governmental Fund revenues are recognized when received.

E. Budgetary Control

The Town Clerk submits an annual budget to the Commissioners in accordance with the Town Charter. At least sixty days prior to the new fiscal year, the Commissioners adopt the annual fiscal year appropriated budget for Town operating funds. These include General, Public Works, Parks and Recreation, Historical Preservation and Water and Sewer. Once approved, the Commissioners may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. All budget revisions at this level are subject to final review by the Commissioners. Within these control levels, management may transfer appropriations without Commissioners approval.

The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

F. Cash and Investments

The Town follows the practice of segregating cash as to fund purpose or type.

The types of investments allowed are governed by Maryland Statute.

The Town considers all cash or investments with an initial maturity of one year or less to be cash.

G. Accounts Receivable

Management of the Town considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations in the period the receivable is deemed uncollectible.

H. Property Taxes

Property taxes are billed each July 1 for the fiscal year. Full payment is due by September 30. January 1 is the delinquent and levy date for all taxes.

TOWN OF QUEENSTOWN  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

EXHIBIT J  
PAGE 4

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

I. Internal Balances

Internal Balances are treated as interfund receivables and payables arising from interfund transactions that are recorded by all funds affected in the period in which transactions are executed.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as an expense. Renewals and betterments are capitalized.

The Town owns a historic courthouse which formerly served as the County's Courthouse in the early eighteenth century. Currently, the building serves as a museum containing exhibits for public leisure and education. Major improvements and acquisitions related to the courthouse are capitalized, but not depreciated.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Classification</u>	<u>Life</u>
Buildings	20 - 50 Years
Equipment	5 - 12 Years
Improvements	10 - 20 Years
Vehicles	5 - 10 Years
Water and Sewer Assets	20 - 50 Years

In accordance with Accounting Standards Codification (ASC), No. 360, "Accounting for the Impairment or Disposal of Long-Lived Assets," management reviews property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment losses have been recognized during the year presented.

K. Net Position

Net Position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

L. Use of Estimates

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

M. Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Town Commissioners. These amounts cannot be used for any other purpose unless the Town Commissioners remove or change the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Town currently has no committed resources.
- Assigned: This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Town Commissioners or through the Commissioners delegating this responsibility to the Town manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes the residual fund balance for the General Fund and the amount established for Minimum Funding, if any. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Town would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

TOWN OF QUEENSTOWN  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

EXHIBIT J  
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

N. Subsequent Events

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to the financial statements. All events and transactions have been evaluated through November 13, 2015, the date the report was available for issuance.

NOTE 2 - CASH AND INVESTMENTS:

The balance of cash and investments is categorized as follows:

General Fund Checking	\$ 113,311
General Fund Petty Cash	100
General Fund CDs	594,354
Parks and Recreation CD	30,671
Courthouse CD	7,303
Water and Sewer Fund Checking	772,728
Waste Water Treatment Plant Checking	1,906
Water and Sewer CDs	<u>311,181</u>
<u>TOTAL CASH AND INVESTMENTS - PER BANK STATEMENTS</u>	<u>\$ 1,831,554</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC	\$ <u>500,000</u>
Collateralized by the financial institution's trust department with securities not in the Town's name	\$ <u>1,331,454</u>
Uncollateralized	\$ <u>100</u>

NOTE 3 - CONSTRUCTION IN PROGRESS:

The Commissioners have awarded a contract to upgrade the Wastewater Treatment Plant in the amount of \$8,409,024. The project is in the construction phase and should be complete in the next fiscal year. The project will be funded with a combination of federal and state loans and grants. To date, the project has been funded with interim financing and State grants. Included in construction in progress is capitalized interest of \$64,611. Also, the amount of \$562,402 is included in accounts payable for a progress billing on this project.

TOWN OF QUEENSTOWN  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

EXHIBIT J  
PAGE 7

NOTE 4 - CAPITAL ASSETS:

Following is a summary of Capital Asset changes for the current year:

ASSETS

	Balance Beginning of Year	Acquisitions	Retirements	Balance End of Year
Land	\$ 140,562	\$ -	\$ -	\$ 140,562
Buildings	1,342,269	-	-	1,342,269
Equipment	227,182	-	-	227,182
Improvements	216,086	41,178	-	257,264
Vehicles	31,230	-	-	31,230
Water and Sewer	<u>5,058,320</u>	<u>6,140,607</u>	<u>-</u>	<u>11,198,927</u>
<u>TOTALS</u>	<u>\$ 7,015,649</u>	<u>\$ 6,181,785</u>	<u>\$ -</u>	<u>\$ 13,197,434</u>

ACCUMULATED DEPRECIATION

	Balance Beginning of Year	Depreciation	Retirements	Balance End of Year
Buildings	\$ 331,406	\$ 31,832	\$ -	\$ 363,238
Equipment	191,382	6,468	-	197,850
Improvements	78,028	11,530	-	89,558
Vehicles	31,230	-	-	31,230
Water and Sewer	<u>1,963,957</u>	<u>107,409</u>	<u>-</u>	<u>2,071,366</u>
<u>TOTALS</u>	<u>\$ 2,596,003</u>	<u>\$ 157,239</u>	<u>\$ -</u>	<u>\$ 2,753,242</u>

CAPITAL ASSETS

\$ 10,444,192

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental Activities:

General Government	\$ 17,732
Parks and Recreation	15,570
Public Works	16,528
Enterprise Activity - Water and Sewer	<u>107,409</u>
Total Depreciation Expense	<u>\$ 157,239</u>

TOWN OF QUEENSTOWN  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

EXHIBIT J  
PAGE 8

NOTE 5 - ACCOUNTS PAYABLE:

Included in the balance of accounts payable are the following:

Property Tax Refund Payable - Taxes levied in prior years were not in accordance with Maryland Law, which prescribes a personal property tax rate at no more than 2.5 times the general rate for real property. In the past, the Town had overcharged for personal property taxes. The issue has since been resolved and the rate corrected. However, the payable remains outstanding in the amount of \$17,087.

Water and Sewer Service Refund Payable - The Town assesses certain fees for the consumption of water and disposal of sewage. These fees are set forth in a Town ordinance established by the Town Commissioners. The Town bills and collects its own revenue generated from both water consumption and sewage disposal. Dating back to 1994, the Town incorrectly billed a resident at a rate four times the actual. The Town is still in the process of resolving the matter; however, the payable remains outstanding in the amount of \$15,613.

NOTE 6 - DEBT:

Debt consists of the following:

Mortgage Payable - Municipal Building - Queenstown Bank - \$272,162, payable over a 111 month term maturing June 2, 2022, with interest currently at 3.50%. Monthly payments of principal and interest in the amount of \$2,586. Secured by real estate.	\$ 192,166
Water Meter Loan - Maryland Department of the Environment (MDE) - \$302,940 payable at an interest rate of .9% over 19 3/4 years, maturing on February 1, 2032. Interest is payable August 1 <sup>st</sup> of each year. On February 1 <sup>st</sup> of each year a principal, interest and administrative fee payment of \$18,649 is due.	271,591
Del Rhodes Well Loan - Maryland Department of the Environment (MDE) - \$186,200 payable at an interest rate of 2.20% over 20 years, maturing February 1, 2034. Interest is payable August 1 <sup>st</sup> of each year. On February 1 <sup>st</sup> of each year a principal, interest and administrative fee payment of \$11,608 is due.	178,688
Line of Credit - WWTP Upgrade - Queenstown Bank - The Town was approved for a \$7,392,980 unsecured line of credit, payable in one lump sum on January 30, 2016, with interest at 3.375%. The loan will be refinanced/paid down with loan/grant proceeds received from the United States Department of Agriculture (USDA).	<u>5,211,688</u>
<u>TOTAL DEBT</u>	<u>\$ 5,854,133</u>

TOWN OF QUEENSTOWN  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

EXHIBIT J  
PAGE 9

NOTE 6 - DEBT (CONTINUED):

Transactions for the year are summarized as follows:

	<u>Balance</u> <u>July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30</u>	<u>Due within</u> <u>One year</u>
<u>Governmental Type Activities:</u>					
Mortgage Payable	\$ 215,982	\$ -	\$ (23,816)	\$ 192,166	\$ 24,678
<u>Business-Type Activities:</u>					
Water Meter Loan	286,833	-	(15,242)	271,591	15,380
Del Rhoades Well	186,200	-	(7,512)	178,688	7,677
Line of Credit - WWTP	84,657	5,128,085	(1,054)	5,211,688	-
<u>Total Debt</u>	<u>\$ 773,672</u>	<u>\$ 5,128,085</u>	<u>\$ (47,624)</u>	<u>\$ 5,854,133</u>	<u>\$ 47,735</u>

Maturities of principal and interest over the next five years, and five-year increments thereafter, are as follows:

	<u>Governmental Type Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 24,678	\$ 6,349	\$ 338,745	\$ 6,513
2017	25,573	5,454	82,576	170,952
2018	26,483	4,544	84,903	168,625
2019	27,425	3,602	87,305	166,224
2020	28,393	2,634	89,781	163,749
2021 - 2025	59,614	2,440	488,909	778,763
2026 - 2030	-	-	563,799	703,907
2031 - 2035	-	-	576,089	616,602
2036 - 2040	-	-	598,550	521,230
2041 - 2045	-	-	707,582	412,199
2046 - 2050	-	-	836,473	283,307
2051 - 2055	-	-	988,843	130,937
2056 - 2060	-	-	218,412	5,544
<u>Totals</u>	<u>\$ 192,166</u>	<u>\$ 25,023</u>	<u>\$ 5,661,967</u>	<u>\$ 4,128,552</u>

NOTE 7 - PENSION PLAN:

The Town contributes to the Maryland State Retirement and Pension System (MSRPS) which is a cost sharing multiple employer defined benefit plan. All compensation earned by a member of the Plan is subject to employer pension contributions at an actuarially determined rate. The rate is established by the Board of Pension Trustees on the basis of the most recent actuarial valuation and is adjusted on July 1<sup>st</sup> of each year. Employer contributions for June 30, 2014 were at the rate of 6.47% of earnings. A deduction is made from each employee's compensation equal to 7% of base pay. Full service pension allowance equals 1.2% of Average Final Compensation (AFC) for the three highest consecutive years as an employee for each year of creditable service accrued prior to July 1, 1998 plus 1.8% of the AFC for the three highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 1998. Members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances; age 62 with 5 years of eligibility service, age 63 with 4 years of eligibility service, age 64 with 3 years of eligibility service, or age 65 or older and two years

TOWN OF QUEENSTOWN  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

EXHIBIT J  
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NOTE 7 - PENSION PLAN (CONTINUED):

of eligibility service. Members may be eligible for reduced vested pension allowances upon attaining age 55 with 15 years of eligibility.

The plan provides for disability and survivor benefits.

During the year ended June 30, 2015, the Town contributed \$13,866 to the plan.

Basis of Accounting - The plan's financial statements have been presented in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The statements have been presented on the accrual basis of accounting. Employer contributions, benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The plan's fiduciary net position has been determined on the same basis as that used by the plan.

Investments - Investments are reported at fair value.

<u>Actuarial Assumptions</u> - Investment rate of return/discount rate	7.65%
Projected salary increases	3.4% - 11.9% including inflation
Cost of living adjustments	3%
Inflation rate included	2.9% general, 3.4% wage

Mortality rates are based on the RP-2000 Combined Healthy Mortality table projected to the year 2025.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2013 to June 30, 2014.

Discount Rate - A single discount rate of 7.65% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments. 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.

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 Board after considering input from the System's investment consultant(s) and actuary(ies). For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

TOWN OF QUEENSTOWN  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED):

Asset Class	Rate
Public Equity	4.7%
Fixed Income	2.0%
Credit Opportunity	3.0%
Real Return	2.8%
Absolute Return	5.0%
Private Equity	6.3%
Real Estate	4.5%
Cash and Equivalents	1.4%

The following presents the collective net pension liability (asset) of the plans calculated using the discount rate of 7.65%, as well as what the plans' net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

1% Decrease	\$156,402
Current Discount Rate	\$108,528
1% Increase	\$68,427

The Town's share of the net pension liability (asset) was calculated based on a percentage, the numerator of which is the Town's contribution for June 30, 2014, and the denominator is the total employer contributions for all participating employers. The total plan pension liability (asset) was multiplied by this percentage to arrive at the Town's share. The percentage for June 30, 2014 was .0006115362%. The collective total pension liability (asset) for the June 30, 2014 measurement date was determined by an actuarial valuation as of June 30, 2014 using the entry age normal actuarial cost method.

Deferred Inflows and Outflows of Resources - The Town's share of the deferred inflows and outflows of resources are as follows:

Deferred Outflow for Changes in Proportion	\$(1,570)
Deferred Inflow for Projected and Actual Investment Differences	11,879
Deferred Outflow for Contributions after Measurement Date	(13,866)
Net Deferred Outflow of Resources	\$(3,557)

The components of collective deferred outflows of resources and deferred inflows of resources, other than the difference between the projected and actual earnings on MSRPS investments, are amortized into pension expense over a closed period, which reflects the weighted average remaining service life of all plan members, beginning the year in which the deferred amount occurs. The amortization period is 5 years for deferred amounts arising in 2014. The annual difference between the projected and actual earnings on investments is amortized over a 5 year closed period beginning the year in which the difference occurs. The cumulative amounts of collective net deferred outflows (inflows) of resources reported as of June 30, 2014 will be recognized in pension expense as follows:

TOWN OF QUEENSTOWN  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015

EXHIBIT J  
PAGE 12

NOTE 7 - PENSION PLAN (CONTINUED):

<u>Year Ending</u>	<u>Amount</u>
6/30/15	\$711
6/30/16	\$711
6/30/17	\$711
6/30/18	\$711
6/30/19	\$711

The plan is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. The Commissioners of Queenstown assign the authority to establish and amend the benefit provisions of the plans that participate in the MSRPS to the Board of Trustees of the SRPSM. The State of Maryland issues a publicly available financial report that includes financial statements and required supplemental information for the MSRPS. The report may be obtained by writing to the Maryland State Retirement Agency, 120 East Baltimore Street, Baltimore, MD 21202, or via the internet at [www.sra.state.md.us](http://www.sra.state.md.us).

NOTE 8 - RISK AND INSURANCE COVERAGE:

The Town has exposure to various kinds of risk. As a vehicle to reduce this exposure the Town has purchased insurance policies from commercial insurance agents. These policies cover property, general liability, auto, workman's compensation, and employee bonding.

NOTE 9 - PRIOR PERIOD ADJUSTMENT

Due to the implementation of GASB 68, the beginning net position on the government-wide financial statements has been reduced by \$168,007, the deferred outflow of resources for 2014 was increased by \$14,251, the net pension asset for 2014 was decreased by \$62,605, and the net pension liability for 2014 was increased by \$119,653.

Also, in 2014 revenue from water tower rentals was overstated by \$5,440. The balance of cash in 2014 has been reduced by \$5,440 and the net position of the Enterprise Fund has been reduced by the same amount.

NOTE 10 - NET POSITION RESTRICTIONS/FUND BALANCE ASSIGNED:

The Town owns a historic courthouse which formerly served as the County's Courthouse in the early eighteenth century. Currently, the building serves as a museum containing exhibits for public leisure and education. A fund is maintained to care for and improve the courthouse. At June 30, 2015, the balance in the fund was \$7,303. Maintenance and improvement costs are paid from this fund before any other Town money is expended.

The Town Commissioners designated a parks and recreation fund in the amount of \$30,671 for future, non-specific improvements.

TOWN OF QUEENSTOWN  
SUPPLEMENTAL INFORMATION  
JUNE 30, 2015

TOWN OF QUEENSTOWN  
 SUPPLEMENTAL INFORMATION  
 ANALYSIS OF REVENUE - BUDGET AND ACTUAL  
 ALL FUNDS  
 YEAR ENDED JUNE 30, 2015

SCHEDULE A

	2015			
	Budgeted Amounts	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 06/30/14
<u>TAXES-LOCAL:</u>				
<u>Real and Personal Property:</u>				
Real Estate Taxes	\$ 279,452	\$ 289,243	\$ 9,791	\$ 279,236
Interest on Delinquent Taxes	700	674	(26)	848
Personal Property and Corporation	115,000	123,797	8,797	114,365
<u>Total Real and Personal Property</u>	<u>395,152</u>	<u>413,714</u>	<u>18,562</u>	<u>394,449</u>
<u>Intergovernmental:</u>				
Real Property Tax Share - County	54,617	54,612	(5)	47,392
Local Income Tax	75,000	101,076	26,076	104,682
Highway Use Tax	8,737	21,196	12,459	20,345
MDE WWTP Grant Funds	-	798,907	798,907	-
Critical Areas	1,000	1,000	-	1,000
<u>Total Intergovernmental</u>	<u>139,354</u>	<u>976,791</u>	<u>837,437</u>	<u>173,419</u>
<u>NET TAXES</u>	<u>534,506</u>	<u>1,390,505</u>	<u>855,999</u>	<u>567,868</u>
<u>LICENSES AND PERMITS:</u>				
Franchise	3,700	3,737	37	3,756
Building Permits	6,000	7,112	1,112	4,355
Other Licenses and Permits	1,000	514	(486)	550
Traders' Licenses	26,200	23,745	(2,455)	23,413
<u>TOTAL LICENSES AND PERMITS</u>	<u>36,900</u>	<u>35,108</u>	<u>(1,792)</u>	<u>32,074</u>
<u>CHARGES FOR SERVICES:</u>				
Water and Sewer	385,085	410,719	25,634	269,274
Connection Fees	-	80,600	80,600	26,322
<u>TOTAL CHARGES FOR SERVICES</u>	<u>385,085</u>	<u>491,319</u>	<u>106,234</u>	<u>295,596</u>
<u>MISCELLANEOUS REVENUE:</u>				
Interest	10,600	3,733	(6,867)	3,859
Rents	70,630	64,143	(6,487)	73,048
Bank Shares	370	371	1	371
Maps, Books, Copies, Etc.	200	454	254	56
Miscellaneous	1,750	-	(1,750)	3,833
<u>TOTAL MISCELLANEOUS REVENUE</u>	<u>83,550</u>	<u>68,701</u>	<u>(14,849)</u>	<u>81,167</u>
<u>TOTAL REVENUE</u>	<u>\$ 1,040,041</u>	<u>\$ 1,985,633</u>	<u>\$ 945,592</u>	<u>\$ 976,705</u>

TOWN OF QUEENSTOWN  
 SUPPLEMENTAL INFORMATION  
 ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL  
 ALL FUNDS  
 YEAR ENDED JUNE 30, 2015

SCHEDULE B

	2015		Favorable (Unfavorable) Variance	Prior Year 06/30/14
	Budgeted Amounts	Actual Amounts		
<b>GOVERNMENTAL FUNDS</b>				
<b>GENERAL GOVERNMENT</b>				
<b>General Government and Personnel Costs:</b>				
Salaries	\$ 73,467	\$ 71,950	\$ 1,517	\$ 66,523
Payroll Taxes	5,253	8,744	(3,491)	3,866
Pension Expense	15,335	12,506	2,829	22,025
Medical and Life Insurance	23,395	21,021	2,374	19,203
Unemployment Compensation	250	171	79	137
Meetings and Travel	8,100	6,508	1,592	6,731
Postage	2,500	2,959	(459)	1,853
Supplies	3,000	1,797	1,203	1,937
Telephone	6,300	4,881	1,419	3,568
Election Costs	1,400	553	847	1,384
Dues and Subscriptions	2,900	2,632	268	2,516
Data Processing	-	-	-	1,580
Accounting/Auditing	5,000	7,795	(2,795)	11,260
Legal Fees	20,000	40,004	(20,004)	27,477
MDIA Inspection Fees	5,100	4,904	196	3,218
Other Municipal Expenses	4,000	6,043	(2,043)	8,974
Other Planning Expenses	15,600	12,285	3,315	12,160
Planning Commission	500	-	500	-
Administrative Fees	7,000	9,886	(2,886)	8,516
Advertising	2,500	374	2,126	1,274
Shorescan	1,700	1,635	65	1,635
Miscellaneous	2,300	4,565	(2,265)	2,158
<b>Total General Government and Personnel Costs</b>	<b>205,600</b>	<b>221,213</b>	<b>(15,613)</b>	<b>207,995</b>
<b>Program and Direct Operating Expenses:</b>				
Community Programs	5,800	5,888	(88)	4,838
General Operating Supplies	6,500	4,899	1,601	4,803
Holiday Decorations and Celebrations	900	851	49	673
Other General Operating Expenses	5,000	5,639	(639)	9,325
Queenstown Volunteer Fire Company	14,000	14,000	-	14,000
<b>Total Program and Direct Operating Expenses</b>	<b>32,200</b>	<b>31,277</b>	<b>923</b>	<b>33,639</b>
<b>Facilities Equipment Costs:</b>				
Municipal Office Repairs and Maintenance	650	678	(28)	2,475
Municipal Office Utilities	4,800	4,063	737	6,571
Office Equipment	1,930	1,835	95	1,534
Property and Liability Insurance	6,000	11,138	(5,138)	5,846
<b>Total Facilities Equipment Costs</b>	<b>13,380</b>	<b>17,714</b>	<b>(4,334)</b>	<b>16,426</b>
<b>TOTAL GENERAL GOVERNMENT</b>	<b>251,180</b>	<b>270,204</b>	<b>(19,024)</b>	<b>258,060</b>
<b>PUBLIC WORKS</b>				
<b>Personnel Costs:</b>				
Salaries	78,075	73,838	4,237	71,596
Payroll Taxes	5,583	6,175	(592)	4,653
Pension Expense	15,478	11,931	3,547	13,122
Medical and Life Insurance	10,873	4,485	6,388	10,887
<b>Total Personnel Costs</b>	<b>110,009</b>	<b>96,429</b>	<b>13,580</b>	<b>100,258</b>
<b>Facilities Equipment Costs:</b>				
Equipment Repairs	6,000	6,392	(392)	-
Gas	6,500	5,045	1,455	4,710
Vehicle Repairs	1,500	1,313	187	3,078
Capital Outlay	48,580	41,178	7,402	8,074
<b>Total Facilities Equipment Costs</b>	<b>62,580</b>	<b>53,928</b>	<b>8,652</b>	<b>15,862</b>

TOWN OF QUEENSTOWN  
 SUPPLEMENTAL INFORMATION  
 ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL  
 ALL FUNDS  
 YEAR ENDED JUNE 30, 2015

SCHEDULE B  
 PAGE 2

	Budgeted Amounts	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 06/30/14
<u>Program and Direct Operating Expenses:</u>				
Grass Mowing	\$ 3,800	\$ 4,125	\$ (325)	\$ 4,555
Landfill Fees	1,200	1,308	(108)	1,062
Mosquito Control	2,500	-	2,500	2,250
Recycling Collection	8,500	8,334	166	7,714
Snow Removal	1,000	-	1,000	-
Street Lighting	20,500	19,137	1,363	17,587
Street Repair	25,000	6,698	18,302	4,928
Curb and Concrete Work	16,000	-	16,000	-
Stormwater Ditch Maintenance	2,800	1,475	1,325	10,585
Tree Maintenance	750	1,700	(950)	190
Tools and Small Equipment	500	-	500	-
Miscellaneous General Labor	1,000	4,255	(3,255)	1,379
Waste Collection	48,400	52,114	(3,714)	49,141
<u>Total Program and Direct Operating Expenses</u>	<u>131,950</u>	<u>99,146</u>	<u>32,804</u>	<u>99,391</u>
<u>TOTAL PUBLIC WORKS</u>	<u>304,539</u>	<u>249,503</u>	<u>55,036</u>	<u>215,511</u>
<u>PARKS AND RECREATION</u>				
<u>Facilities Equipment Costs:</u>				
Park Expenses	11,000	2,281	8,719	627
Dock Electric	800	910	(110)	593
Dock Garbage Collection	4,150	3,105	1,045	242
Dock Repairs	1,000	278	722	14,756
Courthouse Repairs and Maintenance	4,000	5,185	(1,185)	-
<u>TOTAL PARKS AND RECREATION</u>	<u>20,950</u>	<u>11,759</u>	<u>9,191</u>	<u>16,218</u>
<u>DEBT SERVICE</u>				
Interest	6,880	7,340	(460)	8,033
Principal	23,848	23,816	32	22,994
<u>TOTAL DEBT SERVICE</u>	<u>30,728</u>	<u>31,156</u>	<u>(428)</u>	<u>31,027</u>
<u>TOTAL GENERAL FUND</u>	<u>607,397</u>	<u>562,622</u>	<u>44,775</u>	<u>520,816</u>
<u>ENTERPRISE FUNDS</u>				
Lab Fees	750	-	750	-
Operating Supplies	1,250	612	638	2,200
Telephone	2,100	4,103	(2,003)	2,501
Accounting/Auditing	5,000	5,000	-	2,840
Dues and Subscriptions	250	325	(75)	250
Utilities	34,600	32,709	1,891	31,374
Plant Repairs and Maintenance	40,000	40,016	(16)	31,378
Tower Repairs and Maintenance	18,675	21,854	(3,179)	15,003
Water and Sewer Lines Repairs and Maintenance	12,000	4,944	7,056	9,704
Water/Sewer Operating Fees	60,315	64,314	(3,999)	59,864
Engineering Fees	7,500	6,834	666	487
Advertising	500	400	100	546
Insurance	28,000	9,955	18,045	14,120
Debt Service	99,105	4,490	94,615	3,499
Chemicals	12,500	7,947	4,553	12,227
Sludge Disposal	35,000	29,609	5,391	40,887
Real Property Tax	4,100	3,365	735	4,028
Depreciation	72,035	107,409	(35,374)	100,900
Miscellaneous	500	60	440	331
<u>TOTAL ENTERPRISE FUNDS</u>	<u>434,180</u>	<u>343,946</u>	<u>90,234</u>	<u>332,139</u>
<u>TOTAL EXPENDITURES/EXPENSES</u>	<u>\$ 1,041,577</u>	<u>\$ 906,568</u>	<u>\$ 135,009</u>	<u>\$ 852,955</u>

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*Lank, Johnson & Tull, CPAs is a full service Delaware accounting firm specializing in tax planning and audit services.*

**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**

To the Commissioners  
Town of Queenstown, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Queenstown, as of and for the year ended June 30, 2015, and related notes to the financial statements, which collectively comprise the Town of Queenstown's basic financial statements, and have issued our report thereon dated November 13, 2015.

**Internal Control Over Financial Reporting**

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

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Members of the American Institute of Certified Public Accountants and the Delaware Society of Certified Public Accountants*

### **Compliance and Other Matters**

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

### **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 black ink that reads "Lank, Johnson & Tull". The signature is written in a cursive, flowing style.

Seaford, Delaware  
November 13, 2015